PRELIMINARY OFFICIAL STATEMENT DATED MARCH 21, 2019

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:
S&P: "AA" (BAM-Insured)
S&P: "A+" (Underlying)
See "RATINGS" herein.

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the District with certain covenants, under present law, interest on Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

$12,000,000*
MIDDLETOWN UNIFIED SCHOOL DISTRICT
(Lake County, California)
General Obligation Bonds
Election of 2018, Series A (2019)

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

The $12,000,000* Middletown Unified School District (Lake County, California) General Obligation Bonds, Election of 2018, Series A (2019) (the "Bonds") are being issued by the Middletown Unified School District (the "District") pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code and a resolution of the Board of Trustees of the District. The Bonds are being issued to (a) finance the acquisition and construction of educational facilities and projects which were described in the ballot measure approved by the electors of the District on November 6, 2018, which authorized the issuance of general obligation bonds in the maximum aggregate principal amount of $28,000,000 (the "Authorization"), and (b) pay for costs of issuance of the Bonds. The Bonds constitute the first issue of bonds under the Authorization. The Bonds will be issued as current interest bonds.

The Bonds constitute general obligations of the District payable solely from *ad valorem* property taxes levied and collected by Lake County (the "County"). The Boards of Supervisors of the County is empowered and obligated to annually levy *ad valorem* taxes, without limitation as to rate or amount, for the payment of interest on, and principal of, the Bonds upon all property subject to taxation within the District (except certain personal property which is taxable at limited rates), all as more fully described herein under "THE BONDS" and "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Property Taxation System."

The Bonds are issuable in denominations of $5,000 and any integral multiple thereof. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2019. See "THE BONDS" herein. The Bonds will be delivered in fully registered form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of and interest on the Bonds will be paid by U.S. Bank National Association, as paying agent, to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY SYSTEM" herein.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "MUNICIPAL BOND INSURANCE" herein.

MATURITY SCHEDULE

SEE INSIDE FRONT COVER

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued, and received by the purchaser thereof, subject to the approval as to their validity by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel, and for the Underwriter by Kutak Rock LLP, Irvine, California. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about April 10, 2019.

RAYMOND JAMES®

March __, 2019

*Preliminary, subject to change.

$12,000,000*
MIDDLETOWN UNIFIED SCHOOL DISTRICT
(Lake County, California)
General Obligation Bonds
Election of 2018, Series A (2019)

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

$___________ Serial Bonds

CUSIP† Prefix: 596877

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix

$___________ ____% Term Bonds maturing August 1, ____, Price: _____, to Yield _____%--CUSIP _____ __

*Preliminary, subject to change.
 CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the registered owners of the Bonds. Neither the District nor the Underwriter is responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the 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.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

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

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

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

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

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

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

Municipal Bond Insurance. Build America Mutual Assurance Company (the "Municipal Bond Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Municipal Bond Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Municipal Bond Insurer supplied by the Municipal Bond Insurer and presented under the heading "MUNICIPAL BOND INSURANCE" and APPENDIX H—SPECIMEN MUNICIPAL BOND INSURANCE POLICY.

Website. The District maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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MIDDLETOWN UNIFIED SCHOOL DISTRICT
20932 Big Canyon Road
Middletown, California 95461
(707) 987-4100
http://www.middletownusd.org/*

DISTRICT ADMINISTRATION

Catherine Stone, *Superintendent*
Heather Rantala, *Business Manager*

PROFESSIONAL SERVICES

BOND COUNSEL and DISCLOSURE COUNSEL
Quint & Thimmig LLP
Larkspur, California

MUNICIPAL ADVISOR
CFW Advisory Services LLC
Emeryville, California

PAYING AGENT
U.S. Bank National Association
San Francisco, California

*Information therein is not incorporated by reference into this Official Statement.

$12,000,000*
MIDDLETOWN UNIFIED SCHOOL DISTRICT
(Lake County, California)
General Obligation Bonds
Election of 2018, Series A (2019)

INTRODUCTION

This Official Statement, which includes the cover page, the inside cover page and the appendices hereto, provides information in connection with the sale of the $12,000,000* Middletown Unified School District (Lake County, California) General Obligation Bonds, Election of 2018, Series A (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, the inside cover page and the 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.

The District

The Middletown Unified School District (the "District") covers approximately 2,000 square miles in Lake County, California (the "County") and has a current K-12 enrollment of approximately 1,500 students. The District contains three elementary schools, one middle school, one high school, two charter schools and one continuation school.

For more complete information concerning the District, including certain financial information, see "THE DISTRICT" and APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION. The District's audited financial statements for the fiscal year ended June 30, 2018, are included as APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.

Source of Payment for the Bonds

The Bonds constitute general obligations of the District payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the principal of and interest on the Bonds upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

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* Preliminary, subject to change.

Municipal Bond Insurance Policy

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy (the "Municipal Bond Insurance Policy") to be issued by Build America Mutiual Assurance Company (the "Municipal Bond Insurer") simultaneously with the issuance of the Bonds. See "MUNICIPAL BOND INSURANCE."

Authority for Issue; Purpose of Issue

On November 6, 2018 there was submitted to and approved by the requisite fifty-five percent (55%) vote of the qualified electors of the District a question as to the issuance and sale of general obligation bonds of the District to modernize, renovate, and/or construct aging and outdated school classrooms and related facilities to meet 21st century standards, including providing updated furnishings and other equipment to facilitate a modern learning environment (the "Project"), in the maximum aggregate principal amount of $28,000,000 payable from the levy of an *ad valorem* tax against the taxable property in the District (the "Authorization").

Title 1, Division 1, Part 10, Chapter 2 (commencing with section 15100) of the California Education Code and Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code (collectively, the "Law"), the District is empowered to issue general obligation bonds.

The Bonds are being issued by the District pursuant to the Law and a resolution adopted by the Board of Trustees of Trustees of the District (the "Board of Trustees") on March 13, 2019 (the "Resolution"), to (a) finance the Project, and (b) pay for costs of issuance of the Bonds. The Bonds constitute the first issue of bonds under the Authorization.

Description of the Bonds

The Bonds are being issued as current interest bonds. The Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of $5,000 principal amount or any integral multiple thereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an "Interest Payment Date"), commencing August 1, 2019.

The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth the inside cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" and APPENDIX G—BOOK-ENTRY SYSTEM. In event that the book-entry system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution as described herein. See "THE BONDS—Registration, Transfer and Exchange of Bonds." 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.

Certain of the Bonds are subject to redemption prior to maturity. See "THE BONDS—Redemption."

Tax Matters

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the District with certain covenants, under present law, interest on Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

Offering and Delivery

The Bonds are offered when, as and if issued and received by the purchaser, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about April 4, 2019.

Continuing Disclosure

The District has covenanted for the benefit of the holders 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 enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption "CONTINUING DISCLOSURE." Also, see APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Professionals Involved in the Bond Offering

Several professional firms have provided services to the District with respect to the sale and delivery of the Bonds. Quint & Thimmig LLP, Larkspur, California, Bond Counsel, will deliver its legal opinion in substantially the form set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL. Quint & Thimmig LLP, Larkspur, California, is also serving as Disclosure Counsel to the District with respect to the Bonds. CFW Advisory Services LLC, Emeryville, California, will act as Municipal Advisor to the District with respect to the Bonds. Kutak Rock LLP, Irvine, California, is serving as counsel to the Underwriter. The payment of fees and expenses of such firms with respect to the Bonds is contingent on the sale and delivery of the Bonds. The District's financial statements for the Fiscal Year ended June 30, 2018, have been audited by Christy White Associates, A Professional Accountancy Corporation, San Diego, California. See APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information 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 for inspection at the office of the Superintendent, Middletown Unified School District, 20932 Big Canyon Road, Middletown, CA 95461, telephone (707) 987-4100. The District may impose a charge for copying, mailing and handling.

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 of such documents, statutes and constitutional provisions.

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

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" 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 Exchange Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," or other similar words. 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.

All terms used in this Official Statement and not otherwise defined shall have the meanings given such terms in the Resolution.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State, including the Law, and the Resolution.

Purposes of Issuance

The Bonds are being issued to (a) finance Project as described in the Authorization, and (b) pay for costs of issuance of the Bonds. The Bonds constitute the first issue of bonds under the Authorization. See "—Estimated Sources and Uses of Funds."

Following issuance of the Bonds, $16,000,000* principal amount of the Authorization will remain unissued.

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* Preliminary, subject to change.

The District has authorized and issued certain other general obligation bonds. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—District Debt Structure.

Security and Source of Payment

The Bonds constitute general obligations of the District payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County is empowered and are obligated to levy *ad valorem* taxes for the payment of the Bonds, and the interest thereon, upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to 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 on the Bonds when due. The levy may include an allowance for a reserve, established to avoid fluctuations in tax levies. Such taxes, when collected, will be deposited, with respect to the Bonds, into the Interest and Sinking Fund and which is required by the California Education Code to be applied for the payment of principal of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and the Treasurer-Tax Collectors of the County will maintain the Interest and Sinking Fund, the Bonds are a debt of the District, not of the County.

Moneys placed in the Interest and Sinking Fund of the District are irrevocably pledged for the payment of the principal of and interest on the Bonds when and as the same fall due. The property taxes and amounts held in the Interest and Sinking Fund of the District shall immediately be subject to this pledge, and the pledge shall constitute a lien and security interest which shall be effective, binding, and enforceable against the District, its successors, creditors and all others irrespective of whether those parties have notice of the pledge and without the need of any physical delivery, recordation, filing, or further act. The pledge is an agreement between the District and the Owners of the Bonds in addition to the statutory lien in accordance with section 53515(a) of the California Government Code, and the Bonds were issued to finance one or more projects and not to finance the general purposes of the District.

In accordance with section 53515(a) of the California Government Code, the Bonds shall be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax for the Authorization. The lien shall automatically attach without further action or authorization by the District or the County. The lien shall be valid and binding from the time the Bonds are issued and delivered. The revenues received pursuant to the levy and collection of the tax shall be immediately subject to the lien, and the lien shall automatically attach to the revenues and be effective, binding, and enforceable against the District, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing, or further act.

The moneys in the Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, will be transferred by the County, through its Treasurer-Tax Collector, to the Paying Agent (hereinafter defined) which, in turn, will pay such moneys to DTC to pay the principal of and interest on the Bonds. DTC will thereupon make payments of principal and interest on the Bonds to the DTC Participants who will thereupon make payments of principal and interest to the Beneficial Owners (as defined herein) of the Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds 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 rate to fluctuate. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemption for property owned by the State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, 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 annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

Description of the Bonds

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. See "Book-Entry Only System" and APPENDIX G—BOOK-ENTRY SYSTEM.

Interest on the Bonds accrues from their date of issuance and is payable semiannually on each Interest Payment Date. Interest on the Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before January 15, 2020, in which event it will bear interest from its date of delivery.

The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on the dates, in the years and amounts set forth on the inside cover page hereof. The principal of and interest on the Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check or draft of the Paying Agent mailed by first-class mail to the Owner at the Owner's address as it appears on the registration books maintained by the Paying Agent as of the close of business on the fifteenth day of the month next preceding such interest payment date (the "Record Date"), or at such other address as the Owner may have filed with the Paying Agent for that purpose; provided however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of the Bonds in the aggregate principal amount of $1,000,000 or more who shall furnish written wire instructions to the Paying Agent at least five (5) days before the applicable Record Date. See also "Book Entry Only System" below.

See the maturity schedule on the inside cover page hereof and "Debt Service Schedule."

Payment

The redemption price, if any, on the Bonds will be payable upon maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The interest, principal and redemption price, if any, on the Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. The Bonds are general obligations of the District and do not constitute an obligation of the County. No part of any fund of the County is pledged or obligated to the payment of the Bonds.

Redemption

Optional Redemption. The Bonds maturing on and prior to August 1, 20__, are not callable for redemption prior to their stated maturity date. The Bonds maturing on and after August 1, 20__, are callable for redemption prior to their stated maturity date at the option of the District, in whole or in part on any date on or after August 1, 20__, from any source lawfully available therefor, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 20__, are also subject to mandatory sinking fund redemption on August 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to one hundred percent (100%) of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Sinking Fund Redemption Date (August 1)	Principal Amount to be August

†Maturity

Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be called in such order as shall be directed by the District and, in lieu of such direction, in inverse order of their maturity. Within a maturity, the Paying Agent shall select the Bonds for redemption by lot; *provided, however*, that the portion of any Bonds to be redeemed shall be in the principal amount of $5,000 or some integral multiple thereof and that, in selecting Bonds for redemption, the Paying Agent shall treat each Bonds as representing that number of Bonds which is obtained by dividing the principal amount of such Bonds by five thousand dollars.

Notice of Redemption. The Paying Agent is required to mail (by first class mail) notice of any redemption to: (i) the respective Owners of any Bonds designated for redemption, at least thirty (30) but not more than sixty (60) days prior to the redemption date, at their respective addresses appearing on the Bond Register, and (ii) the Securities Depositories and to one or more Information Services, at least thirty (30) but not more than sixty (60) days prior to the redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice will state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and will require that such Bonds be then surrendered for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Notwithstanding the foregoing, in the case of any optional redemption of the Bonds, the notice of redemption will state that the redemption is conditioned upon receipt by the Paying Agent of sufficient moneys to redeem the Bonds on the scheduled redemption date, and that the optional redemption shall not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Bonds have not been deposited with the Paying Agent. In the event that the Paying Agent does not receive sufficient funds by the scheduled optional redemption date to so redeem the Bonds to be optionally redeemed, the Paying Agent will send written notice to the Owners, to the Securities Depositories and to one or more of the Information Services to the effect that the redemption did not occur as anticipated, and the Bonds for which notice of optional redemption was given shall remain Outstanding for all purposes.

Conditional Notice of Redemption. Any notice of optional redemption of the Bonds may be conditional and if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date, (i) said notice shall be of no force and effect, (ii) the District shall not be required to redeem such Bonds; (iii) the redemption shall be cancelled and (iv) the Paying Agent shall within a reasonable time thereafter give notice to the persons and in the manner in which the conditional notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled. The actual receipt by the owner of any Bonds of notice of such cancellation shall not be a condition precedent to cancellation, and failure to receive such notice or any defect in such notice shall not affect the validity of the cancellation.

Rescission of Notice of Redemption. The District may rescind any optional redemption and notice thereof for any reason on any date on or prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption. Notice of rescission of redemption will be given in the same manner in which the notice of redemption was originally given. The actual receipt by the owner of any Bonds of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Partial Redemption of Bonds. In the event only a portion of any Bonds is called for redemption, then upon surrender of such Bonds the District will execute and the Paying Agent will authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond or Bonds of the same maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed. Bonds need not be presented for mandatory sinking fund redemptions.

Effect of Redemption. Notice having been given as described above, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside for such purpose, the Bonds to be redeemed will become due and payable on such date of redemption. If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, will be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof will have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed will cease to accrue and become payable. All money held by or on behalf of the Paying Agent for the redemption of Bonds will be held in trust for the account of the registered owners of the Bonds so to be redeemed. 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, and sufficient moneys are held by the Paying Agent irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, then such Bonds will no longer be deemed outstanding and will be surrendered to the Paying Agent for cancellation.

Defeasance

Discharge of Resolution. Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable hereunder by the District:

(i) by paying or causing to be paid the principal or redemption price of and interest on Bonds Outstanding, as and when the same become due and payable;

(ii) by depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem Bonds Outstanding; or

(iii) by delivering to the Paying Agent, for cancellation by it, Bonds Outstanding.

then and in that case, at the election of the District (evidenced by a certificate of a District Representative, filed with the Paying Agent, signifying the intention of the District to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and all covenants, agreements and other obligations of the District under the Resolution shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Resolution. In such event, upon request of the District, the Paying Agent shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such discharge and satisfaction, and the Paying Agent shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Resolution to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then all liability of the District in respect of such Bond shall cease and be completely discharged, except only that thereafter the Owner thereof shall be entitled only to payment of the principal of and interest on such Bond by the District, and the District shall remain liable for such payment, but only out of such money or securities deposited in trust with an escrow holder as aforesaid for such payment, provided further, however, that the provisions of the Resolution shall apply in all events.

The District may at any time surrender to the Paying Agent for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Paying Agent. Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust with an escrow holder money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the Resolution and shall be:

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

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

provided, in each case, that the Paying Agent shall have been irrevocably instructed (by the terms of the Resolution or by request of the District) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Resolution. Notwithstanding any provisions of the Resolution, any moneys held by an escrow holder in trust for the payment of the principal or redemption price of, or interest on, any Bonds and remaining unclaimed for one year after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Resolution), if such moneys were so held at such date, or one year after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall, upon request of the District, be repaid to the District free from the trusts created by the Resolution, and all liability of the escrow holder with respect to such moneys shall thereupon cease; *provided, however*, that before the repayment of such moneys to the District as aforesaid, the Paying Agent may (at the cost of the District) first mail to the Owners of all Bonds which have not been paid at the addresses shown on the registration books maintained by the Paying Agent a notice in such form as may be deemed appropriate by the Paying Agent, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

Registration, Transfer and Exchange of Bonds

So long as any of the Bonds remain outstanding, the District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Bonds as provided in the Resolution (the "Bond Register"). Subject to the provisions of the Resolution, the person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond for all purposes of the Resolution. Payment of or on account of the principal of any Bond will be made only to or upon the order of that person; neither the District, nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the Resolution. All such payments will be valid and effectual to satisfy and discharge the District's liability upon the Bonds, including interest, to the extent of the amount or amounts so paid.

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

Any Bond may be exchanged for Bonds of like tenor, maturity, and outstanding principal amount or maturity value (the "Transfer Amount") upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of the Bond at the principal 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 will 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.

In all cases of exchanged or transferred Bonds, the District will sign, and the Paying Agent will authenticate and deliver Bonds in accordance with the provisions of the Resolution. All fees and costs of transfer will be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Bonds issued upon any exchange or transfer will be valid obligations of the District, evidencing the same debt, and entitled to the same security and benefit under the Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer will be canceled by the Paying Agent. The District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the District may have acquired in any manner whatsoever, and those Bonds will be promptly canceled by the Paying Agent. Written reports of the surrender and cancellation of Bonds will be made to the District by the Paying Agent. The canceled Bonds will be retained for a period of time, then returned to the District or destroyed by the Paying Agent as directed by the District.

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 business day next preceding either any interest payment date or any date of selection of Bonds to be redeemed and ending with the close of business on the interest 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.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Bonds are as follows:

Sources of Funds:	
Principal Amount of Bonds	
Plus: Original Issue Premium	
Total Sources of Funds	
Uses of Funds:	
Deposit to Building Fund	
Deposit to Interest and Sinking Fund	
Costs of Issuance (1)	
Total Uses of Funds	

(1) Includes the Underwriter's discount, the fees of the municipal advisor, bond counsel, disclosure counsel, the rating agency and other third-party providers and the premium for the Municipal Bond Insurance Policy. Any excess in the Costs of Issuance Fund will be transferred to the District's Interest and Sinking Fund.

Financing Plan

The proceeds of sale of the Bonds, exclusive of any premium and accrued interest received, shall be deposited in the County treasury to the credit of the Building Fund of the District. Any premium and accrued interest shall be deposited upon receipt in the Interest and Sinking Fund of the District within the County Treasury. All funds held in the Interest and Sinking Fund of the District shall be invested at the sole discretion of the County Treasurer-Tax Collector. All funds held in the Building Fund of the District by the County Treasurer hereunder shall be invested at the County Treasurer's discretion, unless otherwise directed in writing by the District, pursuant to law and the investment policy of the County. The County Treasurer's Office neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District shall maintain or cause to be maintained detailed records with respect to the applicable proceeds. See "COUNTY POOLED INVESTMENT FUND."

A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account (the "Costs of Issuance Account") and used to pay costs associated with the issuance of the Bonds.

Debt Service Schedule

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

Bond Year Ending August 1	Principal [(1)]	Interest [(2)]	Total
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
TOTAL			

(1) Includes mandatory sinking fund installments.
(2) Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2019.

PAYING AGENT

U.S. Bank National Association, San Francisco, California, will act as the paying agent for the Bonds (the "Paying Agent"). As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Bonds called for redemption or of any other action premised on such notice.

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

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. See APPENDIX G—BOOK-ENTRY SYSTEM.

THE DISTRICT

General Information

The District covers approximately 2,000 square miles in the County and has a current K-12 enrollment of approximately 1,500 students. The District contains three elementary schools, one middle school, one high school, two charter schools and one continuation school.

Board of Trustees and Administration

The District is governed by a five-member 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.

District Board Member	Office	Current Term Expires (November)
Sandy Tucker	President	2020
Misha Grothe	Clerk	2020
Larry Allen	Boardmember	2022
Thad Owens	Boardmember	2022
LaTrease Walker	Boardmember	2022

The administrative staff of the District includes Superintendent Catherine Stone, and Heather Rantala, Business Manager.

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the issuance of the Bonds, the Municipal Bond Insurer will issue the Municipal Bond Insurance Policy. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Municipal Bond Insurance Policy included in APPENDIX H—SPECIMEN MUNICIPAL BOND INSURANCE POLICY.

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

Build America Mutual Assurance Company

The Municipal Bond Insurer is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. The Municipal Bond Insurer provides credit enhancement products solely to issuers in the U.S. public finance markets. The Municipal Bond Insurer will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of the Municipal Bond Insurer is liable for the obligations of the Municipal Bond Insurer. The address of the principal executive offices of the Municipal Bond Insurer is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of the Municipal Bond Insurer

The Municipal Bond Insurer's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $526 million, $113 million and $414 million, respectively.

