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

**PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 30, 2019**

**NEW ISSUE — BOOK-ENTRY ONLY**

**Ratings: S&P (Insured Bonds): "AA"**
**Moody's (Underlying): "Aa3"**
**(See "MISCELLANEOUS — Ratings" herein.)**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2019 Bonds. See "TAX MATTERS" herein.*

# $29,350,000*
# RIALTO UNIFIED SCHOOL DISTRICT
# (COUNTY OF SAN BERNARDINO, CALIFORNIA)
# GENERAL OBLIGATION BONDS, ELECTION OF 2010, SERIES 2019

**Dated: Date of Delivery** **Due: August 1, as shown herein**

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

The Rialto Unified School District (County of San Bernardino, California) General Obligation Bonds, Election of 2010, Series 2019 (the "Series 2019 Bonds") are issued by the Rialto Unified School District (the "District"), located in the County of San Bernardino, California (the "County"), to finance specific construction, repair and improvement projects approved by the voters of the District, and to pay the costs of issuance of the Series 2019 Bonds, as further described herein. The Series 2019 Bonds were authorized at an election of the voters of the District held on November 2, 2010, at which at least 55% of the voters authorized the issuance and sale of $98,000,000 principal amount of bonds of the District. The Series 2019 Bonds are being issued under the laws of the State of California (the "State") and pursuant to a resolution of the Board of Education of the District, adopted on August 28, 2019.

The Series 2019 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal, accreted value or maturity value of and interest on the Series 2019 Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS" herein.

The Series 2019 Bonds will be issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds"), all as set forth on the inside front cover hereof. Interest on the Current Interest Bonds is payable on each February 1 and August 1 to maturity, commencing February 1, 2020. Principal of the Current Interest Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The Series 2019 Bonds issued as Capital Appreciation Bonds will not pay interest on a current, periodic basis but will accrete in value to their maturity value payable only at maturity on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. Interest on the Capital Appreciation Bonds will be compounded on each February 1 and August 1 to maturity, commencing February 1, 2020.

The Series 2019 Bonds will be issued in denominations of $5,000 principal amount or maturity value, as applicable, or any integral multiple thereof as shown on the inside front cover hereof.

The scheduled payment of principal, accreted value or maturity value of and interest as and when due on the Series 2019 Bonds maturing on August 1 of the years 20__ through 20__, inclusive (the "Insured Bonds"), as indicated on the inside cover page, and only those maturities, will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Insured Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.

BAM
BUILD AMERICA MUTUAL

The Series 2019 Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2019 Bonds. Individual purchases of the Series 2019 Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Series 2019 Bonds purchased by them. See "THE SERIES 2019 BONDS – Form and Registration" herein. Payments of the principal, accreted value or maturity value of and interest on the Series 2019 Bonds will be made by U.S. Bank National Association, as paying agent, registrar and transfer agent with respect to the Series 2019 Bonds, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Series 2019 Bonds. See "THE SERIES 2019 BONDS – Payment of Principal and Interest" herein.

**The Series 2019 Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES 2019 BONDS — Redemption" herein.**

*The Series 2019 Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, as Disclosure Counsel to the District; and for the District by its counsel, Fagen Friedman & Fulfrost LLP, Los Angeles, California. Certain legal matters will be passed upon for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the Series 2019 Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about November 21, 2019.*

**Citigroup**

Dated: __________, 2019

* *Preliminary; subject to change.*

**MATURITY SCHEDULE***
**BASE CUSIP†: 762494**

**$29,350,000***
**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**General Obligation Bonds, Election of 2010, Series 2019**

**$__________ Current Interest Bonds**

$__________ Serial Current Interest Bonds

| Maturity (August 1) | Principal Amount | Interest Rate | Yield | CUSIP Number† |
|---|---|---|---|---|

$__________ _____% Term Current Interest Bonds due August 1, 20__ − Yield _____% CUSIP Number† – ___

**$__________ Capital Appreciation Bonds**

$__________ Serial Capital Appreciation Bonds

| Maturity (August 1) | Initial Principal Amount | Accretion Rate | Reoffering Yield | Maturity Value | CUSIP Number† |
|---|---|---|---|---|---|

$_________ Initial Principal Amount of Term Capital Appreciation Bonds due August 1, 20__
_____% Accretion Rate - $__________ Maturity Value - Reoffering Yield _____% CUSIP Number† – ___

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* *Preliminary; subject to change.*

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ.  CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