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

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

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

Additional Information Available from the Municipal Bond Insurer

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

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

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

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

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

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

General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the Board of Supervisors of the County are empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District, including the countywide tax of 1% of taxable value. When collected, the tax revenues will be deposited by the County in the District's Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

Property Taxation System

The collection of property taxes is significant to the District and the Owners of the Bonds in two respects. First, the Board of Supervisors of the County will levy and collect *ad valorem* taxes on all taxable parcels within the District, which are pledged specifically to the repayment of the Bonds. Second, the general *ad valorem* property tax levy levied in accordance with Article XIIIA of the California Constitution and its implementing legislation is taken into account in connection with the State's Local Control Funding Formula ("LCFF") which determines the amount of funding received by the District from the State to operate the District's educational programs. The LCFF replaces revenue limit and most categorical program funding previously used to determine the amount of funding received by the District from the State with the LCFF which consists primarily of base, supplemental and concentration funding formulas that focus resources based on a school district's student demographic. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System and APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—Final 2018-19 State Budget. As described below, the general *ad valorem* property tax levy and the additional *ad valorem* property tax levy pledged to repay the Bonds will be collected on the annual tax bills distributed by the County to the owners of parcels within the boundaries of the District.

The District received approximately 26.56% of its total general fund operating revenues from local property taxes in fiscal year 2017-18.

Local property taxation is the responsibility of various officers of the counties. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes according to the approved tax rolls. In addition, the treasurer-tax collector, as *ex officio* treasurer of each school district located in the county, holds and invests school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The SBE also assesses certain special classes of property, as described later in this section.

Method of Property Taxation

Under Proposition 13, an amendment to the California Constitution adopted in 1978 that added Article XIIIA of the California Constitution, the county assessor's valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership. See APPENDIX B-DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

Local agencies and schools will share the growth of "base" sources from the tax rate area. Each year's growth allocation becomes part of each local agency's allocation in the following year. The availability of revenue from growth in the tax bases in such tax rate areas may be affected by the existence of redevelopment agencies (including their successor agencies) which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts $7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is supplemented by the State.

For assessment and tax 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 property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the SBE is commonly identified for taxation purposes as "utility" property.

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

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of one and one-half percent per month attaches to such taxes beginning the second month after the delinquent date, and on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the delinquent taxpayer.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the SBE. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIIIA of the California Constitution.

Certain classes of property, such as churches, colleges, not-for-profit hospitals and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. Both the general *ad valorem* property tax levy and the additional *ad valorem* levy for the Bonds are based upon the assessed valuation of the parcels of taxable property in the District. Property taxes allocated to the District are collected by the County at the same time and on the same tax rolls as are county, city and special district taxes. The assessed valuation of each parcel of property is the same for both District and the County taxing purposes. The valuation of secured property by the County Assessor is established as of January 1 and is subsequently equalized in September of each year.

The greater the assessed value of taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds. The table below shows the assessed valuation of taxable property in the District for the eight most recent fiscal years.

HISTORIC ASSESSED VALUATIONS
Fiscal Years 2011-12 to 2018-19

Fiscal Year	Local Secured	Utility	Unsecured	Total Valuation	Percent Change
2011-12	$1,500,686,218	$1,062,873	$28,408,022	$1,530,157,113	—
2012-13	1,495,485,864	1,062,873	28,106,472	1,524,655,209	(0.36)
2013-14	1,464,661,092	1,062,873	28,433,129	1,494,157,094	(2.0)
2014-15	1,463,584,233	1,062,873	28,636,362	1,493,283,468	(0.0)
2015-16	1,467,856,979	1,062,873	28,933,660	1,497,853,512	0.3
2016-17(1)	1,318,490,272	1,062,873	29,307,987	1,348,861,132	(9.9)
2017-18	1,417,687,801	522,444	32,411,539	1,450,621,784	7.5
2018-19	1,452,958,096	522,444	33,219,806	1,486,700,346	2.5

Source: California Municipal Statistics, Inc.
(1) The approximate 9.9% decline in assessed valuation in 2016-17 is attributed by the District to losses incurred in connection with the 2015 Valley Fire. See "2015 Valley Fire" below.

As indicated above, assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

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

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIIIA of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

Risk of Decline in Property Values; Fire; Earthquake Risk. Property values could be reduced by factors beyond the District's control, including fire, earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State. The District attributes an approximately 9.9% decline in assessed valuation in 2016-17 to losses incurred in connection with the 2015 Valley Fire. See "2015 Valley Fire" below.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes). Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional bonds in the future might also cause the tax rate to increase.

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

2015 Valley Fire. In September 2015, a wildfire occurred (the "Valley Fire") in and around the County and the District that spread to over 76,000 acres. The Valley Fire spread to property in the District and required the temporary evacuation of a substantial portion of the residents of the District until the Valley Fire was subdued. District schools sustained minor damage, mostly smoke and soot infiltration, and all but one school reopened two weeks after the fire (one opened six weeks after the fire). Numerous homes (1,280) burned in the. The damage caused by the Valley Fire lead to property tax appeals for affected parcels and such appeals resulted in assessed value decline of approximately 10% District-wide in fiscal year 2016-17. Lower assessed values necessitated a corresponding increase in the annual tax rate levied to pay the principal of and interest on outstanding District bonds.

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

The following table shows the 2018-19 assessed valuation of each jurisdiction within the boundaries of the District:

ASSESSED VALUATION BY JURISDICTION
Fiscal Year 2018-19

Jurisdiction	Assessed Value in District	% of District	Assessed Value of Jurisdiction	% of Jurisdiction In District
Unincorporated Lake County	$1,486,700,346	100.00%	$5,764,210,264	25.79%
Total District	1,486,700,346	100.00		
Lake County	1,486,700,346	100.00	7,047,858,845	21.09

Source: California Municipal Statistics, Inc.

The following table gives a distribution of taxable real property located in the District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

ASSESSED VALUATION AND PARCELS BY LAND USE
Fiscal Year 2018-19

	2018-19 Assessed Valuation(1)	% of Total	No. of Parcels	% of Total
Non Residential:				
Agricultural	$126,178,109	8.68%	387	5.21%
Commercial	43,484,682	2.99	153	2.06
Vacant Commercial	4,481,554	0.31	42	0.57
Industrial	2,380,028	0.16	2	0.03
Power Generation	347,985,367	23.95	115	1.55
Government/Social/Institutional	7,753,700	0.53	69	0.93
Subtotal Non-Residential	$532,263,440	36.63%	768	10.34%
Residential:				
Single Family Residence	$ 777,714,011	53.53%	4,179	56.28%
Mobile Home	39,415,323	2.71	269	3.62
Mobile Home Park	593,185	0.04	1	0.01
2+ Residential Units/Apartments	42,367,232	2.92	151	2.03
Miscellaneous Residential Improvements	5,303,554	0.37	83	1.12
Vacant Residential	55,301,351	3.81	1,975	26.60
Subtotal Residential	920,694,656	63.37%	6,658	89.66%
Total	$1,452,958,096	100.00%	7,426	100.00%

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

The following table shows the assessed valuations of single-family homes for the District.

ASSESSED VALUATION OF SINGLE FAMILY HOMES
Fiscal Year 2018-19

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	4,179	$777,714,011	$186,101	$172,500

2018-19 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	171	4.092%	4.092%	$ 2,830,744	0.364%	0.364%
$25,000 - $49,999	351	8.399	12.491	12,977,193	1.669	2.033
$50,000 - $74,999	221	5.288	17.779	13,594,222	1.748	3.781
$75,000 - $99,999	241	5.767	23.546	21,236,621	2.731	6.511
$100,000 - $124,999	334	7.992	31.539	37,476,015	4.819	11.330
$125,000 - $149,999	383	9.165	40.704	52,710,154	6.778	18.108
$150,000 - $174,999	417	9.978	50.682	67,638,094	8.697	26.805
$175,000 - $199,999	377	9.021	59.703	70,484,919	9.063	35.868
$200,000 - $224,999	341	8.160	67.863	72,265,660	9.292	45.160
$225,000 - $249,999	292	6.987	74.850	69,051,845	8.879	54.039
$250,000 - $274,999	270	6.461	81.311	70,705,942	9.092	63.130
$275,000 - $299,999	216	5.169	86.480	61,795,652	7.946	71.076
$300,000 - $324,999	154	3.685	90.165	47,993,914	6.171	77.247
$325,000 - $349,999	108	2.584	92.749	36,352,249	4.674	81.921
$350,000 - $374,999	84	2.010	94.760	30,328,468	3.900	85.821
$375,000 - $399,999	47	1.125	95.884	18,174,019	2.337	88.158
$400,000 - $424,999	32	0.766	96.650	13,171,269	1.694	89.851
$425,000 - $449,999	30	0.718	97.368	13,055,252	1.679	91.530
$450,000 - $474,999	18	0.431	97.799	8,326,219	1.071	92.601
$475,000 - $499,999	16	0.383	98.181	7,795,738	1.002	93.603
$500,000 and greater	76	1.819	100.000	49,749,822	6.397	100.000
Total	4,179	100.000%		$777,714,011	100.000%	

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

Tax Rates

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

The rate of tax necessary to pay fixed debt service on the Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Bonds is the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market 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 State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in the principal Tax Rate Area ("TRA") within the District for the past five fiscal years.

TYPICAL *AD VALOREM* TAX RATES
Fiscal Years 2014-15 to 2018-19

Total Tax Rates for TRA 62-024

	2014-15	2015-16	2016-17	2017-18	2018-19
General	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Middletown Unified School District	0.055130	0.062520	0.065220	0.052190	0.062190
Yuba Joint Community College District	0.025002	0.024935	0.026346	0.025348	0.029941
Total Tax Rates	1.080132%	1.087455%	1.091566	1.077538%	1.092131

Source: California Municipal Statistics, Inc.
(1) Last available data.

Tax Levies and Delinquencies

Beginning in 1978-79, Article XIIIA and its implementing legislation shifted the function of property taxation primarily to the County, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Tax levy and delinquency data is not available from Lake County.

Teeter Plan

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The Teeter Plan is applicable to secured property tax levies, including for the Bonds. The Teeter Plan is not applicable to unsecured property tax levies. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts, special assessment districts, and benefit assessment districts.

The County cash position is protected by a special fund, known as the "Tax Loss Reserve Fund," which accumulates moneys from interest and penalty collections. In each fiscal year, the Tax Loss Reserve Fund is required to be funded to the amount of delinquent taxes plus one percent of that year's tax levy.

Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County's general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the County Board is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The County Board may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

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

Largest Property Owners

Concentration of Property Ownership. Based on fiscal year 2018-19 locally assessed taxable valuations, the top twenty taxable property owners in the District represent approximately 35.46% of the total fiscal year 2018-19 taxable value. The largest single property owner in the District, Geysers Power Company, LLC, represents approximately 23.81% of the total fiscal year 2018-19 taxable value. Bankruptcy, termination of operations or departure from the District by one of the largest property owners could adversely impact the availability of tax revenues to pay debt service on the Bonds.

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2018-19.

LARGEST LOCAL SECURED TAXPAYERS
Fiscal Year 2018-19

	Property Owner	Primary Land Use	2018-19 Assessed Valuation	% of Total[1]
1.	Geysers Power Company LLC	Power Generation	$346,003,056	23.81%
2.	Bohn Valley Inc.	Agricultural	40,547,963	2.79
3.	Bottle Rock Power Company	Power Generation	34,873,621	2.40
4.	Heart Consciousness Church Inc.	Retreat Center	21,795,004	1.50
5.	Guenoc Winery Inc.	Agricultural	14,788,470	1.02
6.	Geunoc Valley Inc.	Agricultural	8,338,000	0.57
7.	GR Hardester LLC	Commercial	6,992,690	0.48
8.	Asellus Sonoma LLC	Commercial	5,086,680	0.35
9.	BRP GeoResource LLC	Power Generation	5,065,406	0.35
10.	Mount St. Helena Vineyard LLP	Agricultural	4,800,239	0.33
11.	Glen & Amy J. Marks	Commercial	4,299,108	0.30
12.	Debra E. Bottoms, Trustee	Agricultural	2,927,106	0.20
13.	Col. Dimitri Henry USMG Trust	Residence	2,904,614	0.20
14.	Sutter Home Winery	Agricultural	2,879,555	0.20
15.	Norman Alumbaugh Co. Inc.	Commercial	2,494,847	0.17
16.	Garden Rd LLC	Agricultural	2,417,000	0.17
17.	Reynolds Systems Inc	Industrial	2,402,842	0.17
18.	Hidden Valley Storage LLC	Industrial	2,212,600	0.15
19.	Carnation Asset LLC	Commercial	2,196,420	0.15
20.	HVL Investments LLC	Commercial	2,192,961	0.15
	Total Top 20		$515,218,182	35.46%

Source: California Municipal Statistics, Inc.
(1) 2018-19 Local secured assessed valuation: $690,118,051.

Geysers Power Company, LLC. Located in the Mayacamas Mountains, the geysers are a series of naturally occurring steam field reservoirs below the earth's surface and collectively constitute the largest geothermal electricity production system in the world, drawing steam from than 350 wells. The Geysers Power Company, LLC (the "Geysers") Covering more than 45 square miles, commercial geothermal power has been continuously generated at the Geysers since 1960. There are 18 geothermal plants which use heat from the earth's interior to produce electricity around the clock. 15 of the 18 plants are owned by the Geysers and are operated by the Calpine Corporation, America's largest generator of electricity from natural gas and geothermal resources.

Direct and Overlapping Debt

Direct and Overlapping Debt. Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of March 1, 2019, 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.

The table generally includes long-term obligations sold in the public credit markets by the public agencies listed. 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.

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT

MIDDLETOWN UNIFIED SCHOOL DISTRICT

2018-19 Assessed Valuation: $1,486,700,346

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 3/1/19
Yuba Joint Community College District	4.723%	$ 7,599,595
Middletown Unified School District	**100.000**	**11,999,203**(1)
Callayomi County Water District	100.000	82,500
Hidden Valley Lake Community Services District, Assessment District No. 1	100.000	3,161,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		22,842,298
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Yuba Joint Community College District	4.723%	565,667
Middletown Unified School District Qualified Zone Academy Bonds	**100.000**	**1,604,000**
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		2,169,667
COMBINED TOTAL DEBT		25,011,965(2)

Ratios to 2018-19 Assessed Valuation:

Direct Debt ($11,999,203)	**0.81%**
Total Direct and Overlapping Tax and Assessment Debt	1.54%
Combined Direct Debt ($13,603,203)	**0.91%**
Combined Total Debt	1.68%

Source: California Municipal Statistics, Inc.
(1) Excludes the Bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Bonding Capacity

As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. Based on the fiscal year 2018-19 assessed valuation of $1,486,700,346, the District's gross bonding capacity is approximately $37,167,508.65, and its net bonding capacity will be $15,167,508.65* following issuance of the Bonds. Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

* Preliminary, subject to change.

Risks Relating to the Municipal Bond Insurance Policy

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Municipal Bond Insurance Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory sinking fund or optional redemption, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Municipal Bond Insurance Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory sinking fund or optional prepayment of the Bonds by the District which is recovered by the District from the Bond owner as a voidable preference under applicable bankruptcy law is covered by the Municipal Bond Insurance Policy, however, such payments will be made by the Municipal Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the Municipal Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Municipal Bond Insurer without appropriate consent. The Municipal Bond Insurer may direct and must consent to any remedies and the Municipal Bond Insurer's consent may be required in connection with amendments to any applicable Bond documents.

In the event the Municipal Bond Insurer is unable to make payment of principal and interest as such payments become due under the municipal bond insurance policy, the Bonds are payable solely from the moneys received pursuant to the applicable Bond documents. In the event the Municipal Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Municipal Bond Insurer and its claim paying ability. The financial strength and claims paying ability of the Municipal Bond Insurer are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Municipal Bond Insurer and of the ratings on the Bonds will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See RATINGS.

The obligations of the Municipal Bond Insurer are general obligations of the Municipal Bond Insurer and in an event of default by the Municipal Bond Insurer, the remedies available may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the District or Underwriter have made independent investigation into the claims paying ability of the Municipal Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Municipal Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Municipal Bond Insurer, particularly over the life of the investment.

INVESTMENT OF DISTRICT FUNDS

In accordance with Section 41001 of the California Education Code, each California public school district maintains substantially all of its operating funds in the county treasury of the county in which it is located, and each county treasurer-tax collector serves as *ex officio* treasurer for those school districts located within the county. Each treasurer-tax collector has the authority to invest school district funds held in the county treasury. Generally, the treasurer-tax collector pools county funds with school district funds and funds from certain other public agencies and invests the cash. These pooled funds are carried at cost. Interest earnings are accounted for on either a cash or accrual basis and apportioned to pool participants on a regular basis. In addition, the County is required to establish its own investment policies which may impose limitations beyond those required by the Government Code. See APPENDIX D—COUNTY INVESTMENT POLICY.

LEGAL MATTERS

Possible Limitations on Remedies; Bankruptcy

General. Following is a discussion of certain considerations relating to potential bankruptcies of school districts in California. It is not an exhaustive discussion of the potential application of bankruptcy law to the District. State law contains a number of safeguards to protect the financial solvency of school districts. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION. If the safeguards are not successful in preventing a school district from becoming insolvent, the State Superintendent of Public Instruction (the "State Superintendent"), operating through an administrator appointed by the State Superintendent, 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 a district for the adjustment of its debts, assuming that such district meets certain other requirements contained in the Bankruptcy Code necessary for filing such a petition. School districts under current State law 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 parties to the proceedings may be prohibited from taking any action to collect any amount from the District (including ad valorem tax revenues) or to enforce any obligation of the District, without the bankruptcy court's permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, 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, if the bankruptcy court were to determine that the alterations were fair and equitable. In addition, in such a proceeding, as part of such a plan, the District may be able to eliminate the obligation of the County to raise taxes if necessary, to pay the Bonds. 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, a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

As stated above, if a school district were to go into bankruptcy, the bankruptcy petition would be filed under Chapter 9 of the Bankruptcy Code. Chapter 9 provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a municipality of or in such state in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise. For purposes of the language of Chapter 9, a school district is a municipality. State law provides that the ad valorem taxes levied to pay the principal and interest on the Bonds shall be used for the payment of principal and interest of the District's general obligation bonds and for no other purpose. If this restriction on the expenditure of such ad valorem taxes is respected in a bankruptcy case, then the ad valorem tax revenue could not be used by the District for any purpose other than to make payments on the Bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

Statutory Lien. Pursuant to Senate Bill 222 (2015) ("SB 222") that became effective on January 1, 2016, all general obligation bonds issued by local agencies in California, including the Bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. SB 222 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board and will be valid and binding from the time the bonds are executed and delivered. 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 taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code.

Special Revenues. If the ad valorem tax revenues that are pledged to the payment of the Bonds (see "THE BONDS – Security") 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 that are collected after the date of the bankruptcy filing 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. The District has specifically pledged the ad valorem taxes for payment of the Bonds. Additionally, the ad valorem taxes levied for payment of the Bonds are permitted under the State Constitution only where either (i) the applicable bond proposition is approved by 55% of the voters and such proposition contains a specific list of school facilities projects, or (ii) if the applicable bond proposition is approved by two-thirds of voters and such bonds must be issued for the acquisition or improvement of real property. Because 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 fund the acquisition or improvement of real property and other capital expenditures included in the proposition, 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 tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.

In addition, even if the ad valorem tax revenues are determined to be "special revenues," the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the District is entitled to use the ad valorem tax revenues to pay necessary operating expenses of the District and its schools, before the remaining revenues are paid to the owners of the Bonds.

Possession of Tax Revenues; Remedies. If the County or the District goes into bankruptcy and has possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County or the District, as applicable, does not voluntarily pay such tax revenues to the owners of the Bonds, it is not clear what procedures the owners of the Bonds would take or how effective they would be in obtaining possession of such tax revenues.

Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor's Rights. The proposed form of opinion of Bond Counsel, attached hereto as Appendix E, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights.

Legal Opinions

All legal matters in connection with the execution and delivery of the Bonds are subject to the approval of Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Certain legal matters will also be passed on for the District by Quint & Thimmig LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Irvine, California, as Underwriter's counsel. The fees of Bond Counsel, Disclosure Counsel and Underwriter's counsel are contingent upon the issuance and delivery of the Bonds.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the District's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals.

In rendering its opinions, Bond Counsel will rely upon certifications of the District with respect to certain material facts within the District's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for the Bonds is the price at which a substantial amount of the Bonds is first sold to the public. The Issue Price of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity, the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Internal Revenue Code of 1986, as amended (the "Code") (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax exempt bond. The amortized bond premium is treated as a reduction in the tax exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bonds. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bonds.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the District as a taxpayer and the Bond owners may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

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

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

MUNICIPAL ADVISOR

CFW Advisory Services LLC, Emeryville, California (the "Municipal Advisor"), is an independent financial advisory firm registered as a "Municipal Advisor" with the Securities Exchange Commission and Municipal Securities Rulemaking Board. The Municipal Advisor does not underwrite, trade or distribute municipal or other public securities. The Municipal Advisor has assisted the District in connection with the planning, structuring, sale and issuance of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibilities for the accuracy, completeness or fairness of the information contained in this Official Statement not provided by the Municipal Advisor.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than March 31 after the end of the District's fiscal year (the current end of the District's fiscal year is on June 30), commencing with the report for the 2018-19 fiscal year, and to provide notices of the occurrence of certain events listed in the District's Continuing Disclosure Certificate, the form of which is in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The Annual Report and notices of listed events will be filed by the District with the Municipal Securities Rulemaking Board (the "MSRB"), by posting on the MSRB's Electronic Municipal Market Access or "EMMA" system (website: www.emma.msrb.org). These continuing disclosure covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Within the last five years, the District has made all material filings required under the Rule although filings for the fiscal year 2014 report (audited financial statements, operating data and 2015 budget) were 30 days late and a portion of the filing for the fiscal year 2016 operating data (top 20 taxpayers) was 2 days late. Within the last five years, the District has made all filings of enumerated events with the exception of a 2014 bond insurer upgrade that was filed in 2015 (379 days late).

The District has retained CFW Advisory Services LLC to assist it with the preparation and timely filing of future annual reports and event notices required under its existing continuing disclosure obligations with respect to the District's outstanding bonds as well as for the District's continuing disclosure obligations related to the Bonds.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

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 by the District to the Underwriter 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 County's ability to receive *ad valorem* taxes or contesting the District's ability to issue and retire the Bonds.

RATINGS

S&P is expected to assign the rating of "AA" to the Bonds based on the issuance of the Municipal Bond Insurance Policy by the Municipal Bond Insurer at the time of delivery of the Bonds. See "MUNICIPAL BOND INSURANCE." In addition, S&P has assigned the underlying rating of "A+" to the Bonds without regard to the issuance of the Municipal Bond Insurance Policy. These ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained from S&P. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The District has covenanted in the Continuing Disclosure Certificate to file on the EMMA website notices of any rating changes on the Bonds. See APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from S&P prior to such information being provided to the District and prior to the date the District is obligated to file a notice of a rating change on EMMA. Purchasers of the Bonds are directed to S&P, its website and official media outlet for the most current rating changes with respect to the Bonds after the initial issuance of the Bonds.

UNDERWRITING

The Bonds were purchased by Raymond James & Associates, Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of $____________ (being equal to the aggregate principal amount of the Bonds ($____________.00), plus an original issue premium of $___________, less an Underwriter's discount of $____________). The purchase agreement relating to 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 said agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Resolution, the Continuing Disclosure Certificate of the District 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.

All 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 Board.

EXECUTION

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

MIDDLETOWN UNIFIED SCHOOL DISTRICT

By ____________________________________

Catherine Stone,
Superintendent

APPENDIX A

GENERAL INFORMATION REGARDING LAKE COUNTY

The District is located in Lake County. The information in this Appendix A is provided as supplementary information only. The Bonds are payable solely from the revenues generated by an ad valorem property tax levied on taxable property within the District for the payment thereof.

Introduction

The District is located in Lake County (the "County"). Founded in 1861, Lake County is located in the north central portion of the state of California. The County is located a 2 hour drive time from the San Francisco Bay area and the Sacramento metropolitan area. It is approximately 127 road miles north of San Francisco, 126 road miles west of Sacramento, and 80 road miles east of the Pacific Coast. Lake County is bordered by the counties of Napa, Sonoma, Mendocino, Glenn, Colusa and Yolo. The County has a total area of 1,329 square miles (3,440 km^2), of which 1,256 square miles (3,250 km^2) is land and 73 square miles (190 km^2) (5.5%) is water. The County seat is Lakeport.

The County has long been known as a farming community and the local economy is based primarily on agriculture, tourism, and the geothermal power industry. The County is a wine grape-growing area and also is famous for its pears and walnuts.

Population

The table below summarizes population of the County and the State of California for the last five years.

LAKE COUNTY and CALIFORNIA
Population

Year	Lake County	State of California
2014	64,851	38,568,628
2015	65,146	38,912,464
2016	64,741	39,179,627
2017	64,740	39,500,973
2018	65,081	39,809,693

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2010-2018, with 2010 Census Benchmark.

Employment

The following table summarizes historical employment and unemployment for the County, the State of California and the United States:

LAKE COUNTY, CALIFORNIA, and UNITED STATES
Civilian Labor Force, Employment, and Unemployment
(Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate [1]
2013	Lake County	29,330	26,130	3,200	10.9%
	California	18,671,600	17,002,900	1,668,700	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	Lake County	29,450	26,820	2,630	8.9
	California	18,811,400	17,397,100	1,414,300	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2
2015	Lake County	29,140	26,910	2,230	7.7
	California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	148,834,000	146,411,000	5.3
2016	Lake County	29,380	27,430	1,950	6.6
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	7,751,000	4.9
2017[2]	Lake County	29,720	28,010	1,710	5.7
	California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-2017, and US Department of Labor.

(1) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures available in this table.

(2) Latest available full-year data.

Major Employers

The following table lists the top 10 employers within the County as of June 30, 2017.

LAKE COUNTY
Top 10 Employers
as of June 30, 2017

Employer	Employees	% of Total County Employment
Lake County	795	13.92%
Sutter Lakeside Hospital	406	7.11
Konocti Unified School District	398	6.97
St. Helena Hospital Clearlake	371	6.50
Robinson Rancheria Resort & Casino	325	5.69
Twin Pine Casino	283	4.96
Calpine Corporation	280	4.90
Wal-Mart	251	4.40
Kelseyville Unified School District	226	3.96
Middletown Unified School District	192	3.36
Total Top 10	3,527	61.76

Source: Lake County 2016-17 CAFR.

Construction Activity

The following table reflects the five-year history of building permit valuation for Lake County:

LAKE COUNTY
Building Permits and Valuation
(Dollars in Thousands)

	2013	2014	2015	2016	2017(1)
Permit Valuation:					
New Single-family	8,421	7,847	14,162	56,836	33,796
New Multi-family	-	-	349	360	-
Res. Alterations/Additions	4,543	7,551	4,781	4,070	4,556
Total Residential	12,965	15,399	19,293	61,267	38,353
Total Nonresidential	22,616	12,676	9,971	10,922	11,761
Total All Building	35,581	28,076	29,265	72,190	50,114
New Dwelling Units:					
Single Family	50	42	69	242	144
Multiple Family	-	-	2	2	-
Total	50	42	71	244	144

Source: Construction Industry Research Board: "Building Permit Summary," California Cities and Counties Data for Calendar Years 2013-2017.
Note: Totals may not add due to independent rounding.
(1) Last available full year data.

Median Household Income

The following table summarizes the median household effective buying income for the County, the State of California and the nation for the five most recent years.

LAKE COUNTY, CALIFORNIA and UNITED STATES
Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2014	Lake County	$ 1,103,588	$ 32,481
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	Lake County	1,252,733	35,350
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	Lake County	1,158,280	33,195
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	Lake County	1,291,132	37,241
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2018	Lake County	1,470,556	41,201
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

Source: Nielsen Claritas, Inc.

APPENDIX B

DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

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

Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System

California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts. Commencing with the Fiscal Year 2013-14, the State budget restructured the manner in which the State allocates funding for K-12 education. In Fiscal Year 2013-14, State legislation replaced the majority of revenue limit and categorical funding formulas with a new set of funding formulas. The new formula for school funding is known as the "Local Control Funding Formula" (the "Local Control Funding Formula" or "LCFF"). The State budget provided funding in Fiscal Year 2013-14 to begin implementing the new formulas. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The new system provides a base rate per student multiplied by the school district's average daily attendance ("ADA") for each of several grade levels. The base rates are augmented by several funding supplements such as for (1) students needing additional services, defined as English learners, students from lower income families, and foster youth; and (2) school districts with high concentrations of English learners and lower income families. The new funding system requires school districts to develop local control and accountability plans describing how the school district intends to educate its students and achieve annual education goals to be achieved in state-mandated areas of priority.

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

The Local Control Funding Formula is also based on ADA. ADA can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in ADA will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs.

Average Daily Attendance

In the past, annual State apportionments of basic and equalization aid to school districts were computed based on a revenue limit per unit of ADA. Prior to Fiscal Year 1998-99, daily attendance numbers included students who were absent from school for an excused absence, such as illness. Effective in Fiscal Year 1998-99, only actual attendance is counted in the calculation of ADA. This change was essentially fiscally neutral for school districts which maintain the same excused absence rate. The rate per student was recalculated to provide the same total funding to school districts in the base year as would have been received under the old system. After Fiscal Year 1998-99, school districts which improved their actual attendance rate received additional funding.

As indicated above, commencing with the Fiscal Year 2013-14, the State budget restructured the manner in which the State allocates funding for K-12 education using the Local Control Funding Formula. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The following table shows the District's enrollment, ADA and LCFF Revenues for the most recent fiscal years.

AVERAGE DAILY ATTENDANCE,
LCFF AND ENROLLMENT
Fiscal Years 2014-15 to 2018-19

Fiscal Year	Average Daily Attendance(1)	LCFF Revenues(2)	Enrollment(3)
2014-15	1,435.81	$ 10,680,942	1,526
2015-16	1,394.67	11,917,934	1,470
2016-17	1,377.20	12,237,107	1,451
2017-18	1,350.99	12,852,484	1,458
2018-19(4)	1,319.40	13,307,516	1,481

Source: Middletown Unified School District

(1) Except for fiscal year 2018-19, reflects ADA as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year.

(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.

(3) Except for fiscal year 2018-19, enrollment as of October report submitted to the California Basic Educational Data System ("CBEDS") in each school year.

(4) As projected in the District's 2018-19 2nd Interim Report, adopted March 13, 2019.

Effect of Changes in ADA. Changes in local property tax income and student enrollment (or ADA) affect community funded districts and revenue limit districts, now known as "LCFF districts," differently. In a LCFF district increasing enrollment increases the amount allocated under LCFF and thus generally increases a district's entitlement to State aid, while increases in property taxes do nothing to increase district revenues, but only offset the State aid funding requirement. Operating costs typically increase disproportionately slower than enrollment growth until the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State aid, while operating costs typically decrease slowly until the district decides to lay off teachers, close schools, or initiate other cost-saving measures.

In community funded districts the opposite is generally true: increasing enrollment does increase the amount allocated under LCFF, but since all LCFF income (and more) is already generated by local property taxes, there is typically no increase in State income. New students impose increased operating costs, but typically at a slower pace than enrollment growth, and the effect on the financial condition of a community funded district would depend on whether property tax growth keeps pace with enrollment growth. Declining enrollment typically does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

For LCFF districts, such as the District, any loss of local property taxes is made up by an increase in State aid. For community funded districts, the loss of tax revenues is not reimbursed by the State.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in and out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the district to make adjustments in fixed operating costs.

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State's ability to meet the revenue and spending assumptions in the State's adopted budget, and the effect of these changes on school finance. The District's 1st Interim Report and projected ADA are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance, or the District's actual funding level for fiscal year 2018-19 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

District Budget

State Budgeting Requirements. The District is required by the 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. The budget process has been further amended by subsequent amendments, including Senate Bill 97, which became law on September 26, 2013 (requiring budgets to include sufficient funds to implement local control and accountability plans), Senate Bill 858, which became law on June 20, 2014 (requiring budgets' ending fund balances to exceed the minimum recommended reserve for economic uncertainties), and Assembly Bill 2585, which became State law on September 9, 2014 (eliminating the dual budget cycle option for school districts).

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 a local control and accountability plan, and whether the budget's ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before August 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district boards must be notified by August 15 of the county superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget may be disapproved.

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

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

The District's 2nd Interim Report for fiscal year 2018-19 was certified as "Positive." The District has not received a qualified or negative certification in any of the last five years.

Accounting Practices

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

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

Financial Statements

The District's general fund finances the basic operating activities of the District. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. 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 office of the Superintendent of the District, 20932 Big Canyon Road, Middletown, CA 95461, telephone number (707) 987-4100. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. For further information, see also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.

The following table shows the District's audited revenues, expenditures and changes in fund balances for the past four fiscal years and budgeted projections for 2018-19.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Years 2014-15 to 2018-19

	FY2014-15 Audited	FY2015-16 Audited	FY2016-17 Audited	FY2017-18 Audited	FY2018-19[(1)] Budgeted
REVENUES					
Revenue Limit/LCFF Sources	$ 10,680,942	$ 11,917,934	$ 12,237,107	$ 12,852,484	$ 13,307,516
Federal Sources	737,744	9672,990	682,546	630,170	752,207
Other State Sources	792,596	1,252,925	1,372,379	1,019,241	1,463,653
Other Local Sources	1,347,375	4,408,351	2,789,189	1,167,529	825,696
Total Revenues	13,558,657	18,252,200	17,081,221	15,669,424	16,349,072
EXPENDITURES					
Certificated Salaries	6,235,412	6,024,228	6,195,411	6,337,583	5,919,054
Classified Salaries	2,407,342	2,663,127	2,628,296	2,744,098	2,886,492
Employee Benefits	3,608,154	3,487,955	3,961,918	4,288,766	4,644,972
Books and Supplies	686,370	947,043	837,928	817,254	968,799
Contract Services	1,026,950	3,764,782	3,222,692	1,523,108	1,611,976
Capital Outlay	80,612	97,817	201,961	82,168	149,376
Other Outgo	(14,750)	25,238	(38,375)	(35,532)	(28,975)
Debt Service – Principal	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Total Expenditures	14,030,090	17,010,190	17,009,471	15,757,445	16,151,694
Excess (Deficiency) of Revenues over Expenditures	(471,433)	1,242,010	71,750	(88,021)	197,376
OTHER FINANCING SOURCES					
Operating transfers in	-	-	100,510	68,717	2,100
Operating transfers out	(132,156)	(229,729)	(219,852)	(85,080)	(369,294)
Other sources	-	-	-	-	-
Total financing sources (uses)	(132,156)	(229,729)	(119,342)	(16,363)	(367,194)
Net change in fund balances	(603,589)	1,012,281	(47,592)	(104,384)	(169,816)
Fund Balance, July 1	1,981,391	1,377,802	2,195,840	2,315,346	2,210,962
Fund Balance, June 30	1,377,802	2,390,083	2,148,248	2,210,962	1,339,609

Source: Middletown Unified School District 2014-2018 audited financial statements and 2018-19 2nd Interim Report.
(1) From the District's 2018-19 2nd Interim Report, adopted March 13, 2019.

Summary of District Revenues and Expenditures

The District's audited financial statements for the year ending June 30, 2018, are reproduced in Appendix C. The final (unaudited) statement of receipts and expenditures for each fiscal year ending June 30 is required by State law to be approved by the District Board by September 15, and the audit report must be filed with the County Superintendent of Schools and State officials by December 15 of each year.

The District is required by State law and regulation to maintain various reserves. The District's Minimum Fund Balance Policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than 3% of general fund expenditures and other financing uses. For fiscal year

2018-19, the District has budgeted an unrestricted general fund reserve of 3%, or approximately $500,000. Substantially all funds of the District are required by law to be deposited with and invested by the County Treasurer-Tax Collector on behalf of the District, pursuant to law and the investment policy of the County. See "INVESTMENT OF DISTRICT FUNDS" in the front portion of this Official Statement.

Local Control Funding Formula. The State Constitution requires that from all State revenues there will be funds set aside to be allocated by the State for support of the public school system and public institutions of higher education. As discussed below, school districts in the State receive a significant portion of their funding from these State allocations. The general operating income of school districts in California is comprised of two major components: (i) a State portion funded from the State's general fund, and (ii) a local portion derived from the School District's share of the 1% local *ad valorem* tax authorized by the State Constitution. School districts may also be eligible for special categorical and grant funding from State and federal government programs.

As part of the State Budget for Fiscal Year 2013-14 (the "2013-14 State Budget"), State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97") was enacted to establish a new system for funding State school districts, charter schools and county offices of education by the implementation of the Local Control Funding Formula or LCFF. This formula replaced the 40-year revenue limit funding system for determining State apportionments and the majority of categorical programs. Subsequently, AB 97 was amended and clarified by Senate Bill 91 (Stats. 2013 Chapter 49). The LCFF consists primarily of base, supplemental and concentration funding formulas that focus resources based on a school district's student demographic. Each school district and charter school will receive a base grant per its ADA used to support the basic costs of instruction and operations. The implementation of the LCFF is to occur over a period of several years. Beginning in fiscal year 2013-14 an annual transition adjustment has been calculated for each individual school district, equal to such district's proportionate share of appropriations included in the State Budget. The Governor's Department of Finance estimates the LCFF funding targets could be achieved in eight years, with LCFF being fully implemented by 2018-19.

The LCFF includes the following components:

- An average base grant for each local education agency equivalent to $7,643 per unit of ADA (by the end of the implementation period). This amount includes an adjustment of 10.4% to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in high schools. It should be noted that the authorizing LCFF statute, AB 97, provides for a differentiated base grant amount according to four different grade spans: K-3, 4-6, 7-8, and 9-12. Unless otherwise collectively bargained for, following full implementation of the LCFF, school districts must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site by the target year so as to continue receiving its adjustment to the K-3 base grant.
- A 20% supplemental grant for students classified as English learners ("EL"), those eligible to receive a free or reduced price meal ("FRPM") and foster youth, to reflect increased costs associated with educating those students. These supplemental grants are only attributed to each eligible student once, and the total student population eligible for the additional funding is known as an "unduplicated count."
- An additional concentration grant equal to 50% of a local education agency's base grant, based on the number of unduplicated EL, FRPM and foster youth served by the local agency that comprise more than 55% of the school district's or charter school's total enrollment.

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 the most recent fiscal years.

ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE
Fiscal Years 2014-15 through 2018-19

Fiscal Year	Average Daily Attendance K-3	4-6	7-8	9-12	Total District ADA	Total District Enrollment(2)	% of EL/LI Enrollment(3)
2014-15	404.90	356.89	245.28	428.80	1,435.87	1,526	53.08%
2015-16	380.57	326.92	237.72	449.46	1,394.67	1,470	56.15
2016-17	394.73	296.83	229.81	455.83	1,377.20	1,451	57.09
2017-18	401.86	284.65	241.28	453.20	1,380.99	1,458	58.94
2018-19(4)	409.88	304.00	207.00	475.33	1,396.21	1,481	55.81

Source: Middletown Unified School District

(1) Reflects P-2 ADA.

(2) Reflects CBEDS enrollment.

(3) 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.

(4) As projected in the District's 2018-19 2nd Interim Report, adopted March 13, 2019.

Of the more than $25 billion in funding to be invested through the LCFF through full implementation of the LCFF, the vast majority of new funding will be provided for base grants. Specifically, of every dollar invested through the LCFF, 84 cents will go to base grants, 10 cents will go to supplemental grants, and 6 cents will go to concentration grants. Under the 2013-14 State Budget, the target average base grant was $7,643, which was an increase of $2,375 from the prior year's average revenue limit. Base grants are adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of 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. 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 and restoration of categorical funding to pre-recession levels. The sum of a school district's adjusted base, supplemental and concentration grants will be multiplied by such district's Second Principal Apportionment (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 categorical block grant add-ons, will yield a school 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 the individual school district's share of applicable local property taxes allocations. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues in a particular year may significantly affect appropriations made by the State Legislature to school districts.

The new legislation includes a "hold harmless" provision which provides that a school district or charter school will maintain total revenue limit and categorical funding at its Fiscal Year 2012-13 level, unadjusted for changes in ADA, or cost of living adjustments.

A summary of the target LCFF funding amounts for California school districts and charter schools based on grade levels and targeted students classified as English learners, those eligible to receive a free or reduced price meal, foster youth, or any combination of these factors ("unduplicated" count) is shown below:

CALIFORNIA SCHOOL DISTRICTS AND CHARTER SCHOOLS
GRADE SPAN FUNDING AT FULL LCFF IMPLEMENTATION
LOCAL CONTROL TARGET FUNDING FORMULA 2018-19

Grade Levels	2017-18 Base Grants per ADA	2018-19 "Super COLA" (3.70%)	Grade Span Adjustments	2018-19 Grant/Adjusted Base Grant per ADA
K-3	$ 7,193	$ 266	$ 776	$ 8,235
4-6	7,301	270	n/a	7,571
7-8	7,518	278	n/a	7,796
9-12	8,712	322	235	9,269

Source: California Department of Education

Since July 1, 2015, school districts have been required to develop a three-year Local Control and Accountability Plan (each, a "LCAP"). County Superintendents of Schools and the State Superintendent of Public Instruction review and provide support to school districts and county offices of education under their jurisdictions. In addition, the 2013-14 State budget created the California Collaborative for Education Excellence (the "Collaborative") to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. The State Superintendent of Public Instruction may direct the Collaborative to provide additional assistance to any district, county office, or charter school. For those entities that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction has authority to make changes to school district or county office's local plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is so persistent and acute as to warrant revocation. The State will continue to measure student achievement through statewide assessments, produce a dash board system for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

Federal Sources. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Education for Economic Security, and the free and reduced lunch program.

Other State Sources. In addition to LCFF revenues, the District receives substantial other State revenues. The LCFF replaced most of the State categorical program funding that existed prior to Fiscal Year 2013-14. Categorical funding for certain programs was excluded from the LCFF, and school districts continue to receive restricted State revenues to fund these programs. These other State revenues are primarily restricted revenue funding items such as the Special Education Master Plan, Economic Impact Aid, and Tier 3 Funding.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research.

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

Effect of State Budget on Revenues

Most public school districts in California are dependent on revenues from the State for a large portion of their operating budgets, because the primary source of funding for school districts is LCFF funding, which is derived from a combination of State funds and local property taxes as previously described herein (see "—Education Funding Generally" above). The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. The District cannot predict how education funding may be changed in the future, or the state of the economy which in turn can impact the amounts of funds available from the State for education funding generally. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."