## RIALTO UNIFIED SCHOOL DISTRICT
## (COUNTY OF SAN BERNARDINO, CALIFORNIA)

### BOARD OF EDUCATION

Edgar Montes, *President*
Nancy G. O'Kelley, *Vice President*
Dina Walker, *Clerk*
Joseph Ayala, *Member*
Joseph W. Martinez, *Member*

### DISTRICT ADMINISTRATORS

Dr. Cuauhtémoc Avila, *Superintendent*
Dr. Darren McDuffie, *Lead Strategic Agent; Strategics, Congruence & Social Justice*
Mohammad Z. Islam, *Associate Superintendent, Business Services*

### PROFESSIONAL SERVICES

**Program Funding Manager/Municipal Advisor**

California Financial Services
*Ladera Ranch, California*

**District Counsel**

Fagen Friedman & Fulfrost LLP
*Carlsbad, California*

**Bond Counsel and Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP
*Los Angeles, California*

**Paying Agent, Registrar and Transfer Agent**

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

**This Official Statement does not constitute an offering of any security other than the original offering of the Series 2019 Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.**

The Series 2019 Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Series 2019 Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2019 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Series 2019 Bonds or the advisability of investing in the Series 2019 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE FOR INSURED BONDS" and APPENDIX H – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2019 Bonds.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Series 2019 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2019 Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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(continued)

**$29,350,000[*]**
**RIALTO UNIFIED SCHOOL DISTRICT**
**(COUNTY OF SAN BERNARDINO, CALIFORNIA)**
**GENERAL OBLIGATION BONDS, ELECTION OF 2010, SERIES 2019**

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2019 Bonds to potential investors is made only by means of the entire Official Statement.*

## INTRODUCTION

### General

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of $29,350,000[*] aggregate initial principal amount of Rialto Unified School District (County of San Bernardino, California) General Obligation Bonds, Election of 2010, Series 2019 (the "Series 2019 Bonds"), consisting of current interest bonds ("Current Interest Bonds") and capital appreciation bonds ("Capital Appreciation Bonds"), all as indicated on the inside front cover hereof, to be offered by the Rialto Unified School District (the "District").

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

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2019 Bonds. Quotations from and summaries and explanations of the Series 2019 Bonds, the Resolution of the Board of Education of the District providing for the issuance of the Series 2019 Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Series 2019 Bonds.

Copies of documents referred to herein and information concerning the Series 2019 Bonds are available from the District by contacting: Rialto Unified School District, 182 East Walnut Avenue, Rialto, California 92376, Attention:  Associate Superintendent, Business Services. The District may impose a charge for copying, handling and mailing such requested documents.

### The District

The District was founded in 1891 and has operated as a unified school district since 1964. The District provides preschool, elementary and secondary educational services to residents of an area of the

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[*] *Preliminary; subject to change.*

County of San Bernardino (the "County") encompassing approximately 55 square miles that includes the City of Rialto, the western portion of the City of San Bernardino, small segments of the cities of Colton and Fontana and some unincorporated County territory.

The District currently operates 19 elementary schools, five middle schools, three comprehensive high schools, one continuation high school, one alternative high school, one adult school, and a preschool and infant program. The District budgets that total K-12 enrollment for fiscal year 2019-20 will be 24,731 students.

For additional information about the District, see APPENDIX A − "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET" and APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

## THE SERIES 2019 BONDS

### Authority for Issuance; Purpose

The Series 2019 Bonds are issued under the provisions of California Government Code Section 53506 *et seq*., including Section 53508.7 thereof, and California Education Code Section 15140 and Article XIIIA of the California Constitution and pursuant to a resolution adopted by the Board of Education of the District on August 28, 2019 (the "Resolution").

At an election held on November 2, 2010, the District received authorization under Measure Y to issue bonds of the District in an aggregate principal amount not to exceed $98,000,000 to acquire, construct and improve classrooms and support facilities, provide career and technical classrooms, including science labs, to enhance preparation for college and careers, replace portable facilities with permanent classrooms, and increase student access to modern technology (the "2010 Authorization"). The measure required approval by at least 55% of the votes cast by eligible voters within the District and received an approval vote of approximately 69.52%.

The Series 2019 Bonds represent the fourth series of the authorized bonds to be issued under the 2010 Authorization and are being issued to finance the projects authorized under the 2010 Authorization. See "−Application and Investment of Series 2019 Bond Proceeds" below.

### Bond Insurance Policy

Concurrently with the issuance of the Series 2019 Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2019 Bonds maturing on August 1 in the years 20__ through 20__, inclusive (collectively, the "Insured Bonds"). The Policy guarantees the scheduled payment of principal, accreted value or maturity value of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement. See "BOND INSURANCE FOR INSURED BONDS."