District Expenditures

The largest part of each school district's general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

Labor Relations. Currently the District employs 87.5 full-time equivalent (FTE) certificated employees and 83.675 FTE classified employees. There are two formal bargaining organizations operating in the District as detailed in the table below.

LABOR ORGANIZATIONS
Middletown Unified School District

Labor Organization	Members	Contract Expiration
Middletown Unified School District Teachers Association	74.9	June 30, 2022
California School Employees Association	74.675	June 30, 2021

Source: Middletown Unified School District

District Retirement Programs

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

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 recently 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

Effective Date	STRS Members Hired Prior to January 1, 2013	STRS Members Hired After January 1, 2013
July 1, 2014	8.150%	8.150%
July 1, 2015	9.200%	8.560%
July 1, 2016	10.250%	9.205%
July 1, 2017	10.250%	9.205%
July 1, 2018	10.250%	10.250%

Source: AB 1469.

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

Effective Date	K-14 School District
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 contribution to STRS for the most recent fiscal years was as follows:

Fiscal Year	District STRS Contribution
2014-15	$ 541,702
2015-16	622,019
2016-17	756,251
2017-18	868,422
2018-19(1)	1,557,615(2)

Source: Middletown Unified School District.
(1) Projected.
(2) Includes State on-behalf of payment.

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 2019-20 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 COLA's, 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, 2014, included 1,580 public agencies and 1,513 K-14 school districts. 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 11.847% of eligible salary expenditures for fiscal year 2015-16, 13.888% in fiscal year 2016-17, 15.531% in fiscal year 2017-18 and 18.062% for fiscal year 2018-19. Participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 6% of their respective salaries for fiscal years 2015-16 and 2016-17, 6.50% in fiscal year 2017-18 and 7.00% in fiscal year 2018-19. See "—California Public Employees' Pension Reform Act of 2013" herein.

The District's contribution to PERS for the most recent fiscal years was as follows:

Fiscal Year	District PERS Contribution
2014-15	$267,680
2015-16	306,695
2016-17	375,771
2017-18	453,359
2018-19[1]	510,141

Source: Middletown Unified School District

(1) Projected.

For further information about the District's contributions to STRS and PERS, see APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018—Note 11.

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 following table 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
(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)(3)]	Value of Trust Assets (AVA)[(4)]	Unfunded Liability (MVA)[(4)]
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)[(2)]	Unfunded Liability (MVA)[(2)(3)]	Value of Trust Assets (AVA)[(4)]	Unfunded Liability (MVA)[(4)]
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	—[(5)]	—[(5)]
2014-15	73,325	56,814	16,511	—[(5)]	—[(5)]
2015-16	77,544	55,785	21,759	—[(5)]	—[(5)]
2016-17	84,416	60,865	23,551	—[(5)]	—[(5)]

Source: PERS Schools Pool Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.
(1) Amounts may not add due to rounding.
(2) Reflects market value of assets.
(3) Excludes assets allocated to the SBPA reserve.
(4) Reflects actuarial value of assets.
(5) Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets.

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. On February 1, 2017, the STRS Board adopted a new set of actuarial assumptions reflecting increasing life expectancies and current economic trends. These actuarial assumptions include, but are not limited to: (i) adopting a generational morality methodology to reflect past improvements in life expectancies, (ii) decreasing the investment rate of return from 8.25% for the June 30, 2016 STRS Actuarial Valuation to 7.00% for the June 30, 2017 STRS Actuarial Valuation, and (iii) decreasing the projected wage growth to 3.50% and the projected inflation rate to 2.75%.According to the STRS Actuarial Valuation, as of June 30, 2017, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be sufficient to finance its obligations with a projected ending funded ratio in the 2045-46 fiscal year of 99.6%. This finding reflects the scheduled contribution increases specified in AB 1469 and is based on the valuation assumptions and the 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.

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 assumption rate from 2.75% 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 mortality, retirement, and disability retirement rates.

On February 14, 2018, the PERS Board approved modifications to the PERS amortization policy for investment gains and losses from 30 years to 20 years, requiring that the 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, and eliminated the 5-year ramp-up/ramp-down policy for all gains and losses except for the ramp-up policy for gains and losses related to investments. Such policy changes will be reflected in actuarial valuations beginning June 30, 2019, and will be implemented starting with fiscal year 2021-22 contributions. These policies apply only to prospective accumulation of amortization and will not affect current accrued unfunded liabilities, with the exception that, with regards to the PERS Schools Pool Actuarial Valuation, the impact of the discount rate change from 7.25% to 7.00% in the June 30, 2019 valuation will be amortized under the old policy. Shortening the amortization period will increase employer contributions and help pay down the PERS's unfunded liability faster, which may result in future cost savings.

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

The District's proportionate shares of the net pension liabilities, pension expense, deferred outflow of resources and deferred inflow of resources for STRS and PERS, as of June 30, 2018, are as shown in the following table.

Pension Plan	Net Pension Liability	Deferred Outflows Related to Pensions	Deferred Inflows Related to Pensions	Pension Expenses
STRS	$10,306,263	$2,815,892	$1,442,545	$ 845,184
PERS	5,148,312	1,881,451	60,615	782,004
Totals	$15,454,575	$4,697,343	$1,503,160	$1,627,188

Source: Middletown Unified School District 2017-18 Audited Financial Statements

For additional information, see APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018—Note 11.

Other Post-Employment Benefits

Plan Description. The District's defined benefit OPEB plan, Middletown Unified School District Retiree Benefit Plan (the "Plan") provides retiree health benefits to employees. Medical, prescription drug, behavioral health, dental and vision insurance are all provided. The medical plans include six Blue Shield of California PPO options. Prescription drug coverage is provided through CVS/Caremark plans. Guardian

Dental and VSP vision insurance are also offered to both active employees and retirees of the District. All coverages are self-insured on a pooled basis or otherwise provided through the North Coast Schools Medical Insurance Group (NCSMIG). These are all purchased on a pooled basis through the Self-Insured Schools of California (SISC). The District participates in the Self-Insured Schools of California (SISC) GASB 45 Trust A, which is an agent multiple-employer OPEB plan administered by SISC. Trust A was established to provide governmental agencies in the state of California a mechanism for pre- funding Other Post- Employment Benefits (OPEB) liabilities. SISC issues a separate Financial Report and Schedules of Change in Fiduciary Net Position by Employer that are prepared in accordance with accounting principles generally accepted in the United States of America. Copies of the Self-Insured Schools of California GASB 45 Trust A financial report may be obtained from the Self-Insured Schools of California – 2000 "K" Street, Bakersfield, CA 93303-1847.

Membership of the plan consisted of 9 inactive employees receiving benefits and 17 participating active employees as of July 1, 2018, the most recent actuarial valuation date.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB liability for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

OPEB LIABLITY
Fiscal Year 2018-19

Service cost	$ 11,484
Interest on net OPEB obligation	30,078
Benefits payments	(131,670)
Increase in net OPEB obligation	(90,108)
Net OPEB obligation, beginning of the year	883,311
Net OPEB obligation, end of the year	793,203
Less Plan fiduciary net position	(133,923)
District's net OPEB liability	$659,280

Source: DLF, LLC Actuarial Valuation Report prepared for the District as of July 1, 2018.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

See also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018, Note 10.

District Debt

General Obligation Bonds. The following table shows the District's outstanding general obligation bonds.

ISSUED AND OUTSTANDING
GENERAL OBLIGATION BONDED DEBT
As of March 1, 2019

Dated Date	Series	Final Maturity	Amount of Original Issue	Amount Outstanding (as of 3/1/2019) [1]
12/2/2008	Election of 2006, Series 2008	2033	$ 6,496,430.70	$ 1,713,112.90
2/20/2009	Election of 2006, Series 2009	2033	3,800,154.10	396,090.45
12/22/2015	2015 Refunding Bonds	2033	4,470,000.00	4,250,000.00
10/5/2016	2016 Refunding Bonds	2033	5,950,000.00	5,640,000.00
Total			$20,716,584.80	$11,999,203.35

(1) The amount of capital appreciation bonds outstanding is expressed in terms of original denominational amounts.

The following table shows the District's annual requirements to amortize its outstanding general obligation bonds, excluding the Bonds of this issue, assuming no optional redemption:

AGGREGATE ANNUAL DEBT SERVICE REQUIREMENTS FOR ALL OUTSTANDING BONDS
As of March 1, 2019

Date	Election of 2006 Series 2008	Election of 2006 Series 2009	2015 Refunding	2016 Refunding	Total Debt Service
8/1/2019	$ 245,000.00	$ 295,787.50	$ 192,112.50	$ 360,800.00	$ 1,093,700.00
8/1/2020	270,000.00	310,787.50	191,112.50	356,800.00	1,128,700.00
8/1/2021	295,000.00	326,411.50	189,612.50	353,800.00	1,164,824.00
8/1/2022	325,000.00	340,605.15	188,112.50	360,800.00	1,214,517.65
8/1/2023	355,000.00	355,787.50	191,612.50	361,600.00	1,264,000.00
8/1/2024	385,000.00	—	189,962.50	567,300.00	1,142,262.50
8/1/2025	415,000.00	—	188,312.50	378,800.00	982,112.50
8/1/2026	749,544.60	—	191,662.50	434,000.00	1,375,207.10
8/1/2027	724,111.20	—	189,262.50	436,600.00	1,349,973.70
8/1/2028	777,636.75	—	191,862.50	438,600.00	1,408,099.25
8/1/2029	835,000.00	—	699,262.50	660,000.00	2,194,262.50
8/1/2030	—	—	736,262.50	682,000.00	1,418,262.50
8/1/2031	—	—	765,862.50	701,500.00	1,467,362.50
8/1/2032	—	—	925,162.50	570,125.00	1,495,287.50
8/1/2033	—	—	959,062.50	595,950.00	1,555,012.50
Total	$5,376,292.55	$1,629,379.15	$5,989,237.50	$7,258,675.00	$20,253,584.20

All debt service payments on the bonds, including refunding bonds, are payable from an *ad valorem* tax levied and collected by the County on assessed property in the District.

STATE FUNDING: RECENT STATE BUDGETS

The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts are revenues under the LCFF, which are a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION"). State funds typically make up the majority of a district's LCFF allocation, although Community Funded school districts derive most of their revenues from local property taxes. School districts also receive some funding from the State for certain categorical programs. The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

2018-19 State Budget

On June 28, 2018, Governor Jerry Brown approved the final 2018-19 State Budget (the "2018-19 Budget"), a $201.4 billion plan which includes funding of $97.2 billion ($56.1 billion General Fund and $41.1 billion other funds) for K-12 education programs and a $6.16 billion increase in one-time and ongoing appropriations for K-12 school districts in Fiscal Year 2018-19. The 2018-19 Budget also includes $500 million in grants for cities to use to address homelessness and anticipates placing the $2 billion 'No Place Like Home' bond on the November 2018 ballot to accelerate the delivery of housing projects to serve individuals with mental illness. Altogether, the 2018-19 Budget includes $5 billion related to affordable housing and homelessness, across multiple State departments and programs and increases the value of welfare grants through the CalWORKS program by approximately $360 million. The 2018-19 Budget also includes $79 million for programs to help those in the U.S. illegally by funding legal services programs and assistance for young adults who signed up with the Deferred Action for Childhood Arrivals program.

For K-12 schools, the 2018-19 Budget provides an increase in funding levels of approximately $4,633 per student over Fiscal Year 2011-12 levels and notes that available funding will allow the State to reach 100-percent implementation of the LCFF. In an effort to improve student achievement and transparency, the 2018-19 Budget requires school districts to create a link between their local accountability plans and their budgets to show how increased funding is being spent to support English learners, students from low-income families, and youth in foster care. The 2018-19 Budget also provides $300 million to school district targeting improvements for the State's lowest performing students, and includes $82.8 million in specific funding for K-12 accountability measures including the following:

- *Statewide System of Support*. $57.8 million Proposition 98 General Fund for county offices of education to provide technical assistance to school districts.

- *Multi-Tiered Systems of Support ("MTSS")*. $15 million one-time Proposition 98 General Fund to expand the state's MTSS framework.

- *Community Engagement Initiative*. $13.3 million one-time Proposition 98 General Fund for the California Collaborative for Educational Excellence.

- *Special Education Local Plan Area ("SELPA") Technical Assistance*. $10 million Proposition 98 General Fund for SELPAs to assist county offices of education in providing technical assistance.

  In addition, the 2018-19 Budget includes the following features affecting K-12 school districts:

- *Classified School Employee Summer Assistance Program*. $50 million one-time Proposition 98 General Fund to provide State matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the school year and then paid during the summer recess period.

- *Classified School Employee Professional Development Block Grant Program*. $50 million one- time Proposition 98 General Fund for professional development opportunities for classified staff, with a priority on professional development for the implementation of school safety plans.

- *English Language Proficiency Assessment for California ("ELPAC").* $27.1 million one-time Proposition 98 General Fund to convert the paper-based ELPAC to a computer-based assessment and to develop an ELPAC assessment specific to students with exceptional needs.

- *Charter School Facility Grant Program*. $21.1 million one-time and $24.8 million ongoing Proposition 98 General Fund to reflect increases in programmatic costs.

- *Kids Code After School Program*. $15 million one-time Proposition 98 General Fund to increase opportunities for students in after-school programs to access computer coding education.

- *Fire-Related Support*. $4.4 million Proposition 98 General Fund over two years in property tax relief to schools impacted by the fires in Northern and Southern California in 2017, and an additional $25 million Proposition 98 General Fund relief through the LCFF.

- *Local Solutions Grant Program*. $50 million one-time Proposition 98 General Fund to provide one-time competitive grants to local educational agencies to develop and implement new, or expand existing, locally identified solutions that address a local need for special education teachers.

- *Teacher Residency Grant Program*. $75 million one-time Proposition 98 General Fund to support locally sponsored, one-year intensive, mentored, clinical teacher preparation programs with $50 million aimed at preparing and retaining special education teachers and $25 million aimed at bilingual and science, technology, engineering and mathematics teachers.

2019-20 Proposed State Budget

On January 10, 2019, Governor Gavin Newsom released his proposed State budget for Fiscal Year 2019-20 (the "2019-20 Proposed State Budget"). The $209 billion 2019-20 Proposed State Budget represents a 4 percent increase over the previous year. According to analysis of the 2019-20 Proposed State Budget by the Legislative Analyst's Office (the "LAO Analysis"), lower-than-expected state spending on health and human services programs during the 2018-19 fiscal year lead to an additional $20.6 billion in available discretionary resources for Governor Newsom to allocate in 2019-20. According to the LAO Analysis, the 2019-20 Proposed State Budget will spend nearly half of these resources, $9.7 billion, to pay down certain state liabilities, including unfunded retirement liabilities and budgetary debts; $5.1 billion—

25 percent—on one-time or temporary programmatic spending and $3 billion—15 percent—on discretionary reserves.

The LAO Analysis of the 2019-20 Proposed State Budget estimates that revenues will grow by $5.1 billion (3.6 percent) compared to 2018-19, a growth rate consistent with recent years. Spending is projected to remain flat compared to the prior year, though the 2019-20 Proposed State Budget attributes at least $7 billion in certain debt repayment proposals to the 2018-19 fiscal year. The 2019-20 Proposed State Budget calls for putting $1.8 billion into the state's rainy-day fund, which would increase it to a total of $15.3 billion.

The 2019-20 Proposed State Budget includes a record $80.7 billion for K-12 education. Proposition 98 K-12 per-pupil funding is increased to $12,003, up from $11,568 in 2018-19. LCFF funding is set at approximately $63 billion, representing a 3.46-percent cost-of-living adjustment over the prior year. Significant new K-12 related expenditures include $125 million in funding to increase access to full-day preschool, $750 million to fund more all-day kindergarten programs and a $3 billion one-time payment to trim school districts' pension costs, which is estimated to save school districts an estimated $6.9 billion over 30 years. The 2019-20 Proposed State Budget also provides $750 million for schools to build or retrofit classrooms to provide full-day kindergarten programs. The 2019-20 Proposed State Budget also includes the following adjustments to K-12 related expenditures relative to prior years:

- *School District Declining Average Daily Attendance*—A decrease of $388 million Proposition 98 General Fund in 2018-19 for school districts resulting from a decrease in projected average daily attendance from the 2018 Budget Act, and a decrease of $187 million Proposition 98 General Fund in 2019-20 for school districts resulting from a further projected decline in average daily attendance for 2019-20.

- *Local Property Tax Adjustments*—A decrease of $283 million Proposition 98 General Fund for school districts and county offices of education in 2018-19 as a result of higher offsetting property tax revenues, and a decrease of $1.25 billion Proposition 98 General Fund for school districts and county offices of education in 2019-20 as a result of increased offsetting property taxes.

- *CalWORKs Stages 2 and 3 Child Care*—A net increase of $119.4 million non-Proposition 98 General Fund in 2019-20 to reflect increases in the number of CalWORKs child care cases. Total costs for Stage 2 and 3 are $597 million and $482.2 million, respectively.

- *Full-Year Implementation of Prior Year State Preschool Slots*—An increase of $26.8 million Proposition 98 General Fund to reflect full-year costs of 2,959 full-day State Preschool slots implemented part-way through the 2018-19 fiscal year.

- *County Offices of Education*—An increase of $9 million Proposition 98 General Fund to reflect a 3.46-percent cost-of-living adjustment and average daily attendance changes applicable to the LCFF.

- *Instructional Quality Commission*—An increase of $279,000 General Fund on a one-time basis for the Instructional Quality Commission to continue its work on the development of model curriculum and frameworks.

Future State Budgets

The District receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the District and other school districts in the State.

The District cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the District cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the District has no control.

Supplemental Information Concerning Litigation Against the State of California

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making payments including those made pursuant to continuing appropriations prior to the enactment of the State's annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al*. The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State 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. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

Jarvis v. Connell. On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the California Constitution or a federal mandate is necessary for the 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 California Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE BONDS—Security.") Articles XIIIA, XIIIB, XIIIC and XIIID of the California Constitution, Propositions 98, 111, 218 and 39, 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 and of the District to spend tax proceeds 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 Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA of the California Constitution

Article XIIIA of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. The Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restored value of the damaged property. The State courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each county and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Legislation Implementing Article XIIIA

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

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

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.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as $4 per $100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of 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 California State Supreme Court have upheld the general validity of Article XIIIA.

Article XIIIB of the California Constitution

Article XIIIB 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 XIIIB defines

(a) "change in the cost of living" with respect to school districts to mean the percentage change in California 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 average daily attendance 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 will 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 XIIIB, as amended.

The appropriations of an entity of local government subject to Article XIIIB 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 certain debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIIIB 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 XIIIB 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 will be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

California Lottery

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

Allocation of Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. The District estimates that it will receive $282,090 in Lottery aid in fiscal year 2018-19, representing approximately 2% of the District's general fund revenues. At this time, the amount of additional revenues that may be generated by the Lottery in any given year cannot be predicted.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIIIA. Under this amendment to Article XIIIA, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIIIA, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIIIA has been added to exempt the 1% *ad valorem* tax limitation that Section 1(a) of Article XIIIA of the Constitution levies, to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for an elementary and high school district, indebtedness shall not exceed $30 per $100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed $60 per $100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed $25 per $100,000 of taxable property. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Alternatively, charter schools are independent public schools formed by teachers, parents, and other individuals and/or groups. Charter schools function under contracts or "charters" with local school districts, county boards of education, or the State Board of Education. Charter schools operate with minimal supervision by the local school district. Charter schools receive revenues from the State and from the local school district for each student enrolled, and thus effectively reduce revenues available for students enrolled in local school district schools. School districts are required to accommodate charter school students originating in the school district in facilities comparable to those provided to regular school district students.

Proposition 39 requires that each local K-12 school district provide charter school facilities sufficient to accommodate the charter school's students. A K-12 school district, however, would not be required to spend its general discretionary revenues to provide these facilities for charter schools. Instead, the district could choose to use these or other revenues — including State and local bonds. Such facilities must be reasonably equivalent to the district schools that such charter students would otherwise attend. The respective K-12 school district is permitted to charge the charter school for its facilities if district discretionary revenues are used to fund the facilities and a district may decline to provide facilities for a charter school with a current or projected enrollment of fewer than 80 students who are residents in the District.

Article XIIIC and XIIID of the California Constitution

On November 5, 1996, an initiative to amend the California Constitution known as the "Right to Vote on Taxes Act" ("Proposition 218") was approved by a majority of California voters. Proposition 218 added Articles XIIIC and XIIID to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as "general taxes" (defined as those used for general governmental purposes) or "special taxes" (defined as taxes for a specific purpose even if the revenues flow through the local government's general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District's voters, depending upon the Article of the Constitution under which it is passed.

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the February 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6,1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

Proposition 218 has no effect upon the District's ability to pursue approval of a general obligation bond or a Mello-Roos Community Facilities District bond in the future, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

Propositions 98 and 111

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

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

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

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIIIB 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 XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIIIB 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 XIIIB spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over $15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

d. Recalculation of Appropriations Limit. The Article XIIIB 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 (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capital personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also 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.

Many of the provisions of Proposition 1A have been superseded by Proposition 22 enacted in November 2010.

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 longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately $1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of California Redevelopment Association v. Matosantos, finding California Assembly Bill x1 26 to be constitutional and California Assembly Bill x1 27 to be unconstitutional. As a result, all redevelopment agencies in California were dissolved on February 1, 2012, and the property tax revenue which previously flowed to the redevelopment agencies is now instead going to other local governments, including school districts. It is likely that the dissolution of redevelopment agencies has mooted the effects of Proposition 22.

Proposition 30 and Proposition 55

On November 6, 2012, voters of the State approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increased the State Sales and Use Tax (which expired on January 1, 2017) and personal income tax rates on higher incomes. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and through the taxable year ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 for single filers (over $340,000 but less than $408,000 for head-of-household filers and over $500,000 but less than $600,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $408,000 but less than $680,000 for head-of-household filers and over $600,000 but less than $1,000,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $680,000 for head-of-household filers and over $1,000,000 for joint filers).

The revenues generated from the personal income tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Propositions 98 and 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 are allocated quarterly, with 89% of such funds provided to school districts and 11% provided to community college districts. The funds are distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than $200 per unit of ADA and no community college district will receive less than $100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

The California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55, a constitutional amendment initiative, was approved by California voters at the November 8, 2016 general election in California. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Tax revenue received under Proposition 55 will be allocated 89% to K-12 schools and 11% to community colleges. The sales and use tax rate increase under Proposition 30 will not be extended.

Proposition 2

Proposition 2, also known as The Rainy Day Budget Stabilization Fund Act ("Proposition 2") was approved by California voters on November 8, 2016. Proposition 2 provides for changes to State budgeting practices, including revisions to certain conditions under which transfers are made into and from the State's Budget Stabilization Account (the "Stabilization Account") established by the California Balanced Budget Act of 2004 (also known as Proposition 58). Commencing in Fiscal Year 2015-16 and for each Fiscal Year thereafter, the State is required to make an annual transfer to the Stabilization Account in an amount equal to 1.5% of estimated State general fund revenues (the "Annual Stabilization Account Transfer"). For a Fiscal Year in which the estimated State general fund revenues allocable to capital gains taxes exceed 8% of the total estimated general fund tax revenues, supplemental transfers to the Stabilization Account (a "Supplemental Stabilization Account Transfer") are also required. Such excess capital gains taxes, which are net of any portion thereof owed to K-14 school districts pursuant to Proposition 98, are required to be transferred to the Stabilization Account.

In addition, for each Fiscal Year, Proposition 2 increases the maximum size of the Stabilization Account to 10% of estimated State general fund revenues. Such excess amounts are to be expended on State infrastructure, including deferred maintenance, in any Fiscal Year in which a required transfer to the Stabilization Account would result in an amount in excess of the 10% threshold. For the period from Fiscal Year 2015-16 through Fiscal Year 2029-30, Proposition 2 requires that half of any such transfer to the Stabilization Account (annual or supplemental), shall be appropriated to reduce certain State liabilities, including repaying State interfund borrowing, reimbursing local governments for State mandated services, making certain payments owed to K-14 school districts, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. After Fiscal Year 2029-30, the Governor and the Legislature are given discretion to apply up to half of any required transfer to the Stabilization Account to the reduction of such State liabilities and any amount not so applied shall be transferred to the Stabilization Account or applied to infrastructure, as set forth above.

Accordingly, the conditions under which the Governor and the Legislature may draw upon or reduce transfers to the Stabilization Account are impacted by Proposition 2. Unilateral discretion to suspend transfers to the Stabilization Account are not retained by the Governor. Neither does the Legislature retain discretion to transfer funds from the Stabilization Account for any reason, as was previously provided by law. Instead, the Governor must declare a "budget emergency" (defined as an emergency within the meaning of Article XIIIB of the Constitution) or a determination that estimated resources are inadequate to fund State general fund expenditure, 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, and any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the Stabilization Account 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 Stabilization Account, unless a budget emergency was declared in the preceding Fiscal Year.

Proposition 2 also provides for the creation of a Public School System Stabilization Account (the "Public School System Stabilization Account") into which transfers will be made in any Fiscal Year in which a Supplemental Stabilization Account Transfer is required, requiring that 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. Transfers to the Public School System Stabilization Account are only to be made if certain additional conditions are met, including that: (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 Public School System Stabilization Account 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 Public School System Stabilization Account 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 Public School System Stabilization Account transfer might be made is higher than the immediately preceding Fiscal Year, as adjusted for ADA growth and cost of living.

Under Proposition 2, the size of the Public School System Stabilization Account is capped at 10% of the estimated minimum guarantee in any Fiscal Year, and any excess funds must be paid to K-14 school districts. Any reductions to a required transfer to, or draws upon, the Public School System Stabilization Account, are subject to the budget emergency requirements as described above. However, 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 2 also mandates draws on the Public School System Stabilization Account.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC 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 XIIID. 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.

California Senate Bill 222

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

Kindergarten Through Community College Public Education Facilities Bond Act of 2016

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 8, 2016. Proposition 51 authorizes the sale and issuance of $9 billion in general obligation bonds by the State for the new construction and modernization of K-14 facilities. The District makes no guarantee that it will either pursue or qualify for Proposition 51 state facilities funding.

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 district lacks 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.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the State Constitution and Propositions 2, 22, 26, 30, 39, 46, 55 and 98 were each adopted as measure that qualified for the State 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.

APPENDIX C

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

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MIDDLETOWN UNIFIED SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

christy white associates

A PROFESSIONAL
ACCOUNTANCY CORPORATION

MIDDLETOWN UNIFIED SCHOOL DISTRICT
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JUNE 30, 2018

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Middletown Unified School District
Middletown, 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 Middletown Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Middletown Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As discussed in Notes 1 and 10 to the financial statements, in 2018 Middletown Unified School District adopted new accounting guidance, Governmental Accounting Standards Board 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 required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in net OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Middletown Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018 on our consideration of Middletown 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 Middletown 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 Middletown Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 17, 2018

MIDDLETOWN UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

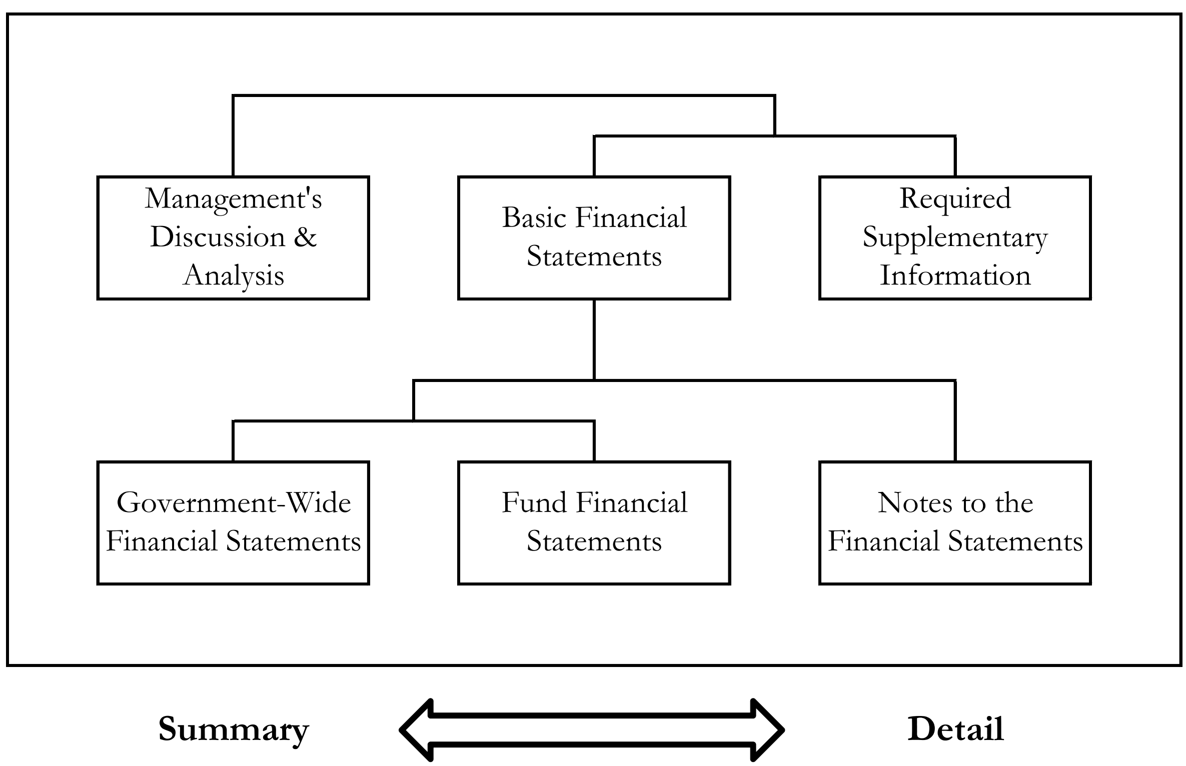
Our discussion and analysis of Middletown Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was ($6,538,344) at June 30, 2018. This was a decrease of ($1,503,944) from the prior year after restatement.
- Overall revenues were $17,335,269 which was less than expenses of $18,839,213.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.

    - **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

    - **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was ($6,538,344) at June 30, 2018, as reflected in the table below. Of this amount, ($13,519,180) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2018	**2017**	**Net Change**
ASSETS			
Current and other assets	$ 4,527,806	$ 5,428,192	$ (900,386)
Capital assets	19,781,733	20,923,451	(1,141,718)
Total Assets	24,309,539	26,351,643	(2,042,104)
DEFERRED OUTFLOWS OF RESOURCES	5,601,589	3,801,536	1,800,053
LIABILITIES			
Current liabilities	1,574,094	1,302,963	271,131
Long-term liabilities	33,368,988	30,508,050	2,860,938
Total Liabilities	34,943,082	31,811,013	3,132,069
DEFERRED INFLOWS OF RESOURCES	1,506,390	1,292,498	213,892
NET POSITION			
Net investment in capital assets	5,340,725	6,212,287	(871,562)
Restricted	1,640,111	2,449,475	(809,364)
Unrestricted	(13,519,180)	(11,612,094)	(1,907,086)
Total Net Position	$ (6,538,344)	$ (2,950,332)	$ (3,588,012)

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges it slightly, so you can see our total revenues and expenses for the year.

	Governmental Activities		
	2018	**2017**	**Net Change**
REVENUES			
Program revenues			
Charges for services	$ 125,765	$ 168,000	$ (42,235)
Operating grants and contributions	2,517,572	5,538,998	(3,021,426)
General revenues			
Property taxes	5,799,451	5,522,817	276,634
Unrestricted federal and state aid	8,446,376	8,325,067	121,309
Other	446,105	779,554	(333,449)
Total Revenues	17,335,269	20,334,436	(2,999,167)
EXPENSES			
Instruction	9,196,606	9,566,673	(370,067)
Instruction-related services	1,615,276	1,595,050	20,226
Pupil services	2,615,343	2,346,860	268,483
General administration	1,375,193	1,403,665	(28,472)
Plant services	1,950,291	3,525,726	(1,575,435)
Ancillary and community services	125,775	177,968	(52,193)
Debt service	728,121	764,929	(36,808)
Other outgo	10,368	1,078	9,290
Depreciation	1,222,240	1,235,892	(13,652)
Total Expenses	18,839,213	20,617,841	(1,778,628)
Change in net position	(1,503,944)	(283,405)	(1,220,539)
Net Position - Beginning, as Restated*	(5,034,400)	(2,666,927)	(2,367,473)
Net Position - Ending	$ (6,538,344)	$ (2,950,332)	$ (3,588,012)

** Beginning Net Position was restated for the 2018 year only*

The cost of all our governmental activities this year was $18,839,213 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only $5,799,451.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District's functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2018	**2017**
Instruction	$ 7,788,300	$ 7,246,961
Instruction-related services	1,556,362	1,454,990
Pupil services	1,714,013	1,053,790
General administration	1,249,511	1,241,478
Plant services	1,830,838	1,748,555
Ancillary and community services	96,123	163,170
Debt service	728,121	764,929
Transfers to other agencies	10,368	1,078
Depreciation	1,222,240	1,235,892
Total Expenses	$ 16,195,876	$ 14,910,843

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $3,687,642, which is less than last year's ending fund balance of $4,285,079. The District's General Fund had $86,661 less in operating revenues than expenditures for the year ended June 30, 2018. The District's Bond Interest and Redemption Fund had $114,813 less in operating revenues than expenditures for the year ended June 30, 2018.

CURRENT YEAR BUDGET 2017-2018

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a regular basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-2018 the District had invested $19,781,733 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2018	2017	Net Change
CAPITAL ASSETS			
Land	$ 1,309,743	$ 1,309,743	$ -
Land improvements	436,554	436,554	-
Buildings & improvements	30,490,822	30,490,822	-
Furniture & equipment	2,899,118	2,818,596	80,522
Accumulated depreciation	(15,354,504)	(14,132,264)	(1,222,240)
Total Capital Assets	$ 19,781,733	$ 20,923,451	$ (1,141,718)

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end, the District had $33,368,988 in long-term debt, an increase of $1,392,415 from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2018	**2017**	**Net Change**
LONG-TERM LIABILITIES			
Total general obligation bonds	$ 15,349,728	$ 15,740,416	$ (390,688)
Compensated absences	64,059	47,198	16,861
QZAB	1,741,000	1,877,000	(136,000)
Net OPEB liability*	1,357,466	1,447,590	(90,124)
Net pension liability	15,454,575	13,499,494	1,955,081
Less: current portion of long-term debt	(597,840)	(635,125)	37,285
Total Long-term Liabilities	$ 33,368,988	$ 31,976,573	$ 1,392,415

*Net OPEB liability for 2017 was restated in order to record the District's net OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

The State's economy continues to be strong but a new governor could change the fiscal policy for the funding of public education, within the boundaries of Proposition 98. Past fiscal allocations had included higher than expected funding but on-going funding may not be as strong. The UCLA Anderson Forecast (June 2018) noted that the "era of ultra-low interest rates has passed and the economy is at full employment," which creates difficulty sustaining continued growth at the rate recently experienced. And, according to the California Legislative Analyst's Office, there are concerns about a possible mild recession.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2018. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

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 Business Office, 20932 Big Canyon Road, Middletown, CA 95461.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

		Governmental Activities
ASSETS		
Cash and investments	$	3,884,418
Accounts receivable		624,235
Inventory		19,153
Capital assets, not depreciated		1,309,743
Capital assets, net of accumulated depreciation		18,471,990
Total Assets		24,309,539
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		4,697,343
Deferred amount on refunding		904,246
Total Deferred Outflows of Resources		5,601,589
LIABILITIES		
Accrued liabilities		823,847
Unearned revenue		152,407
Long-term liabilities, current portion		597,840
Long-term liabilities, non-current portion		33,368,988
Total Liabilities		34,943,082
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		1,503,160
Deferred inflows related to OPEB		3,230
Total Deferred Inflows of Resources		1,506,390
NET POSITION		
Net investment in capital assets		5,340,725
Restricted:		
Capital projects		405,124
Debt service		824,701
Educational programs		363,131
All others		47,155
Unrestricted		(13,519,180)
Total Net Position	$	(6,538,344)

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

MIDDLETOWN UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	$ 9,196,606	$ 15,949	$ 1,392,357	$ (7,788,300)
Instruction-related services				
Instructional supervision and administration	58,095	-	-	(58,095)
Instructional library, media, and technology	139,828	-	-	(139,828)
School site administration	1,417,353	129	58,785	(1,358,439)
Pupil services				
Home-to-school transportation	677,170	-	17,996	(659,174)
Food services	906,515	77,246	598,579	(230,690)
All other pupil services	1,031,658	-	207,509	(824,149)
General administration				
Centralized data processing	248,635	-	-	(248,635)
All other general administration	1,126,558	4,048	121,634	(1,000,876)
Plant services	1,950,291	22,909	96,544	(1,830,838)
Ancillary services	125,775	5,484	24,168	(96,123)
Interest on long-term debt	728,121	-	-	(728,121)
Other outgo	10,368	-	-	(10,368)
Depreciation (unallocated)	1,222,240	-	-	(1,222,240)
Total Governmental Activities	$ 18,839,213	$ 125,765	$ 2,517,572	(16,195,876)

General revenues	
Taxes and subventions	
Property taxes, levied for general purposes	4,952,836
Property taxes, levied for debt service	846,615
Federal and state aid not restricted for specific purposes	8,446,376
Interest and investment earnings	31,803
Interagency revenues	38,331
Miscellaneous	375,971
Subtotal, General Revenue	14,691,932
CHANGE IN NET POSITION	(1,503,944)
Net Position - Beginning, as Restated	(5,034,400)
Net Position - Ending	$ (6,538,344)

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

MIDDLETOWN UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 2,420,809	$ 960,791	$ 502,818	$ 3,884,418
Accounts receivable	567,176	-	57,059	624,235
Due from other funds	48,939	-	-	48,939
Stores inventory	13,828	-	5,325	19,153
Total Assets	$ 3,050,752	$ 960,791	$ 565,202	$ 4,576,745
LIABILITIES				
Accrued liabilities	$ 633,572	$ -	$ 54,185	$ 687,757
Due to other funds	-	-	48,939	48,939
Unearned revenue	152,407	-	-	152,407
Total Liabilities	785,979	-	103,124	889,103
FUND BALANCES				
Nonspendable	18,828	-	5,325	24,153
Restricted	363,131	960,791	456,753	1,780,675
Assigned	1,018,818	-	-	1,018,818
Unassigned	863,996	-	-	863,996
Total Fund Balances	2,264,773	960,791	462,078	3,687,642
Total Liabilities and Fund Balances	$ 3,050,752	$ 960,791	$ 565,202	$ 4,576,745

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

MIDDLETOWN UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds			$	3,687,642
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:				
Capital assets:				
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:				
Capital assets	$	35,136,237		
Accumulated depreciation		(15,354,504)		19,781,733
Deferred amount on refunding:				
In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:				904,246
Unmatured interest on long-term debt:				
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:				(136,090)
Long-term liabilities:				
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:				
Total general obligation bonds	$	15,349,728		
Compensated absences		64,059		
QZAB		1,741,000		
Net OPEB liability		1,357,466		
Net pension liability		15,454,575		(33,966,828)
Deferred outflows and inflows of resources relating to pensions:				
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.				
Deferred outflows of resources related to pensions	$	4,697,343		
Deferred inflows of resources related to pensions		(1,503,160)		3,194,183
Deferred outflows and inflows of resources relating to OPEB:				
In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported.				
Deferred outflows of resources related to OPEB	$	-		
Deferred inflows of resources related to OPEB		(3,230)		(3,230)
Total Net Position - Governmental Activities			$	(6,538,344)

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

MIDDLETOWN UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	$ 12,852,484	$ -	$ -	$ 12,852,484
Federal sources	630,170	-	715,311	1,345,481
Other state sources	1,019,241	6,129	44,419	1,069,789
Other local sources	1,168,889	844,078	186,802	2,199,769
Total Revenues	15,670,784	850,207	946,532	17,467,523
EXPENDITURES				
Current				
Instruction	9,282,539	-	-	9,282,539
Instruction-related services				
Instructional supervision and administration	59,209	-	-	59,209
Instructional library, media, and technology	130,464	-	-	130,464
School site administration	1,379,953	-	-	1,379,953
Pupil services				
Home-to-school transportation	659,315	-	-	659,315
Food services	-	-	875,897	875,897
All other pupil services	1,028,794	-	-	1,028,794
General administration				
Centralized data processing	235,721	-	-	235,721
All other general administration	1,139,550	-	45,900	1,185,450
Plant services	1,706,375	-	187,012	1,893,387
Ancillary services	125,157	-	-	125,157
Transfers to other agencies	10,368	-	-	10,368
Debt service				
Principal	-	650,000	136,000	786,000
Interest and other	-	315,020	97,686	412,706
Total Expenditures	15,757,445	965,020	1,342,495	18,064,960
Excess (Deficiency) of Revenues Over Expenditures	(86,661)	(114,813)	(395,963)	(597,437)
Other Financing Sources (Uses)				
Transfers in	3,039	-	75,000	78,039
Transfers out	(75,000)	-	(3,039)	(78,039)
Net Financing Sources (Uses)	(71,961)	-	71,961	-
NET CHANGE IN FUND BALANCE	(158,622)	(114,813)	(324,002)	(597,437)
Fund Balance - Beginning	2,423,395	1,075,604	786,080	4,285,079
Fund Balance - Ending	$ 2,264,773	$ 960,791	$ 462,078	$ 3,687,642

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

MIDDLETOWN 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

Net Change in Fund Balances - Governmental Funds		$ (597,437)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
Capital outlay:		
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay:	$ 80,522	
Depreciation expense:	(1,222,240)	(1,141,718)
Debt service:		
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		786,000
Deferred amounts on refunding:		
In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:		(60,283)
Unmatured interest on long-term debt:		
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:		4,180

(Continued on following page)

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

Accreted interest on long-term debt:	
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.	(316,463)
Compensated absences:	
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:	(16,861)
Postemployment benefits other than pensions (OPEB):	
In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:	86,894
Pensions:	
In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:	(305,407)
Amortization of debt issuance premium or discount:	
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is:	57,151
Change in Net Position of Governmental Activities	$ (1,503,944)

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

MIDDLETOWN UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Trust Funds	Agency Funds
	Retiree Benefit Fund	Student Body Fund
ASSETS		
Cash and investments	$ 133,923	$ 317,941
Total Assets	133,923	$ 317,941
LIABILITIES		
Due to student groups	-	$ 317,941
Total Liabilities	-	$ 317,941
NET POSITION		
Restricted	133,923	
Total Net Position	$ 133,923	

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

MIDDLETOWN UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Trust Funds
	Retiree Benefit Fund
ADDITIONS	
Investment earnings	$ 10,350
Total Additions	10,350
DEDUCTIONS	
Other trust activities	128
Total Deductions	128
CHANGE IN NET POSITION	10,222
Net Position - Beginning	123,701
Net Position - Ending	$ 133,923

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. 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 and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

C. Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for 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 of 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections* 15125–15262). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections* 38090–38093). The Cafeteria Special Revenue Fund shall be 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).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

Building Fund: This 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. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section* 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section* 41003).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections* 17620–17626). The authority for these levies may be county/city ordinances (*Government Code Sections* 65970–65981) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section* 66006).