### Form and Registration

The Series 2019 Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 principal amount or maturity value, as applicable, or integral multiples thereof. The Series 2019 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Series 2019 Bonds. Purchases of Series 2019 Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Series 2019 Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Series 2019 Bonds, beneficial owners ("Beneficial Owners") will not receive physical certificates representing their ownership interests. See APPENDIX F – "BOOK-ENTRY ONLY SYSTEM."

**Payment of Principal and Interest**

The Series 2019 Bonds will be issued as Current Interest Bonds and Capital Appreciation Bonds, all as set forth on the inside front cover page hereof.

***Interest; Current Interest Bonds.*** The Series 2019 Bonds issued as Current Interest Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an "Interest Date"), commencing on February 1, 2020, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Current Interest Bond shall bear interest from the Interest Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15th day of the calendar month immediately preceding an Interest Date (the "Record Date") and on or prior to the succeeding Interest Date, in which event it shall bear interest from such Interest Date, or unless it is authenticated on or before the Record Date preceding the first Interest Date, in which event it shall bear interest from its dated date; provided, however, that if, at the time of authentication of any Current Interest Bond, interest is in default on any outstanding Current Interest Bonds, such Current Interest Bond shall bear interest from the Interest Date to which interest has previously been paid or made available for payment on the outstanding Current Interest Bonds.

***Interest; Capital Appreciation Bonds.*** The Series 2019 Bonds issued as Capital Appreciation Bonds will be dated as of their date of delivery. The Capital Appreciation Bonds will not bear interest on a current, periodic basis; instead, each Capital Appreciation Bond will accrete in value daily over the term to its maturity (on the basis of a 360-day year of twelve 30-day months), from its initial principal amount on the date of issuance thereof to its stated maturity value at maturity thereof ("Maturity Value"), as stated on the inside front cover page of this Official Statement, on the basis of a constant interest rate compounded semiannually on each Interest Date (with straight-line interpolations between Interest Dates), commencing February 1, 2020.

***Accreted Values.*** The rate of interest at which a Capital Appreciation Bond's Maturity Value is discounted to its initial principal amount is known as the "Accretion Rate," and is stated on the inside front cover hereof. For any Capital Appreciation Bond, the value of principal plus accrued interest on any given Interest Date prior to maturity may be calculated by discounting the Maturity Value of the Capital Appreciation Bond from its maturity date to that Interest Date at a discount rate equal to the Accretion Rate, assuming a year of 360 days comprising twelve 30-day months. The imputed value on any other date may be calculated on the basis of a straight-line interpolation between the values calculated for the Interest Dates immediately preceding and following the date in question.

The Underwriter has prepared the Table of Accreted Values shown in Appendix G hereto, in order to provide the value per $5,000 of Maturity Value for each Capital Appreciation Bond on each Interest Date prior to maturity.

***Payment of Series 2019 Bonds.*** The principal, accreted value or Maturity Value of the Series 2019 Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of U.S. Bank National Association, as paying agent (the "Paying Agent"), at the maturity thereof or upon redemption prior to maturity.

Interest on the Current Interest Bonds is payable in lawful money of the United States of America by check mailed on each Interest Date (if a business day, or on the next business day if the Interest Date does not fall on a business day) to the registered owner thereof (the "Owner") at such Owner's address as it appears on the bond registration books kept by the Paying Agent or at such address as the Owner may have filed with the Paying Agent for that purpose, except that the payment shall be made by wire transfer of immediately available funds to any Owner of at least $1,000,000 of outstanding Current Interest Bonds who shall have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Series 2019 Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX F − "BOOK-ENTRY ONLY SYSTEM."

**Redemption**[*]

***Optional Redemption.*** The Series 2019 Bonds issued as Current Interest Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The Series 2019 Bonds issued as Current Interest Bonds maturing on or after August 1, 20__, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after February 1, 20__, at a redemption price equal to the principal amount of the Current Interest Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

The Series 2019 Bonds issued as Capital Appreciation Bonds maturing on and after August 1, 20__, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after February 1, 20__, at a redemption price equal to the principal amount of the Capital Appreciation Bonds called for redemption plus accreted interest thereon to the date of redemption, without premium.

***Mandatory Sinking Fund Redemption.*** The $__________ term Series 2019 Bonds issued as Current Interest Bonds maturing on August 1, 20__, are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

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

† Maturity.