County School Facilities Fund: This 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), or the 2004 State School Facilities Fund (Proposition 55) 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.).

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

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. 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.

Retiree Benefit Fund: This fund exists to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments, or both.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections* 48930–48938).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus

Government-Wide and Fiduciary Financial Statements
The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net 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. The net position should be reported as restricted when constraints placed on its 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 results from special revenue funds and the restrictions on their use.

Governmental Funds
Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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 balance sheet and revenue is recognized.

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

Expenses/Expenditures

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

Cash and Cash Equivalents

The District’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

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

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of $5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Life
Buildings and Improvements	7 to 50 years
Furniture and Equipment	5 to 20 years
Vehicles	8 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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 resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	July 1. 2016
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Gains and losses related to changes in net OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

Deferred Outflows/Deferred Inflows of Resources

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

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

Fund Balance
Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

Fund Balance (continued)

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. Interfund Activity

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

G. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. 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. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 75 for the year ended June 30, 2018.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard's primary objective 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]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective 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. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Activities	Fiduciary Funds
Investment in county treasury	$ 3,873,124	$ -
Cash on hand and in banks	6,294	317,941
Cash with fiscal agent	-	133,923
Cash in revolving fund	5,000	-
Total cash and investments	$ 3,884,418	$ 451,864

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section* 41001. The Lake County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is 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.

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. 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 manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately $3,877,462 and an amortized book value of $3,873,124.

E. 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. The investments in the County Treasury are not required to be rated.

NOTE 2 – CASH AND INVESTMENTS (continued)

F. 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. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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

Uncategorized - Investments in the Lake County Treasury Investment Pool and the District’s irrevocable OPEB trust 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 at June 30, 2018 were as follows:

	Uncategorized
Investment in county treasury	$ 3,877,462
Cash with fiscal agent - OPEB trust	133,923
Total fair market value of investments	$ 4,011,385

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government			
Categorical aid	$ 302,494	$ 52,738	$ 355,232
State Government			
Categorical aid	4,175	4,321	8,496
Lottery	99,153	-	99,153
Local Government			
Other local sources	161,354	-	161,354
Total	$ 567,176	$ 57,059	$ 624,235

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	$ 1,309,743	$ -	$ -	$ 1,309,743
Construction in progress	-	-	-	-
Total Capital Assets not Being Depreciated	1,309,743	-	-	1,309,743
Capital assets being depreciated				
Land improvements	436,554	-	-	436,554
Buildings & improvements	30,490,822	-	-	30,490,822
Furniture & equipment	2,818,596	80,522	-	2,899,118
Total Capital Assets Being Depreciated	33,745,972	80,522	-	33,826,494
Less Accumulated Depreciation				
Land improvements	390,860	3,661	-	394,521
Buildings & improvements	11,662,654	1,046,950	-	12,709,604
Furniture & equipment	2,078,750	171,629	-	2,250,379
Total Accumulated Depreciation	14,132,264	1,222,240	-	15,354,504
Governmental Activities				
Capital Assets, net	$ 20,923,451	$ (1,141,718)	$ -	$ 19,781,733

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

At June 30, 2018, the Non-Major Cafeteria Fund owed the General Fund $45,900 to cover expenditures and the Non-Major Capital Facilities Fund owed the General Fund $3,039 to cover expenditures as well.

B. Operating Transfers

At June 30, 2018, the General Fund transferred 75,000 to the Non-Major Cafeteria Fund to cover expenses and the Non-Major Capital Facilities Fund transferred $3,039 the General Fund for developer fees.

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018 consisted of the following:

	General Fund	Non-Major Governmental Funds	District-Wide	Total Governmental Activities
Payroll	$ 99,026	$ 5,051	$ -	$ 104,077
Construction	-	42,995	-	42,995
Vendors payable	534,546	6,139	-	540,685
Unmatured interest	-	-	136,090	136,090
Total	$ 633,572	$ 54,185	$ 136,090	$ 823,847

NOTE 7 – UNEARNED REVENUE

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

	General Fund
Federal sources	$ 4,649
State categorical sources	147,758
Total	$ 152,407

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 consisted of the following:

	Restated Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018	Balance Due In One Year
Governmental Activities					
General obligation bonds	$ 14,803,084	$ 316,463	$ 650,000	$ 14,469,547	$ 403,689
Unamortized premium	937,332	-	57,151	880,181	57,151
Total general obligation bonds	15,740,416	316,463	707,151	15,349,728	460,840
Compensated absences	47,198	16,861	-	64,059	-
QZAB	1,877,000	-	136,000	1,741,000	137,000
Net OPEB liability	1,447,590	-	90,124	1,357,466	-
Net pension liability	13,499,494	1,955,081	-	15,454,575	-
Total	$ 32,611,698	$ 2,288,405	$ 933,275	$ 33,966,828	$ 597,840

Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.

Payments on QZAB are made in the Special Reserve Fund for Capital Outlay Projects.

Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

A. Compensated absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to $64,059. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. General Obligation Bonds

The outstanding bonded debt of the District at June 30, 2018 was as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2017	Additions	Deductions	Bonds Outstanding June 30, 2018
12/2/2008	8/1/2028	3.38-6.00%	$2,601,431	$ 3,460,188	$ 249,975	$ 225,000	$ 3,485,163
2/4/2009	Matured	4.50-5.00%	2,975,000	145,000	-	145,000	-
2/4/2009	8/1/2023	2.62-5.16%	825,154	902,896	66,488	120,000	849,384
12/22/2015	8/1/2033	2.00-3.125%	4,470,000	4,345,000	-	45,000	4,300,000
10/3/2016	8/1/2033	1.50-4.00%	5,950,000	5,950,000	-	115,000	5,835,000
				$ 14,803,084	$ 316,463	$ 650,000	$ 14,469,547

NOTE 8 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

2016 Refunding Bonds

The District issued $5,950,000 in 2016 Refunding Bonds on October 3, 2016. The net proceeds received for the 2016 Refunding Bonds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the Election 2006, Series 2007 and Series 2009 bonds that were refunded. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's financial statements. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized as an expense over the life of the bond. This refunding reduced total debt service payments by $868,431 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of 688,379. As of June 30, 2018, the principal balance outstanding on the defeased debt amounted to $5,665,000, which will be paid in full by August 1, 2018.

The annual requirements to amortize all general obligation bonds outstanding at June 30, 2018 were as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 403,689	$ 420,385	$ 824,074
2020	410,144	569,269	979,413
2021	410,153	605,211	1,015,364
2022	360,536	514,877	875,413
2023	370,884	539,779	910,663
2024 - 2028	2,318,688	2,292,350	4,611,038
2029 - 2033	6,618,799	3,344,064	9,962,863
2034	1,510,000	22,506	1,532,506
Accretion	2,066,654	(2,066,654)	-
Total	$ 14,469,547	$ 6,241,787	$ 20,711,334

NOTE 8 – LONG-TERM DEBT (continued)

C. Qualified Zone Academy Bonds (QZAB)

The District issued lease revenue bonds in the amount of $2,155,000 at 5.40% that are designated as QZAB to finance improvements to school facilities within the District. The District pays the principal and interest amounts as shown below but receives refunding tax credits (subsidies) subject to reduction or offset by the IRS.

The bonds mature through 2030 as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 137,000	$ 90,315	$ 227,315
2020	139,000	82,863	221,863
2021	140,000	75,330	215,330
2022	141,000	67,743	208,743
2023	143,000	60,075	203,075
2024 - 2028	736,000	182,520	918,520
2029 - 2030	305,000	16,497	321,497
Total	$ 1,741,000	$ 575,343	$ 2,316,343

D. Other Postemployment Benefits

The District's restated beginning net OPEB liability was $1,447,590 and decreased by $90,124 during the year ended June 30, 2018. The ending net OPEB liability at June 30, 2018 was $1,357,466. See Note 10 for additional information regarding the net OPEB liability.

E. Net Pension Liability

The District's beginning net pension liability was $13,499,494 and increased by $1,955,081 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was $15,454,575. See Note 11 for additional information regarding the net pension liability.

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2018:

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	$ 5,000	$ -	$ -	$ 5,000
Stores inventory	13,828	-	5,325	19,153
Total non-spendable	18,828	-	5,325	24,153
Restricted				
Educational programs	363,131	-	-	363,131
Capital projects	-	-	409,598	409,598
Debt service	-	960,791	-	960,791
All others	-	-	47,155	47,155
Total restricted	363,131	960,791	456,753	1,780,675
Assigned				
One time funding	584,389	-	-	584,389
Bus purchase	29,532	-	-	29,532
MediCal admin allowance	54,428	-	-	54,428
Supplemental & Concentration	7,268	-	-	7,268
Other assignments	343,201	-	-	343,201
Total assigned	1,018,818	-	-	1,018,818
Unassigned				
Reserve for economic uncertainties	500,000	-	-	500,000
Remaining unassigned	363,996	-	-	363,996
Total unassigned	863,996	-	-	863,996
Total	$ 2,264,773	$ 960,791	$ 462,078	$ 3,687,642

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Middletown Unified School District's defined benefit OPEB plan, Middletown Unified School District Retiree Benefit Plan (the Plan) is described below. The District provides retiree health benefits to employees through CVS/Caremark plans. Medical, prescription drug, behavioral health, dental and vision insurance are all provided. The medical plans include six Blue Shield of California PPO options. Prescription drug coverage is provided through CVS/Caremark plans. Guardian Dental and VSP vision insurance are also offered to both active employees and retirees of the District. All coverages are self-insured on a pooled basis or otherwise provided through the North Coast Schools Medical Insurance Group (NCSMIG). These are all purchased on a pooled basis through the Self-Insured Schools of California (SISC). The District participates in the Self-Insured Schools of California (SISC) GASB 45 Trust A, which is an agent multiple-employer OPEB plan administered by SISC. Trust A was established to provide governmental agencies in the state of California a mechanism for pre-funding Other Post- Employment Benefits (OPEB) liabilities. SISC issues a separate Financial Report and Schedules of Change in Fiduciary Net Position by Employer that are prepared in accordance with accounting principles generally accepted in the United States of America. Copies of the Self-Insured Schools of California GASB 45 Trust A financial report may be obtained from the Self-Insured Schools of California – 2000 "K" Street, Bakersfield, CA 93303-1847.

B. OPEB Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately-issued SISC III Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by contacting the District.

C. Benefits Provided

The eligibility requirements and benefits provided by the Plan are described below:

	Certificated	Classified	Management
Applies to	Hired before 1/1/95	Hired before 4/1/94	Hired before 1/1/95
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years	10 years	5 years
Minimum Age	55	55	55
Dependent Coverage	No	No	No
District Contribution %	100%	100%	100%
District Cap	Same as active	Same as active	Same as active

D. Contributions

The contribution requirements of Plan members and the Middletown Unified School District are established and may be amended by the Middletown Unified School District and the Middletown Teachers' Association and the local California Service Employees Association. Assets are accumulated in the SISC GASB 45 Trust A that meets the criteria in paragraph 4 of GASB Statement 75.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

E. Plan Membership

Membership of the Plan consisted of the following:

	Number of participants
Inactive employees receiving benefits	15
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	20
Total number of participants**	35

*Information not provided
**As of the July 1, 2016 valuation date

F. Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2018, were as follows:

Total OPEB liability	$ 1,491,389
Plan fiduciary net position	133,923
District's net OPEB liability	$ 1,625,312
Plan fiduciary net position as a percentage of total OPEB liability	8.98%

G. Investments

Investment Policy
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; collateralized mortgage obligations; and the County Investment Pool.

Concentrations
The Trust does not have investments in any single issuer that represent 5 percent or more of fiduciary net position or total investments.

Rate of Return
For the year ended, June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 8.34 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

H. Actuarial Assumptions and Other Inputs

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

Economic assumptions:

Salary increases	3.00%
Investment rate of return	5.00%
Healthcare cost trend rates	6.00%

Non-economic assumptions:

Pre-retirement mortality:

RP-2014 Employee Mortality Table for Males or Females as appropriate, without projection.

Retirement rates:

RP-2014 Employee Mortality Table for Males or Females as appropriate, without projection.

The actuarial assumptions used in the June 30, 2018 valuation were based on a review of plan experience during the period July 1, 2013 to June 30, 2016.

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or in excess of the target rate of return of 5.50 percent.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

I. Changes in Net OPEB Liability

	June 30, 2018
Net OPEB Liability	
Service Cost	$ 12,035
Interest on total OPEB liability	74,455
Benefits payments	(166,392)
Net change in total OPEB liability	(79,902)
Total OPEB liability - beginning	1,571,291
Total OPEB liability - ending (a)	$ 1,491,389
Plan fiduciary net position	
Contributions - employer	$ 166,392
Net investment income	10,350
Benefit payments	(166,392)
Administrative expenses	(128)
Net change in plan fiduciary net position	10,222
Plan fiduciary net position - beginning	123,701
Plan fiduciary net position - ending (b)	$ 133,923
District's net OPEB liability - ending (a) - (b)	$ 1,357,466
Plan fiduciary net position as a percentage of the total OPEB liability	9.0%
Covered payroll	$ 1,494,295
District's net OPEB liability (asset) as a percentage of covered payroll	91%

The Middletown Unified School District has invoked Paragraph 244 of GASB Statement 75 for the transition due to cost constraints. Consequently, in order to determine the beginning net OPEB liability, a "roll-back" technique has been used.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

J. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Middletown Unified School District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.00 percent) or one percentage point higher (6.00 percent) than the current discount rate:

	1% Decrease (4.00%)	Valuation Discount Rate (5.00%)	1% Increase (6.00%)
Net OPEB liability	$ 1,389,941	$ 1,357,466	$ 1,324,359

K. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Middletown Unified School District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.00 percent decreasing to 4.00 percent) or one percentage point higher (7.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rate:

	1% Decrease (5.00% decreasing to 4.00%)	Valuation Trend Rate (6.00% decreasing to 5.00%)	1% Increase (7.00% decreasing to 6.00%)
Net OPEB liability	$ 1,300,491	$ 1,357,466	$ 1,418,598

L. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Middletown Unified School District recognized an OPEB expense of $90,124. At June 30, 2018, the Middletown Unified School District reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ 3,230
	$ 3,230

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

L. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (continued)

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

Year Ended June 30,	Deferred Inflows of Resources
2019	$ 808
2020	808
2021	808
2022	806
	$ 3,230

Prior periods of deferred outflows and deferred inflows of resources were not restated due to the fact that prior valuations were not rerun in accordance with Paragraph 244 of GASB Statement 75. It was determined the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified. In the future, gains and losses related to changes in net OPEB liability will be recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	$ 10,306,263	$ 2,815,892	$ 1,442,545	$ 845,184
PERS Pension	5,148,312	1,881,451	60,615	782,004
Total	$ 15,454,575	$ 4,697,343	$ 1,503,160	$ 1,627,188

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were $868,422 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately $307,494 to CalSTRS.

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:

District's proportionate share of the net pension liability	$	10,306,263
State's proportionate share of the net pension liability associated with the District		6,097,148
Total	$	16,403,411

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to 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. At June 30, 2017, the District's proportion was 0.011 percent, which was unchanged from its proportion measured as of June 30, 2016.

NOTE 11 – PENSION PLANS (continued)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2018, the District recognized pension expense of $845,184. In addition, the District recognized pension expense and revenue of $175,240 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
Differences between projected and actual earnings on plan investments	$ -	$ 274,484
Differences between expected and actual experience	38,114	179,757
Changes in assumptions	1,909,356	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	988,304
District contributions subsequent to the measurement date	868,422	-
	$ 2,815,892	$ 1,442,545

The $868,422 reported as 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 year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 324,578	$ 460,556
2020	324,578	59,452
2021	324,578	207,510
2022	324,578	476,438
2023	324,578	204,143
2024	324,580	34,446
	$ 1,947,470	$ 1,442,545

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

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

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010–June 30, 2015.

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%
	100%	

*20-year geometric average

NOTE 11 – PENSION PLANS (continued)

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

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. 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 occur midyear. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	$ 15,132,866	$ 10,306,263	$ 6,389,147

Pension Plan Fiduciary Net Position

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

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits Provided

The benefits for the defined benefit plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were $453,359 for the year ended 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 of $5,148,312 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to 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. At June 30, 2017, the District's proportion was 0.022 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2016.

NOTE 11 – PENSION PLANS (continued)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2018, the District recognized pension expense of $782,004. 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
Differences between projected and actual earnings on plan investments	$ 178,096	$ -
Differences between expected and actual experience	184,443	-
Changes in assumptions	751,992	60,615
Changes in proportion and differences between District contributions and proportionate share of contributions	313,561	-
District contributions subsequent to the measurement date	453,359	-
	$ 1,881,451	$ 60,615

The $453,359 reported as 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 year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 485,082	$ 60,615
2020	613,236	-
2021	427,300	-
2022	(97,526)	-
	$ 1,428,092	$ 60,615

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

*An expected inflation of 2.50% used for this period.
**An expected inflation of 3.00% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS' website.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 7,574,817	$ 5,148,312	$ 3,135,323

NOTE 11 – PENSION PLANS (continued)

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

Pension Plan Fiduciary Net Position

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. 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.

B. 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.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in three joint ventures under joint powers authorities (JPAs), the School Insurance Group Northern Alliance I and II, and the Self-Insured Schools of California. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member unitsrn, and their financial statements are not presented in these financial statements. However, fund transactions between the JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the District recognized deferred outflows or inflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2018, the deferred amount on refunding was $904,246.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total deferred outflows related to pensions was $4,697,343 and total deferred inflows related to pensions was $1,503,160.

C. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* the District recognized deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred inflows related to other postemployment benefits was $3,230.

NOTE 16 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District's net OPEB liability related to OPEB in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	$ (2,950,332)
Restatement	(2,084,068)
Net Position - Beginning, as Restated	$ (5,034,400)

REQUIRED SUPPLEMENTARY INFORMATION

MIDDLETOWN UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual*	Variances -
	Original	**Final**	**(Budgetary Basis)**	**Final to Actual**
REVENUES				
LCFF sources	$ 12,794,781	$ 12,886,038	$ 12,852,484	$ (33,554)
Federal sources	675,818	696,401	630,170	(66,231)
Other state sources	1,399,896	1,443,825	1,019,241	(424,584)
Other local sources	947,632	1,143,171	1,167,529	24,358
Total Revenues	15,818,127	16,169,435	15,669,424	(500,011)
EXPENDITURES				
Certificated salaries	6,317,362	6,267,515	6,337,583	(70,068)
Classified salaries	2,640,390	2,728,180	2,744,098	(15,918)
Employee benefits	4,622,825	4,951,945	4,288,766	663,179
Books and supplies	1,070,753	971,816	817,254	154,562
Services and other operating expenditures	1,425,229	1,611,834	1,523,108	88,726
Capital outlay	-	94,256	82,168	12,088
Other outgo				
Excluding transfers of indirect costs	-	-	10,368	(10,368)
Transfers of indirect costs	(36,241)	(36,241)	(45,900)	9,659
Total Expenditures	16,040,318	16,589,305	15,757,445	831,860
Excess (Deficiency) of Revenues				
Over Expenditures	(222,191)	(419,870)	(88,021)	331,849
Other Financing Sources (Uses)				
Transfers in	20,000	20,000	68,717	48,717
Transfers out	172,359	142,359	(85,080)	(227,439)
Net Financing Sources (Uses)	192,359	162,359	(16,363)	(178,722)
NET CHANGE IN FUND BALANCE	(29,832)	(257,511)	(104,384)	153,127
Fund Balance - Beginning	2,315,346	2,315,346	2,315,346	-
Fund Balance - Ending	$ 2,285,514	$ 2,057,835	$ 2,210,962	$ 153,127

*The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Other Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

See accompanying note to required supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018
Net OPEB Liability	
Service Cost	$ 12,035
Interest on total OPEB liability	74,455
Benefits payments	(166,392)
Net change in total OPEB liability	(79,902)
Total OPEB liability - beginning	1,571,291
Total OPEB liability - ending (a)	$ 1,491,389
Plan fiduciary net position	
Contributions - employer	$ 166,392
Net investment income	10,350
Benefit payments	(166,392)
Administrative expenses	(128)
Net change in plan fiduciary net position	10,222
Plan fiduciary net position - beginning	123,701
Plan fiduciary net position - ending (b)	$ 133,923
District's net OPEB liability - ending (a) - (b)	$ 1,357,466
Plan fiduciary net position as a percentage of the total OPEB liability	9.0%
Covered payroll	$ 1,494,295
District's net OPEB liability (asset) as a percentage of covered payroll	91%

See accompanying note to required supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.011%	0.011%	0.013%	0.013%
District's proportionate share of the net pension liability	$ 10,306,263	$ 9,284,664	$ 8,698,118	$ 7,571,388
State's proportionate share of the net pension liability associated with the District	6,097,148	5,286,372	4,600,345	4,573,113
Total	$ 16,403,411	$ 14,571,036	$ 13,298,463	$ 12,144,501
District's covered payroll	$ 6,065,363	$ 6,100,695	$ 6,014,242	$ 5,990,279
District's proportionate share of the net pension liability as a percentage of its covered payroll	169.9%	152.2%	144.6%	126.4%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

See accompanying note to required supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.022%	0.021%	0.021%	0.021%
District's proportionate share of the net pension liability	$ 5,148,312	$ 4,214,830	$ 3,034,635	$ 2,270,487
District's covered payroll	$ 2,740,219	$ 2,618,604	$ 2,291,722	$ 2,115,758
District's proportionate share of the net pension liability as a percentage of its covered payroll	187.9%	161.0%	132.4%	107.3%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

See accompanying note to required supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 868,422	$ 756,251	$ 622,019	$ 541,702
Contributions in relation to the contractually required contribution*	(868,422)	(756,251)	(622,019)	(541,702)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 5,959,312	$ 6,065,363	$ 6,100,695	$ 6,014,242
Contributions as a percentage of covered payroll	14.57%	12.47%	10.20%	9.01%

*Amounts do not include on-behalf contributions

See accompanying note to required supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 453,359	$ 375,771	$ 306,695	$ 267,580
Contributions in relation to the contractually required contribution	(453,359)	(375,771)	(306,695)	(267,580)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 2,909,262	$ 2,740,219	$ 2,618,604	$ 2,291,722
Contributions as a percentage of covered payroll	15.58%	13.71%	11.71%	11.68%

See accompanying note to required supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule
This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Changes in Net OPEB Liability and Related Ratios
This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the net OPEB liability, and the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

Schedule of the District's Proportionate Share of the Net Pension Liability
This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

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

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

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows.