The principal amount of the $__________ term Series 2019 Bonds maturing on August 1, 20__, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000, by any portion of such term Series 2019 Bonds issued as Current Interest Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

[*] *Preliminary; subject to change.*

***Selection of Series 2019 Bonds for Redemption.*** If less than all of the Series 2019 Bonds are called for redemption, the Series 2019 Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Series 2019 Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Series 2019 Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Series 2019 Bond shall be deemed to consist of individual Series 2019 Bonds of denominations of $5,000 principal amount or Maturity Value, as applicable, each, which may be separately redeemed.

***Notice of Redemption.*** Notice of redemption of any Series 2019 Bond will be given by the Paying Agent not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the bond registration books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Series 2019 Bonds. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Series 2019 Bonds and the date of issue of the Series 2019 Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Series 2019 Bonds to be redeemed; (vi) if less than all of the Series 2019 Bonds of any maturity are to be redeemed, the distinctive numbers of the Series 2019 Bonds of each maturity to be redeemed; (vii) in the case of Series 2019 Bonds redeemed in part only, the respective portions of the principal amount of the Series 2019 Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Series 2019 Bonds to be redeemed; (ix) a statement that such Series 2019 Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Series 2019 Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. The actual receipt by the Owner of any Series 2019 Bond or by any securities depository or information service of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, shall not affect the validity of the proceedings for the redemption of such Series 2019 Bonds or the cessation of interest on the date fixed for redemption.

***Effect of Notice of Redemption.*** When notice of redemption has been given substantially as described above and when the redemption price of the Series 2019 Bonds called for redemption is set aside, the Series 2019 Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Series 2019 Bonds at the place specified in the notice of redemption, such Series 2019 Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Series 2019 Bonds so called for redemption after such redemption date shall look for the payment of such Series 2019 Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the interest and sinking fund of the District within the County treasury (the "Interest and Sinking Fund") or the trust fund established for such purpose. All Series 2019 Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

***Right to Rescind Notice.*** The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Series 2019 Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund of the District 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 Series 2019 Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Series 2019 Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

**Defeasance of Series 2019 Bonds**

The District may pay and discharge any or all of the Series 2019 Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal, accreted value or Maturity Value of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund of the District, be fully sufficient to pay and discharge the indebtedness on such Series 2019 Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

**Unclaimed Moneys**

Any money held in any fund or by the Paying Agent or an escrow agent in trust for the payment of the principal or accreted value of, redemption premium, if any, or interest on the Series 2019 Bonds and remaining unclaimed for two years after the principal or accreted value of such Series 2019 Bonds has become due and payable (whether by maturity or upon prior redemption) is required to be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys is required to be transferred to the general fund of the District as provided and permitted by law.

[Remainder of page left intentionally blank.]

**Application and Investment of Series 2019 Bond Proceeds**

The proceeds of the Series 2019 Bonds are expected to be applied as follows:

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**General Obligation Bonds, Election of 2010, Series 2019**

**Estimated Sources and Uses of Funds**

| | |
|---|---|
| Sources of Funds: | |
| Aggregate Initial Principal Amount | $ |
| [Plus/Less] [Net] Original Issue [Premium/Discount] | |
| Total Sources of Funds | $ |
| Uses of Funds: | |
| Deposit to Building Fund | $ |
| Deposit to Interest and Sinking Fund(1) | |
| Costs of Issuance(2) | |
| Total Uses of Funds | $ |

(1) Consists of premium received by the District.
(2) Includes bond counsel fees, disclosure counsel fees, municipal advisor fees, District counsel fees, Underwriter's discount, rating agency fees, bond insurance premium, printing fees and other miscellaneous expenses the Underwriter has contracted to pay.

Under California law, all money received by or apportioned to a school district must generally be paid into and held in the County treasury. The proceeds from the sale of the Series 2019 Bonds less amounts necessary to pay costs of issuance will be deposited in the County treasury to the credit of the building fund of the District (the "Building Fund") and shall be accounted for together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds shall be applied solely for the purposes for which the Series 2019 Bonds were authorized. Any premium or accrued interest on the Series 2019 Bonds received by the District will be deposited in the Interest and Sinking Fund of the District in the County treasury. Interest and earnings on each fund will accrue to that fund. All funds held by the County Treasurer-Tax Collector (the "County Treasurer") in the Building Fund and the Interest and Sinking Fund are expected to be invested at the sole discretion of the County Treasurer on behalf of the District in such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. See APPENDIX E – "SUMMARY OF COUNTY OF SAN BERNARDINO INVESTMENT POLICIES AND PRACTICES AND DESCRIPTION OF BOND POOL" for a description of the permitted investments under the investment policy of the County.

In addition, to the extent permitted by law and the investment policy of the County, the District may request in writing that all or any portion of the funds held in the Building Fund may be invested in investment agreements, including guaranteed investment contracts, float contracts or other investment products which comply with the requirements of each rating agency then rating the Series 2019 Bonds. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments.

## Debt Service

Debt service on the Series 2019 Bonds, assuming no early redemptions, is as set forth in the following table.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**General Obligation Bonds, Election of 2010, Series 2019**

| | Current Interest Bonds | | Capital Appreciation Bonds | | |
|---|---|---|---|---|---|
| Period Ending August 1 | Principal | Interest | Principal | Interest Paid at Maturity | Total Debt Service |
| 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 | | | | | |
| Total: | $ | $ | $ | $ | $ |

## Outstanding Bonds

In addition to the Series 2019 Bonds, the District has five series of general obligation bonds outstanding, each of which is secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Series 2019 Bonds.

***1999 Authorization.*** At an election held on September 14, 1999, the District received authorization to issue bonds of the District in an aggregate principal amount not to exceed $60,000,000 to finance specific construction and modernization projects approved by the voters (the "1999 Authorization"). On June 6, 2000, the District issued its Election of 1999 General Obligation Bonds, Series A (the "Series 2000A Bonds"), in the aggregate principal amount of $19,995,038.25, as the first series of bonds to be issued under the 1999 Authorization. On February 4, 2003, the District issued its General Obligation Bonds, Election of

1999, Series B (the "Series 2003B Bonds"), in the aggregate principal amount of $20,000,000, as the second series of bonds to be issued under the 1999 Authorization. On May 19, 2004, the District issued its General Obligation Bonds, Election of 1999, Series C (the "Series 2004C Bonds"), in the aggregate principal amount of $20,000,000, as the third and final series of bonds to be issued under the 1999 Authorization. On June 5, 2012, the District issued its General Obligation Refunding Bonds, Series 2012 (the "Series 2012 Refunding Bonds"), in the aggregate principal amount of $29,865,000, to refund a portion of the series 2003B Bonds and a portion of the Series 2004C Bonds.

***2010 Authorization.*** On March 17, 2011, the District issued its General Obligation Bonds, Election of 2010, Series 2011A (the "Series 2011A Bonds"), in the aggregate initial principal amount of $26,932,186.85, and its General Obligation Bonds, Election of 2010, Series 2011B (Federally Taxable/Qualified School Construction Bonds) (the "Series 2011B Bonds"), in the aggregate principal amount of $9,695,000, as its first and second series of bonds to be issued under the 2010 Authorization. The Series 2011A Bonds and the Series 2011B Bonds were issued to finance and refinance projects authorized under the 2010 Authorization.

A portion of the Series 2011B Bonds were issued as "qualified school construction bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), and the District expects to receive a cash subsidy payment from the United States Treasury (the "Treasury") equal to a portion of the interest due on each interest payment date on such Series 2011B Bonds. The subsidy does not constitute a full faith and credit guarantee of the United States with respect to such Series 2011B Bonds, but, assuming the District satisfies the requirements of the Internal Revenue Code of 1986, is required to be paid by the Treasury under the Recovery Act. Any subsidy payments received by the District are required to be deposited into the Interest and Sinking Fund of the District within the County treasury. The Board of Supervisors of the County (the "Board of Supervisors") is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District for the payment of principal of and interest on the Series 2011B Bonds whether or not such subsidy payments are received and deposited in the Interest and Sinking Fund. As a result, the levy of *ad valorem* property taxes will only take into account amounts actually received from the Treasury and deposited in the Interest and Sinking Fund. The District makes no assurances about the effect of future legislative or policy changes or tax liabilities of the District on the amount or receipt of the subsidy payments from the Treasury.

On March 26, 2015, the District issued its General Obligation Bonds, Election of 2010, Series 2015 (the "Series 2015 Bonds"), in the aggregate principal amount of $32,015,000, as its third series of bonds to be issued under the 2010 Authorization. The Series 2015 Bonds were issued to finance projects authorized under the 2010 Authorization.

A summary of the District's general obligation bonded debt, assuming no early redemptions, is set forth on the following page.