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	$ 6,267,515	$ 6,337,583	$ 70,068
Classified salaries	$ 2,728,180	$ 2,744,098	$ 15,918
Other outgo			
Excluding transfers of indirect costs	$ -	$ 10,368	$ 10,368

SUPPLEMENTARY INFORMATION

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education:			
Title I, Part A			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	$ 245,152
Title I, Part A, Basic School Support, Program Improvement LEA Corrective Action Resources	84.010	14955	25,798
Subtotal Title I, Part A			270,950
Title II, Part A, Teacher Quality	84.367	14341	34,698
Title III, English Learner Student Program	84.365	14346	11,654
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	287,415
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	1,698
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	2,518
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	6,375
Subtotal Special Education Cluster			298,006
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	6,135
Total U. S. Department of Education			621,443
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through California Department of Education:			
Child Nutrition Cluster			
School Breakfast Program - Basic	10.553	13525	173,511
School Breakfast Program - Needy	10.553	13526	20,652
National School Lunch Program	10.555	13391	370,952
USDA Commodities	10.555	*	17,406
Summer Food Service Program for Children	10.559	13004	9,064
Subtotal Child Nutrition Cluster			591,585
CACFP Claims - Centers and Family Day Care	10.558	13393	49,507
Total U. S. Department of Agriculture			641,092
Total Federal Expenditures			$ 1,262,535

* - Pass-Through Entity Identifying Number not available or not applicable

See accompanying note to supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2018

	Second Period Report 6762E322	Revised Second Period Report *	Annual Report 00FE12ED	Revised Annual Report *
SCHOOL DISTRICT				
TK/K through Third				
Regular ADA	401.19	403.23	403.85	405.32
Extended Year Special Education	0.36	0.36	0.36	0.36
Total TK/K through Third	401.55	403.59	404.21	405.68
Fourth through Sixth				
Regular ADA	284.49	284.49	284.29	284.29
Extended Year Special Education	0.43	0.43	0.43	0.43
Total Fourth through Sixth	284.92	284.92	284.72	284.72
Seventh through Eighth				
Regular ADA	241.18	241.18	241.02	240.91
Extended Year Special Education	0.30	0.30	0.30	0.30
Total Seventh through Eighth	241.48	241.48	241.32	241.21
Ninth through Twelfth				
Regular ADA	451.87	452.13	452.50	452.50
Extended Year Special Education	0.24	0.24	0.24	0.24
Total Ninth through Twelfth	452.11	452.37	452.74	452.74
TOTAL SCHOOL DISTRICT	1,380.06	1,382.36	1,382.99	1,384.35

* Auditor was unable to review revised ADA schedules. Due to this fact the revised certificate numbers were unavailable.

See accompanying note to supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	45,350	180	Complied
Grade 1	50,400	51,210	180	Complied
Grade 2	50,400	51,210	180	Complied
Grade 3	50,400	51,210	180	Complied
Grade 4	54,000	54,390	180	Complied
Grade 5	54,000	54,390	180	Complied
Grade 6	54,000	54,390	180	Complied
Grade 7	54,000	55,260	180	Complied
Grade 8	54,000	55,260	180	Complied
Grade 9	64,800	67,590	180	Complied
Grade 10	64,800	67,590	180	Complied
Grade 11	64,800	67,590	180	Complied
Grade 12	64,800	67,590	180	Complied

See accompanying note to supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	2019 (Budget)	2018	2017	2016***
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	$ 16,812,073	$ 15,738,141	$ 17,181,731	$ 18,252,200
Expenditures And Other Financing Uses	16,251,224	15,842,525	17,229,323	17,239,919
Net change in Fund Balance	$ 560,849	$ (104,384)	$ (47,592)	$ 1,012,281
Ending Fund Balance	$ 2,771,811	$ 2,210,962	$ 2,148,248	$ 2,390,083
Available Reserves*	$ 531,667	$ 863,996	$ 725,451	$ 857,149
Available Reserves As A Percentage Of Outgo	3.27%	5.45%	4.21%	4.97%
Long-term Debt	$ 33,368,988	$ 33,966,828	$ 31,164,108	$ 29,486,567
Average Daily Attendance At P-2	1,380	1,380	1,375	1,394

The General Fund balance has decreased by $179,121 over the past two years. The fiscal year 2018-19 budget projects an increase of $560,849. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating surplus during the 2018-19 fiscal year. Total long-term obligations have increased by $4,480,261 over the past two years.

Average daily attendance has decreased by 14 ADA over the past two years. No change in ADA is anticipated during the 2018-19 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

** Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Other Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54. Audit adjustments are not included on this schedule.

***2016 General Fund amounts include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Other Postemployment Benefits.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Other Postemployment Benefits
June 30, 2018, annual financial and budget report fund balance	$ 2,210,962	$ 119	$ 53,692
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Fund balance transfer (GASB 54)	53,811	(119)	(53,692)
Net adjustments and reclassifications	53,811	(119)	(53,692)
June 30, 2018, audited financial statement fund balance	$ 2,264,773	$ -	$ -

See accompanying note to supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018

Charter #	Charter School	Status	Included in Audit Report
0681	Lake County International Charter School	Active	No
1653	California Connections Academy @ North Bay	Active	No

See accompanying note to supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018

	Cafeteria Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
ASSETS						
Cash and investments	$ 47,186	$ 4,474	$ 407,585	$ 57	$ 43,516	$ 502,818
Accounts receivable	57,059	-	-	-	-	57,059
Stores inventory	5,325	-	-	-	-	5,325
Total Assets	$ 109,570	$ 4,474	$ 407,585	$ 57	$ 43,516	$ 565,202
LIABILITIES						
Accrued liabilities	$ 11,190	$ -	$ 39,250	$ -	$ 3,745	$ 54,185
Due to other funds	45,900	-	3,039	-	-	48,939
Total Liabilities	57,090	-	42,289	-	3,745	103,124
FUND BALANCES						
Non-spendable	5,325	-	-	-	-	5,325
Restricted	47,155	4,474	365,296	57	39,771	456,753
Total Fund Balances	52,480	4,474	365,296	57	39,771	462,078
Total Liabilities and Fund Balance	$ 109,570	$ 4,474	$ 407,585	$ 57	$ 43,516	$ 565,202

See accompanying note to supplementary information.

MIDDLETOWN UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Cafeteria Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
REVENUES						
Federal sources	$ 641,092	$ -	$ -	$ -	$ 74,219	$ 715,311
Other state sources	44,419	-	-	-	-	44,419
Other local sources	80,621	36	104,883	-	1,262	186,802
Total Revenues	766,132	36	104,883	-	75,481	946,532
EXPENDITURES						
Current						
Pupil services						
Food services	875,897	-	-	-	-	875,897
General administration						
All other general administration	45,900	-	-	-	-	45,900
Plant services	-	-	172,031	-	14,981	187,012
Debt service						
Principal	-	-	-	-	136,000	136,000
Interest and other	-	-	-	-	97,686	97,686
Total Expenditures	921,797	-	172,031	-	248,667	1,342,495
Excess (Deficiency) of Revenues						
Over Expenditures	(155,665)	36	(67,148)	-	(173,186)	(395,963)
Other Financing Sources (Uses)						
Transfers in	75,000	-	-	-	-	75,000
Transfers out	-	-	(3,039)	-	-	(3,039)
Net Financing Sources (Uses)	75,000	-	(3,039)	-	-	71,961
NET CHANGE IN FUND BALANCE	(80,665)	36	(70,187)	-	(173,186)	(324,002)
Fund Balance - Beginning	133,145	4,438	435,483	57	212,957	786,080
Fund Balance - Ending	$ 52,480	$ 4,474	$ 365,296	$ 57	$ 39,771	$ 462,078

See accompanying note to supplementary information.

The Middletown Unified School District was established on July 1, 1963 and encompasses an area within Lake County. The District operates three elementary schools, one middle school, one community day school and one continuation school.

GOVERNING BOARD

Member	Office	Term Expires
Sandy Tucker	President	November 2020
Kim Tangermann	Clerk	November 2018
Jay Albertson	Member	November 2018
Lynette Carrillo	Member	November 2018
Misha Grothe	Member	November 2020

DISTRICT ADMINISTRATORS

Catherine Stone
Superintendent

Heather Rantala
Director of Business Services

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 following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		$ 1,345,481
QZAB Interest Subsidy	N/A	(74,219)
Medi-Cal Billing Option	93.778	(8,727)
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		$ 1,262,535

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

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.

Schedule of Instructional Time

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 46208. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

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.

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

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.

Combining Statements – Non-Major Funds
These statements provide information on the District’s non-major funds.

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.

OTHER INDEPENDENT AUDITORS' REPORTS

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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*

Independent Auditors' Report

Governing Board
Middletown Unified School District
Middletown, 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 Middletown Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Middletown Unified School District's basic financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Middletown 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 Middletown Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Middletown 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2018-001)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middletown 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*.

Middletown Unified School District's Response to Findings

Middletown Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Middletown 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christy White Associates

San Diego, California
December 17, 2018

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

Governing Board
Middletown Unified School District
Middletown, California

Report on Compliance for Each Major Federal Program

We have audited Middletown Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Middletown Unified School District's major federal programs for the year ended June 30, 2018. Middletown 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 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 Middletown 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 Middletown 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 Middletown Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Middletown 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 Middletown 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 Middletown 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 Middletown 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 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.

Christy White Associates

San Diego, California
December 17, 2018

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REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Middletown Unified School District
Middletown, California

Report on State Compliance

We have audited Middletown Unified School District's compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Middletown Unified School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Middletown Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Middletown 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 with the requirements referred to above. However, our audit does not provide a legal determination of Middletown Unified School District's compliance with those requirements.

Opinion on State Compliance

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2018-002, #2018-003, #2018-004. Our opinion on state compliance is not modified with respect to these matters.

Middletown Unified School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Middletown Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	No
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
Before/After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study or Continuation Education because they were below the threshold required for testing.

Christy White Associates

San Diego, California
December 17, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MIDDLETOWN UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Non-compliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	No
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.027A, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for state programs:	Unmodified

FIVE DIGIT CODE	AB 3627 FINDING TYPE
20000	Inventory of Equipment
30000	Internal Control

FINDING #2018-001: ASSOCIATED STUDENT BODY FUNDS (30000)

Criteria: Maintaining sound internal control procedures over cash receipts and cash disbursements reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

Condition: The following discrepancies were noted through testing of ASB cash receipts and disbursements at various sites throughout the District:

Middletown Middle School

- 1/10 disbursement tested did not have a requisition form or proper approval.
- 1/10 deposits did not have sufficient supporting documentation for event proceeds.

Middletown High School

- 3/10 cash receipts did not have sufficient supporting documentation from event proceeds.
- 3/10 cash receipts were not deposited within a week from when they were collected.

Cause: Insufficient controls over student body activities.

Effect: The potential for irregularities in accounting to go undetected.

Recommendation: We recommend that the District strengthen ASB internal controls.

District Response: School and District administration are working with advisers and school site personnel to ensure deposits are made within a week from when they are collected. MHS is also implementing a new ASB accounting system and cash registers for use in snack bars. A sales/tally sheet or other appropriate supporting documentation will be used to show evidence of cash collections for student body activities.

School and District administration are also working with personnel to ensure prior approval through a requisition form is obtained prior to making any purchases.

FIVE DIGIT CODE	**AB 3627 FINDING TYPE**
50000	Federal Compliance

There were no federal award findings and questioned costs for the year ended June 30, 2018.

FIVE DIGIT CODE	AB 3627 FINDING TYPE
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING 2018-002: ATTENDANCE (10000)

Criteria: In accordance with *California Education Code* Section 44809 and *California Code of Regulations*, Title 5, Section 401, the California Department of Education is required to approve the forms and procedures that constitute the District's attendance accounting system. The approved attendance reporting system must be used to claim Average Daily Attendance on the Report of School District Attendance. For online attendance accounting systems, such as that of the District, approval is given to systems that provide for teachers signing and dating a weekly printout of attendance records entered online during the previous week.

Condition: During our tests over state compliance of attendance, we found that the District was not following their attendance reporting procedures as the teachers were not signing the attendance reports weekly. Based on our review, it was determined that there were no questioned costs or losses of attendance as all teacher rosters were approved prior to the fiscal year end.

Cause: Internal controls not in place to ensure that teachers sign attendance reports weekly.

Effect: Without strengthening internal controls over attendance reporting, average daily attendance (ADA) may not be accurately reported to the California Department of Education (CDE).

Questioned Cost: There is no financial impact as all teacher rosters were approved prior to the fiscal year end.

Recommendation: We recommend the District maintains written records of attendance that are prepared daily and signed weekly by the teacher instructing the student. The records should be properly stored to ensure that records are available to support attendance days claimed.

District Response: District administration is working with school sites to strengthen internal controls and ensure attendance reporting procedures are followed. Daily attendance records are signed weekly by the teacher instructing students to ensure average daily attendance (ADA) is accurately reported to the California Department of Education (CDE).

FINDING #2018-003: ATTENDANCE REPORTING (10000)

Criteria: The Second Principal Apportionment (P-2) and Annual Apportionment reports submitted to California Department of Education (CDE) should reconcile to the supporting documents that support the Local Educations Agencies (LEA) Average Daily Attendance (ADA) in accordance with *California Education Code Section 46000 et seq.*

Condition: During testing of ADA for the District's P-2 report, auditor noted overall ADA was understated by 2.30, and discrepancies by grade span on line A-1 are as follows:

- Grades TK-3 – amount reported was 401.19, should have been 403.23, understated by 2.04 ADA
- Grades 9-12 – amount reported was 451.87, should have been 452.13, understated by 0.26 ADA

During testing of ADA for the District's Annual report, auditor noted overall ADA was understated by 1.36, and discrepancies by grade span on line A-1 are as follows:

- Grades TK-3 – amount reported was 403.85, should have been 405.32, understated by 1.47 ADA
- Grades 7-8 – amount reported was 241.02, should have ben 240.91, overstated by 0.11 ADA

Cause: Discrepancy was due to clerical errors and technology-related issues with the attendance accounting software. While tracing summary totals to monthly totals, we noted students were omitted during the first report run.

Effect: Incorrect reporting of Regular ADA in P-2 and Annual reports can result in noncompliance with State Regulations.

Questioned Cost: P-2 understatement of 2.04 ADA multiplied by the current year base grant per ADA in grades TK-3 ($7,941) plus understatement of 0.26 ADA multiplied by the current year base grant per ADA in grades 9-12 ($8,939), totaling $18,523.78. No questioned cost for understatement in Annual report since District is not funded by the Annual attendance report.

Recommendation: Established proper procedures to ensure the data within the attendance system and data reported on P-2 and Annual attendance reports are accurate. We also recommend the district submit an additional revised P-2 and Annual report to capture the understated ADA.

District Response: District has submitted a revised P-2 and Annual report to capture the understated average daily attendance (ADA). Additionally, District is reviewing monthly attendance reports for accuracy and working with the District's attendance accounting software to address the technology-related discrepancies in ADA accounting

FINDING #2018-004 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as Free or Reduced Price Meal (FRPM) eligible and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.*

Condition: Thirty-seven (37) out of sixty (60) students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as FRPM did not have proper supporting documentation to justify their designation. We also noted three (3) additional students out of the sixty (60) tested that had been classified as "paid" received either "free or reduced" designations. Based on extrapolating the error over the affected population, we have calculated an additional 236 students for a total of 276 students to potentially be improperly designated.

Cause: Insufficient internal process for reviewing and retaining FRPM applications

Effect: The District is not in compliance with State requirements.

Context: 276 of 2,857 (1,011 in 2015-16, 902 in 2016-17, and 944 in 2017-18) students reported in the District's Unduplicated Pupil Count did not have proper supporting documentation to support their FRPM designation.

FINDING #2018-004 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

Questioned Cost: $210,978, as calculated below:

UPP Audit Adjustment					
1	Total Adjusted Enrollment from the UPP exhibit as of P-2				4,379
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2				2,857
3	Audit Adjustment - Number of Enrollment				-
4	Audit Adjustment - Number of Unduplicated Pupil Count				(276)
5	Revised Adjusted Enrollment				4,379
6	Revised Adjusted Unduplicated Pupil Count				2,581
7	UPP calculated as of P-2				0.6524
8	Revised UPP for audit finding				0.5894
9	**Charter Schools Only:** Determinative School District Concentration Cap				
10	Revised UPP adjusted for Concentration Cap				**0.5894**
LCFF Target Supplemental Grant Funding Audit Adjustment		**TK/K–3**	**4–6**	**7–8**	**9–12**
9	Supplemental and Concentration Grant ADA	401.86	284.65	241.28	453.20
10	Adjusted Base Grant per ADA	$7,941	$7,301	$7,518	$8,939
11	Target Supplemental Grant Funding calculated as of P-2				$1,452,829
12	Revised Target Supplemental Grant Funding for audit finding				$1,312,535
13	Target Supplemental Grant Funding audit adjustment				**($140,294)**
LCFF Target Concentration Grant Funding Audit Adjustment					
14	Target Concentration Grant Funding calculated as of P-2				$570,086
15	Revised Target Concentration Grant Funding for audit finding				$219,350
16	Target Concentration Grant Funding audit adjustment				**($350,736)**
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target					
18	Total Target Supplemental and Concentration audit adjustment				**($491,030)**
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap					
19	Statewide Gap Funding Rate as of P-2				0.4296644273
20	Estimated Cost of Unduplicated Pupil Count audit adjustment				**($210,978)**

Recommendation: We Recommend that the District strengthen their internal processes to ensure that all students listed as FRPM in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have proper supporting documentation to support their CALPADS designation.

FINDING #2018-004 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

District Response: District administration, in conjunction with the Lake County Office of Education, requested that FCMAT conduct an Extraordinary Audit (AB 139) due to irregularities in FRPM applications and other concerns with prior District food service program management. We are awaiting the results of this audit and expect follow up by law enforcement.

The District has also worked closely with CDE to correct deficiencies found in the SNP and CACFP programs, including FRPM applications. CDE's findings were similar to this audit's findings. After thorough review, CDE agreed that 2017-18 FRPM data from last year did not accurately reflect district demographics. CDE has notified the District that reimbursement will be withheld for only the months of April and May, 2018 rather than the whole year based on this.

The District has successfully completed all other corrective actions required by CDE, and food service employees and data management staff have all been retrained in reviewing and retaining FRPM applications.

FINDING #2017-001: ASSOCIATED STUDENT BODY FUNDS (30000)

Criteria: Maintaining sound internal control procedures over cash receipts and cash disbursements reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

Condition: The following discrepancies were noted through testing of ASB cash receipts and disbursements at various sites throughout the District:

Coyote Elementary School

- The ASB Bookkeeper is currently a signor on the account and should be removed for stronger segregation of duties.
- Monthly bank reconciliations and financial statements are not being submitted to the District office.
- Monthly bank reconciliations are not being reviewed by someone at the school site.

Middletown Middle School

- The ASB Bookkeeper is currently a signor on the account and should be removed for stronger segregation of duties.
- Monthly bank reconciliations & financial statements are not being submitted to the District office.
- Monthly bank reconciliations are not being reviewed by someone at the school site.

Middletown High School

- Monthly bank reconciliations & financial statements are not being submitted to the District office.
- Monthly bank reconciliations are not being reviewed by someone at the school site.
- One out of ten cash disbursements selected for testing appeared to be an expense that should have run through the District.
- Two out of ten cash receipts selected for testing did not have proper supporting documentation.

Cause: Insufficient controls over student body activities.

Effect: The potential for irregularities in accounting to go undetected.

Recommendation: We recommend that the District strengthen ASB internal controls.

District Response: The District will have all ASB account signers revised for segregation of duties immediately. The District will distribute the FCMAT ASB Manual to the appropriate personnel at the scheduled secretary meeting on January 19, 2018. This training session will also include instructions on site administration review of the monthly reconciliation prior to being submitted to the Director of Business Services in the District Office.