**Aggregate Debt Service**

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

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**General Obligation Bonds − Aggregate Debt Service**

| Year Ending August 1, | Series 2000A Bonds | Series 2011A Bonds | Series 2011B Bonds[1] | Series 2012 Refunding Bonds | Series 2015 Bonds | Series 2019 Bonds | Aggregate Total Debt Service |
|---|---|---|---|---|---|---|---|
| 2020 | $1,662,184.80 | - | $1,096,923.46 | $2,703,356.26 | $3,819,823.66 | $ | $ |
| 2021 | 1,661,941.25 | - | 1,405,507.46 | 2,695,106.26 | 3,683,077.60 | | |
| 2022 | 1,659,141.75 | - | 1,721,139.46 | 2,692,356.26 | 3,528,549.60 | | |
| 2023 | 1,662,587.00 | - | 2,027,499.46 | 2,694,606.26 | 3,369,525.30 | | |
| 2024 | 1,659,806.00 | - | 2,354,059.46 | 2,686,656.26 | 3,185,683.70 | | |
| 2025 | 1,660,000.00 | - | 2,678,707.46 | 2,679,000.02 | 2,988,035.40 | | |
| 2026 | - | $4,175,000.00 | 315,387.46 | 2,681,325.02 | 1,258,466.20 | | |
| 2027 | - | 4,810,037.50 | - | 2,671,050.02 | 1,197,472.00 | | |
| 2028 | - | 6,565,037.50 | - | 1,340,325.00 | - | | |
| 2029 | - | 8,310,037.50 | - | - | - | | |
| 2030 | - | 8,670,037.50 | - | - | - | | |
| 2031 | - | 9,040,037.50 | - | - | - | | |
| 2032 | - | 9,429,925.95 | - | - | - | | |
| 2033 | - | 9,834,663.50 | - | - | - | | |
| 2034 | - | 10,259,639.25 | - | - | - | | |
| 2035 | - | 10,700,097.15 | - | - | - | | |
| 2036 | - | 11,160,037.50 | - | - | - | | |
| 2037 | - | 11,640,037.50 | - | - | - | | |
| 2038 | - | 12,141,225.00 | - | - | - | | |
| 2039 | - | 12,663,032.50 | - | - | - | | |
| 2040 | - | 13,208,110.00 | - | - | - | | |
| 2041 | - | 13,778,372.50 | - | - | - | | |
| Total: | $9,965,660.80 | $156,385,328.35 | $11,599,224.22 | $22,843,781.36 | $23,030,633.46 | $ | $ |

[1] The District expects to receive a cash subsidy payment from the United States Treasury equal to a portion of the interest due on each interest payment date on the portion of the Series 2011B Bonds designated as "qualified school construction bonds." See "– Outstanding Bonds" above. Amounts shown do not take into account the receipt of any subsidy payments.

## SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS

### General

In order to provide sufficient funds for repayment of principal and interest when due on the Series 2019 Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

The Series 2019 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No fund of the County is pledged or obligated to repayment of the Series 2019 Bonds

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

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

### Pledge of Tax Revenues

The District has pledged all revenues from the property taxes collected from the levy by the Board of Supervisors of the County for the payment of all bonds, including the Series 2019 Bonds (collectively, the "Bonds"), of the District heretofore or hereafter issued pursuant to voter approved measures of the District and amounts on deposit in the Interest and Sinking Fund of the District to the payment of the principal or redemption price of and interest on the Bonds. The Resolution provides that the property taxes and amounts held in the Interest and Sinking Fund shall be immediately subject to this pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the property taxes and amounts held in the Interest and Sinking Fund to secure the payment of the Bonds and shall be effective, binding, and enforceable against the District, its successors, creditors and all others irrespective of whether those parties have notice of the pledge and without the need of any physical delivery, recordation, filing, or further act. The Resolution provides that this pledge constitutes an agreement between the District and the owners of Bonds to provide security for the Bonds in addition to any statutory lien that may exist, and the Bonds secured by the pledge are or were issued to finance (or refinance) one or more of the projects specified in the applicable voter-approved measure.

### Property Taxation System

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

Local property taxation is the responsibility of various county officers. 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. The county treasurer-tax collector, the superintendent of schools of which has jurisdiction over the school district, holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due, as ex-officio treasurer of the school district.

**Assessed Valuation of Property Within the District**

Taxable property located in the District has a fiscal year 2019-20 assessed value of $9,727,861,247. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

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

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

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

The following table sets forth the assessed valuation of the various classes of property in the District's boundaries from fiscal year 2004-05 through 2019-20.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Assessed Valuations**
**Fiscal Years 2004-05 through 2019-20**

| Fiscal Year | Local Secured | Utility | Unsecured | Total |
|---|---|---|---|---|
| 2004-05 | $3,891,132,777 | $5,785,742 | $243,651,523 | $4,140,570,042 |
| 2005-06 | 4,452,330,026 | 5,375,603 | 256,823,380 | 4,714,529,009 |
| 2006-07 | 5,348,163,842 | 5,139,270 | 276,168,125 | 5,629,471,237 |
| 2007-08 | 6,205,358,181 | 3,004,092 | 351,921,526 | 6,560,283,799 |
| 2008-09 | 6,250,762,989 | 3,002,209 | 384,352,229 | 6,638,117,427 |
| 2009-10 | 5,470,937,654 | 3,776,982 | 404,898,150 | 5,879,612,786 |
| 2010-11 | 5,116,956,930 | 3,789,700 | 384,837,952 | 5,505,584,582 |
| 2011-12 | 5,151,124,349 | 3,818,009 | 351,269,663 | 5,506,212,021 |
| 2012-13 | 5,246,718,901 | 3,819,258 | 399,336,562 | 5,649,874,721 |
| 2013-14 | 5,547,093,026 | 3,817,028 | 360,031,438 | 5,910,941,492 |
| 2014-15 | 5,986,625,515 | 2,149,197 | 407,045,980 | 6,395,820,692 |
| 2015-16 | 6,416,683,075 | 2,145,148 | 492,854,898 | 6,911,683,121 |
| 2016-17 | 6,871,316,099 | 2,132,287 | 456,531,924 | 7,329,980,310 |
| 2017-18 | 7,217,445,229 | 2,127,417 | 597,008,329 | 7,816,580,975 |
| 2018-19 | 8,273,570,367 | 2,121,281 | 598,663,881 | 8,874,355,529 |
| 2019-20 | 9,094,553,801 | 4,751,093 | 628,556,353 | 9,727,861,247 |

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in property values, 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, drought, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also *"−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values"* below.

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

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, 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 (such pre-reduction level escalated by the annual inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then-current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article 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. According to representatives of the County assessor's office, the County has in the past, pursuant to Article XIIIA of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

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

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

***Bonding Capacity.*** As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District's fiscal year 2019-20 gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is approximately $243.20 million and its net bonding capacity is approximately $164.62 million (taking into account current outstanding debt before issuance of the Series 2019 Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

***Assessed Valuation by Jurisdiction.*** The following table describes the percentage and value of the total assessed value of the property within the District's boundaries that resides in the cities of Colton, Fontana, Rialto, San Bernardino and unincorporated portions of the County for fiscal year 2019-20.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**2019-20 Assessed Valuation by Jurisdiction**

| Jurisdiction | Assessed Valuation in School District | % of School District | Assessed Valuation of Jurisdiction | % of Jurisdiction in School District |
|---|---|---|---|---|
| City of Colton | $ 509,492,888 | 5.24% | $ 3,770,649,849 | 13.51% |
| City of Fontana | 619,938,758 | 6.37 | 21,160,085,508 | 2.93 |
| City of Rialto | 7,239,582,087 | 74.42 | 10,022,185,498 | 72.24 |
| City of San Bernardino | 693,940,205 | 7.13 | 15,557,320,601 | 4.46 |
| Unincorporated San Bernardino County | 664,907,309 | 6.84 | 35,611,532,309 | 1.87 |
| Total District | $9,727,861,247 | 100.00% | | |
| San Bernardino County | $9,727,861,247 | | $237,014,054,031 | 4.10% |

Source: California Municipal Statistics Inc.

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

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Assessed Valuation and Parcels by Land Use**

| Type of Property | 2019-20 Assessed Valuation[1] | % of Total | No. of Parcels | % of Total | No. of Taxable Parcels | % of Total |
|---|---|---|---|---|---|---|
| Non-Residential: | | | | | | |
| Commercial | $ 633,032,082 | 6.96% | 480 | 1.52% | 460 | 1.50% |
| Professional/Office | 89,844,780 | 0.99 | 78 | 0.25 | 78 | 0.25 |
| Industrial | 1,986,145,640 | 21.84 | 244 | 0.77 | 227 | 0.74 |
| Recreational | 32,852,585 | 0.36 | 24 | 0.08 | 24 | 0.08 |
| Government/Social/Institutional | 16,007,288 | 0.18 | 149 | 0.47 | 70 | 0.23 |
| Miscellaneous | 1,716,766 | 0.02 | 318 | 1.01 | 190 | 0.62 |
| Subtotal Non-Residential | $2,759,599,141 | 30.34% | 1,293 | 4.11% | 1,049 | 3.42% |
| Residential: | | | | | | |
| Single Family Residence | $5,239,527,350 | 57.61% | 23,505 | 74.65% | 23,433 | 76.29% |
| Condominium/Townhouse | 263,318,292 | 2.90 | 1,210 | 3.84 | 1,210 | 3.94 |
| Mobile Home | 93,197,163 | 1.02 | 2,283 | 7.25 | 2,276 | 7.41 |
| Mobile Home Park | 81,311,680 | 0.89 | 34 | 0.11 | 34 | 0.11 |
| 2-4 Residential Units | 130,969,575 | 1.44 | 499 | 1.58 | 485 | 1.58 |
| 5+ Residential Units/Apartments | 168,993,888 | 1.86 | 107 | 0.34 | 97 | 0.32 |
| Miscellaneous Residential Improvements | 4,015,963 | 0.04 | 66 | 0.21 | 61 | 0.20 |
| Subtotal Residential | $5,981,333,911 | 65.77% | 27,704 | 87.98% | 27,596 | 89.85% |
| Vacant Parcels | $353,620,911 | 3.89% | 2,492 | 7.91% | 2,069 | 6.74% |
| TOTAL | $9,094,553,801 | 100.00% | 31,489 | 100.00% | 30,714 | 100.00% |