Current Status: See Finding #2018-001

FINDING #2017-002: CASH DISBURSEMENTS – PURCHASE ORDERS (30000)

Criteria: Proper internal controls require adequate segregation of duties, prior approval of the expenditure and sufficient supporting documentation such as a vendor invoice. Prior approval is necessary to ensure that expenditures are appropriate uses of the fund and to ensure that expenses are being properly budgeted.

Condition: During the review of internal controls over cash disbursements, 4 of the 25 cash disbursements had a purchase order dated after the invoice showing that prior approval did not occur. 1 of the 25 cash disbursements did not have an itemized receipt to indicate what items were purchased.

Perspective: Review of 25 cash disbursements for proper internal controls.

Effect: Potential for inappropriate or unapproved use of District funds and errors in accounting records related to expenditures.

Cause: The District's purchasing policies are not properly implemented.

Recommendation: All expenditures should be setup with a purchase order prior to the invoice date. Detailed invoice information should be maintained for all purchases.

District Response: The District has been working on enforcing the procedures of approval prior to purchase. This will continue to be addressed in Administrative Staff Meetings and with the Secretary Meeting that is scheduled on January 19, 2018.

Current Status: Implemented

FINDING 2017-003: INTERNAL CONTROLS OVER CASH RECEIPTS (30000)

Criteria: Proper internal control procedures over cash receipts should include timely deposits and a sufficient documentation trail between the point of collection and the point of deposit.

Condition: During our review of the internal controls over cash receipts for the Cafeteria Department, it was noted that the Cafeteria Department is not maintaining proper supporting documentation to verify each individual transaction.

Perspective: Review of internal control procedures over cash receipts.

Cause: Inadequate controls and monitoring over the cash receipting cycle.

Effect: Potential misuse of the District's funds or misappropriation of the District's assets.

Recommendation: We recommend that the Cafeteria Department maintain adequate supporting documentation for all transactions that are processed within the department.

District Response: The Cafeteria Department previously had a point of sale system that did not provide for needed cash management reports. In June 2017 the District implemented a new point of sale program that provides all of the reporting capability needed to support daily, weekly and monthly sales reporting. The District has worked with the staff to ensure that the appropriate reports are created and used for each day's activity and each deposit. The District will continue to monitor this process and provide supporting documentation for each site and the activity generated at each site.

Current Status: Implemented

FINDING#2017-004: SCHOOL ACCOUNTABILITY REPORT CARD (72000)

Criteria: School Accountability Report Cards (SARCs), prepared on annual basis for each school site within the District, should contain information on teacher misassignment or vacancies pursuant to Education Code section 33126(b)(5) with summarized complaint data compiled pursuant to the provisions of subdivision (d) of Education Code Section 35186 for the year applicable to the SARCs. SARCs should also contain verifiable information regarding school facilities conditions, as indicated in the most recently prepared facility inspection tool (FIT) form developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(3) and 17002(d).

Condition: During testing of a representative sample of SARCs, it was noted that the SARC for Coyote Valley Elementary School was missing the Teacher Misassignments section. Additionally, the District could not provide the FIT forms for any of the sites selected for testing.

Cause: Lack of oversight.

Questioned Costs: None.

Perspective: Auditor tested SARCs at three schools within the District - Coyote Valley Elementary School, Middletown Middle School, and Middletown High School.

Effect: The District is not in compliance with Education Code 33126.

Recommendation: We recommend that the District implement a process to ensure all SARCs are prepared with the required information listed in the Education Code and that support is maintained for all information that is presented.

District Response: The District has implemented internal processes to ensure that the FIT forms are completed and incorporated into the SARC reports for all school sites.

Current Status: Implemented

FINDING #2017-005 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.*

Condition: One (1) out of 60 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who was classified as FRPM did not have proper supporting documentation to justify their designation. Through extrapolation of the error to the remainder of students designated as FRPM, we identified an additional 5 students without proper supporting documentation for a total of 6 ineligible students.

Cause: Incorrect classification of students.

Effect: The District is not in compliance with State requirements.

Context: 6 of 2,723 (810 in 2014-15, 1,011 in 2015-16 and 902 in 2016-17) students reported in the District's Unduplicated Pupil Count did not have proper supporting documentation to support their FRPM designation.

FINDING #2017-005 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

Questioned Cost: $5,641, as calculated below:

UPP Audit Adjustment					
1	Total Adjusted Enrollment from the UPP exhibit as of P-2				4,447
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2				2,723
3	Audit Adjustment - Number of Enrollment				-
4	Audit Adjustment - Number of Unduplicated Pupil Count				(6)
5	Revised Adjusted Enrollment				4,447
6	Revised Adjusted Unduplicated Pupil Count				2,717
7	UPP calculated as of P-2				0.6123
8	Revised UPP for audit finding				0.6110
9	**Charter Schools Only:** Determinative School District Concentration Cap				
10	Revised UPP adjusted for Concentration Cap				**0.6110**
LCFF Target Supplemental Grant Funding Audit Adjustment		**TK/K–3**	**4–6**	**7–8**	**9–12**
9	Supplemental and Concentration Grant ADA	380.81	326.92	237.72	450.62
10	Adjusted Base Grant per ADA	$7,820	$7,189	$7,403	$8,801
11	Target Supplemental Grant Funding calculated as of P-2				$1,353,662
12	Revised Target Supplemental Grant Funding for audit finding				$1,350,789
13	Target Supplemental Grant Funding audit adjustment				**($2,873)**
LCFF Target Concentration Grant Funding Audit Adjustment					
14	Target Concentration Grant Funding calculated as of P-2				$344,330
15	Revised Target Concentration Grant Funding for audit finding				$337,144
16	Target Concentration Grant Funding audit adjustment				**($7,186)**
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target					
18	Total Target Supplemental and Concentration audit adjustment				**($10,059)**
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap					
19	Statewide Gap Funding Rate as of P-2				0.5607679980
20	Estimated Cost of Unduplicated Pupil Count audit adjustment				**($5,641)**

FINDING #2017-005 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

Recommendation: We recommend that the District ensure that all students listed as FRPM in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have supporting documentation to support their CALPADS designation.

District Response: The District has implemented internal processes to ensure that the FRPM application and direct certification compliance are updated in the system for the appropriate status and to ensure CALPADS is updated to the correct designation.

Current Status: See Finding #2018-004

APPENDIX D

COUNTY INVESTMENT POLICY

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LAKE COUNTY

INVESTMENT POLICY

I. Scope of Investment Policy

This Investment Policy applies to the investment activities of all funds of Lake County. All financial assets of funds, including: the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Special Assessment Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and other funds that may be created from time to time, shall be administered in accordance with the provisions of this Policy.

II. Objectives of Investment Policy

The purpose of the Investment Policy of Lake County is to establish cash management and investment guidelines for County Officials responsible for the stewardship of public funds. Specific objectives include:

A. Safety of principal is the foremost objective of the Investment Policy of the County. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value. The County shall diversify its investments to avoid incurring unreasonable risks regarding specific security types and/or individual financial institutions. The County will minimize the risk that the market value of the securities in the portfolio will fall due to changes in the general interest rate. The County investment portfolio shall mitigate any interest rate risk by remaining sufficiently liquid to enable the County to meet all operating requirements which may be reasonably anticipated in any County fund. Investing in such a way to avoid the need to sell securities prior to maturity.

B. The investment portfolio of the County shall be designed with the objective of regularly exceeding the average return of three month U. S. Treasury Bills. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. The Controller and the Chief Investment Officer shall meet periodically to review the investment portfolio.

C. In managing its investment portfolio, County officials shall avoid any transaction that might impair public confidence in the government of the County. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

III. <u>Responsibility for the Investment Program</u>

Management responsibility for the investment program of Lake County is hereby delegated, as provided by law, to the Treasurer or other custodians of public funds, who shall each be the designated Deputy Treasurer of the public funds over which they exercise control. No person may engage in an investment transaction except as provided under terms of this Policy. The Treasurer or other custodians of public funds shall be responsible for all transactions undertaken, and shall establish a system of internal controls and written operational procedures to regulate the activities of subordinate officials.

IV. <u>Cash Management</u>

A. The County's Policy regarding cash management is based upon the realization that there is a time-value to money. Temporarily idle cash may be invested for a period of one day to an excess of one year, depending upon when the money is needed. Accordingly, the Controller will prepare written cash management procedures which shall include, but not be limited to, the following:

1. Receipts: All monies due the County shall be collected as promptly as possible. Monies that are received shall be deposited in an approved financial institution or with the County Treasurer no later than the third business day after receipt by the County, except departments within the Court House Square shall make deposits on a daily basis. Amounts that remain uncollected after a reasonable length of time shall be subject to any available legal means of collection.

2. Disbursements: Any disbursement to suppliers of goods and/or services or to employees for salaries and wages shall be contingent upon an available budget appropriation.

3. Cash Forecast: At least annually, a cash forecast shall be prepared using expected revenue sources and items of expenditure to project cash requirements over the fiscal year of the County. The forecast shall be updated periodically to identify the probable investable balances that will be available.

4. Pooling of Cash: Except for cash in certain restricted and special accounts, the County may pool the cash of various funds to maximize investment earnings. Investment income will be allocated to the various funds based upon their respective participation.

B. One of the objectives of the County's cash management procedures is to comply with Illinois Compiled Statutes, 30 ILCS 225/1 which states: "When such deposits become collected funds and are not needed for immediate disbursement, they shall be invested within two working days at prevailing rates or better".

V. Accounting

Lake County maintains its accounting records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the County in accordance with generally accepted accounting principles as promulgated by the Government Accounting Standards Board.

VI. Financial Institutions, Investment Advisors, and Money Managers

A. It shall be the policy of Lake County to select financial institutions on the following basis:

1. Security: The County will not maintain funds in any financial institution that is not a member of the Federal Deposit Insurance Corporation or the National Credit Union Association systems. Furthermore, the County will not maintain funds in any financial institution that does not collateralize all funds in excess of the FDIC or NCUA insurance limits, except as listed in Section VII, Sub Sections 7 & 8**.**
2. Size: The County will not deposit additional funds in any financial institution in which the uncollateralized County funds on deposit will exceed 75% of the institution's capital stock and surplus; except deposits in credit unions shall not exceed 50% of the unimpaired capital and surplus of such credit union which shall include shares, reserves and undivided earnings (Illinois Compiled Statutes, 30 ILCS 235/6).

3. Location: The County will maintain operating and investment accounts in the financial institutions within Lake County whenever possible, and not precluded by other standards of this Policy. However, the County may approve depositories regardless of location.
4. Statement of Condition: The County will maintain for inspection current statements of condition for each financial institution named as depository. If, for any reason, the information furnished is considered by the County Treasurer to be insufficient, the County may request additional data. The refusal of any institution to provide such data upon request may serve as sufficient cause for the withdrawal of County funds.

B. Investment advisors shall be used in an advisory role only and shall not directly buy or sell investment securities with Lake County; these advisors may be used upon Board Approval. Money (Portfolio) Managers may be used with the approval of the Treasurer and a representative of the County's Finance Department; monthly reports must be presented and approved by the County Board.

VII. Investment Selection

A. Lake County may invest in any of the types of securities listed below:

1. Bonds, notes, certificates of indebtedness, treasury bills, or other securities, which are guaranteed by the full faith and credit of the United States of America, money market mutual funds whose portfolios consist of U.S. government obligations, U.S. government agency obligations, U.S. government instrumentality obligations, and repurchase agreements collateralized by such obligations as allowed under Illinois Compiled Statutes 30 ILCS 235/2.

2. U S Government agency obligations and U S Government instrumentality obligations which have a liquid market with a readily determinable market value.

3. Interest-bearing checking or savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits constituting direct obligations of any bank as defined by the Illinois Banking Act and only those insured by the Federal Deposit Insurance Corporation (FDIC).

4. Forms of security legally issuable by savings and loan associations incorporated under the laws of the State of Illinois or any other state or under the laws of the United States, only in those savings and loan associations insured by Federal Deposit Insurance Corporation (FDIC), and not to exceed the maximum amount insured by the FDIC.

5. Insured dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union chartered under the laws of the State of Illinois or any other state or under the laws of the United States, only in those credit unions insured by the National Credit Union Administration and not to exceed the maximum amount insured by the NCUA.

6. Repurchase agreements (Illinois Compiled Statutes 30 ILCS 235/2).

7. The Illinois Funds

8. Illinois Metropolitan Investment Fund (IMET)

9. Interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of Lake County or held

under a custodial agreement at a bank. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions. (30 ILCS 235/2a5a-1).

10. Short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if (i) such obligations are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 270 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations. (30 ILCS 235/2a4).

B. The County shall not:

1. Purchase financial forwards or futures.
2. Purchase any leveraged investments.
3. Lend securities.
4. Participate in reverse repurchase agreements.

VIII. Maturities

Maturities of investments of the various funds of the County shall be determined to enable the County to have available sufficient cash for all operating purposes. Investments may be purchased with maturities to match cash flow needs, future projects or liability requirements.

IX. Collateral

A. It is the policy of Lake County to require that funds on deposit in excess of FDIC limits be secured by collateral types described below. High volume checking accounts under the control of the Treasurer shall be collateralized based upon the anticipated average balance for the following weeks. The ratio of fair market value of collateral to the amount of funds secured will be reviewed quarterly and additional collateral will be requested when the ratio declines below the level required.

B. The County will accept any of the following assets as collateral, provided that the amount of collateral pledged will be not less than 110% of the fair market value of the net amount of public funds secured; and any financial institution pledging collateral from this section must place required collateral securities in a restricted account at a Federal Reserve Bank, a trust department of a commercial bank or with another financial institution that is not owned or controlled by the same institution or holding company. Collateral agreements will provide that pledged assets may be released by the instructions of both the financial institution or the County. If conflict arises in the instructions of the County and the financial institution as to the release of any pledged assets, the instructions of the County control. Agreements will allow for an exchange of collateral of like value.

1. U. S. Government Securities.
2. Obligations of Federal Agencies.
3. Obligations of Federal Instrumentalities.
4. Obligations of the State of Illinois.
5. Obligations of Lake County.
6. General Obligation Municipal Bonds rated at one of the 4 highest classifications established by at least 2 standard rating sevices

C. Pledged collateral will be held in safekeeping as evidenced by a safekeeping agreement.

D. Any financial institution pledging collateral under this section shall supply the following reports:

1. A report at the end of each month, listing the description of the collateral pledged and its value. Those financial institutions that do not require written authorization to release collateral, must in addition provide weekly reports, as well as providing web base access that will in turn be checked daily.
2. Accurate and truthful response to the Lake County external auditor's confirmation requests related to amounts on deposit as of November 30th of each year.
3. Any reports submitted under section 1 and 2 immediately above shall be considered exempt from public inspection under the Freedom of Information Act.

X. <u>Reporting</u>

A. From time to time the Treasurer and the Controller may suggest policies and improvements (to the Financial and Administrative Committee) that might be made in the investment program.

B. The Treasurer shall, at least quarterly, submit to the County Board, a report that shall include the following:

1. A listing of securities by class or type.
2. The book value of each security.
3. Income earned for said period.
4. The market value as of the report date.

XI. <u>Indemnification</u>

The above standards are established as guidelines for professional responsibility and shall be applied in the context of managing the County's overall portfolio. The standard of prudence to be used by investment officials of Lake County shall be the "prudent person" standard which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived."

Investment Officers of Lake County acting in accordance with this Investment Policy and written procedures as may be established, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse developments

XII. Conflict of Interest – Ethics

The Lake County Ethics Ordinance shall cover all Lake County employees in their dealings regarding any type of investment.

XIII. Internal Control - Duties and Responsibilities

The County Treasurer shall be responsible for the management of the investment program and the daily operational duties. The Chief Investment Officer, or a designated Deputy Treasurer**,** shall have the authority to perform operational duties as authorized by the Treasurer in his absence, with the oversight and approval of the Chief Investment Officer**.** The Treasurer or representative thereof will record all investment activities and maintain the files with supporting documentation. The Controller shall be responsible for all accounting procedures including payroll and accounts payable, while monitoring compliance with the internal control procedures.

XIV. Separation of Duties

Investment staff shall observe proper segregation of duties while engaged in investment activities. Persons responsible for consummating investment transactions should not be engaged in activities related to the recording of transactions in the financial records.

XV. Community Reinvestment Act (12USCA2901-2908)

A. Overall CRA Rating

The County of Lake supports and will continue to support the Community Reinvestment Act. Financial institutions doing investment business with the County shall have a satisfactory or above rating. If an institution's overall rating is rated

"Needs to Improve" or lower, no new funds will be deposited with that institution until that rating has improved

B. CRA Performance Test

The financial institution shall have a "Satisfactory" or above rating in each performance test (lending, investment and service). From this point forward, any institution having a rating of "needs to improve" or lower for two consecutive review periods, the County will not deposit any additional funds with that institution until that rating has been brought back to at least a "satisfactory".

XVI. Amendment

This policy shall be reviewed from time to time and any changes shall be presented to the County Board for their approval.

XVII. Adoption

Adopted by the County Board on June 12, 2012.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees of the
Middletown Unified School District
20932 Big Canyon Road
Middletown, California 95461

OPINION: $12,000,000* Middletown Unified School District (Lake County, California) General Obligation Bonds, Election of 2018, Series A (2019)

Members of the Board of Trustees:

We have acted as bond counsel to the Middletown Unified School District (the "District") in connection with the issuance by the District of $12,000,000* principal amount of Middletown Unified School District (Lake County, California) General Obligation Bonds, Election of 2018, Series A (2019) (the "Bonds"), pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code (the "Act"), and a resolution adopted by the Board of Trustees of the District on March 13, 2019 (the "Resolution").

In connection with this opinion, we have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

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

2. The Resolution has been duly adopted by the District and creates a valid first lien on the funds pledged under the Resolution for the security of the Bonds.

3. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding general obligations of the District. The Boards of Supervisors of Lake County are required under the Act to levy a tax upon all taxable property in the District for the interest and redemption of all outstanding bonds of the District, including the Bonds. The Bonds are payable from an *ad valorem* tax levied without limitation as to rate or amount.

4. Subject to the District's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals under the Internal Revenue Code of 1986, as amended. Failure

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* Preliminary, subject to change.

to comply with certain of such District covenants could cause interest on the Bonds to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to the bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the MIDDLETOWN UNIFIED SCHOOL DISTRICT (the "District") in connection with the issuance by the District of its $12,000,000* Middletown Unified School District (Lake County, California) General Obligation Bonds, Election of 2018, Series A (2019) (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on March 13, 2019 (the "Bond Resolution"). The District covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth above and in the Indenture which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"*Dissemination Agent*" shall mean, initially, the District or any successor Dissemination Agent designed in writing by the District and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

"*Fiscal Year*" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the District as its official fiscal year period under a Certificate of the District filed with the Trustee.

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

"*Official Statement*" means the final official statement executed by the District in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Raymond James & Associates, Inc., the original underwriter of the Bonds.

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

"*Significant Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. 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).

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* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2020, with the report for fiscal year 2018-19 provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 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 Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

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

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

(i) determine each year prior to the Annual Report Date the then–applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) The District's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the District for preceding fiscal year, substantially similar to that provided in the Official Statement, as follows:

(i) The District's approved budget for the then current fiscal year;
(ii) Assessed value of taxable property in the District as shown on the most recent equalized assessment roll; and
(iii) Property tax levies, collections and delinquencies for the District, for the most recent completed fiscal year, if the County is no longer participating in the Teeter Plan.

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Significant Events with respect to the Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non–payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) Modifications to rights of security holders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the securities, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person;

(xiii) The consummation of a merger, consolidation, or acquisition involving the District or an obligated person, or the sale of all or substantially all of the assets of the District or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(xv) The incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect security holders, if material; or

(xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties.

(b) Whenever the District obtains knowledge of the occurrence of a Significant Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The District acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a) (xv) of this Section 5 contain the qualifier "if material." The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event's occurrence is material for purposes of U.S. federal securities law. The District intends that the words used in paragraphs (xv) and (xvi) and the definition of "financial obligation" to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018) and/or any further guidance or releases provided by the SEC.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

Section 7. <u>Termination of Reporting Obligation</u>. 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 Significant Event under Section 5(b).

Section 8. <u>Dissemination Agent</u>. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the District.

Section 9. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

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

The Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations hereunder.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Significant Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant 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 Significant Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) Article VIII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond holders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: [Closing Date]

MIDDLETOWN UNIFIED SCHOOL DISTRICT

By ____________________________________

Superintendent

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Middletown Unified School District
Name of Issue:	Middletown Unified School District (Lake County, California) General Obligation Bonds, Election of 2018, Series A (2019)
Date of Issuance:	[Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Issuer in connection with the Issue. The Issuer anticipates that the Annual Report will be filed by ________________.

Dated: ___________________________

MIDDLETOWN UNIFIED SCHOOL DISTRICT

By ____

Title _______________________________________

cc: Paying Agent

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APPENDIX G

BOOK-ENTRY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other Bond related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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 tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the 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 Paying Agent and request that copies of notices be provided directly to them.

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

Payments of principal of and interest 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 principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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 service 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, the 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.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the District determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the District will discontinue the Book-Entry System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) payment of principal of and interest on the Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Resolution, and (iii) the Bonds will be transferable and exchangeable as provided in the Resolution.

The District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) any consent given or other action taken by DTC as registered owner; or (v) any other matter arising with respect to the Bonds or the Resolution. The District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________
Total Insurance Payment: $_________

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
200 Liberty Street, 27th floor
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

BAM

CALIFORNIA

ENDORSEMENT TO

MUNICIPAL BOND INSURANCE POLICY

NO.

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

Authorized Officer