[1] Local secured assessed valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

***Assessed Valuation of Single-Family Homes.*** The following table sets forth the assessed valuation of single-family homes in the District's boundaries for fiscal year 2019-20.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Per Parcel Assessed Valuation of Single Family Homes**

| | Number of Parcels | 2019-20 Assessed Valuation | Average Assessed Valuation | Median Assessed Valuation |
|---|---|---|---|---|
| Single Family Residential | 23,433 | $5,239,527,350 | $223,596 | $209,644 |

| 2019-20 Assessed Valuation | No. of Parcels[(1)] | % of Total | Cumulative % of Total | Total Valuation | % of Total | Cumulative % of Total |
|---|---|---|---|---|---|---|
| $0 - $24,999 | 50 | 0.213% | 0.213% | $ 825,494 | 0.016% | 0.016% |
| $25,000 - $49,999 | 642 | 2.740 | 2.953 | 26,178,076 | 0.500 | 0.515 |
| $50,000 - $74,999 | 625 | 2.667 | 5.620 | 38,722,895 | 0.739 | 1.254 |
| $75,000 - $99,999 | 731 | 3.120 | 8.740 | 64,708,531 | 1.235 | 2.489 |
| $100,000 - $124,999 | 1,348 | 5.753 | 14.492 | 153,564,413 | 2.931 | 5.420 |
| $125,000 - $149,999 | 2,230 | 9.516 | 24.009 | 307,693,267 | 5.873 | 11.293 |
| $150,000 - $174,999 | 2,678 | 11.428 | 35.437 | 435,668,373 | 8.315 | 19.608 |
| $175,000 - $199,999 | 2,448 | 10.447 | 45.884 | 458,905,951 | 8.759 | 28.366 |
| $200,000 - $224,999 | 2,169 | 9.256 | 55.140 | 459,064,286 | 8.762 | 37.128 |
| $225,000 - $249,999 | 1,851 | 7.899 | 63.039 | 439,084,447 | 8.380 | 45.508 |
| $250,000 - $274,999 | 1,766 | 7.536 | 70.576 | 463,541,415 | 8.847 | 54.355 |
| $275,000 - $299,999 | 1,359 | 5.800 | 76.375 | 389,768,910 | 7.439 | 61.794 |
| $300,000 - $324,999 | 1,417 | 6.047 | 82.422 | 442,337,993 | 8.442 | 70.237 |
| $325,000 - $349,999 | 1,241 | 5.296 | 87.718 | 417,906,014 | 7.976 | 78.213 |
| $350,000 - $374,999 | 1,006 | 4.293 | 92.011 | 363,990,219 | 6.947 | 85.160 |
| $375,000 - $399,999 | 833 | 3.555 | 95.566 | 322,218,473 | 6.150 | 91.309 |
| $400,000 - $424,999 | 478 | 2.040 | 97.606 | 196,471,886 | 3.750 | 95.059 |
| $425,000 - $449,999 | 274 | 1.169 | 98.775 | 119,491,610 | 2.281 | 97.340 |
| $450,000 - $474,999 | 151 | 0.644 | 99.420 | 69,667,253 | 1.330 | 98.669 |
| $475,000 - $499,999 | 67 | 0.286 | 99.706 | 32,580,558 | 0.622 | 99.291 |
| $500,000 and greater | 69 | 0.294 | 100.000 | 37,137,286 | 0.709 | 100.000 |
| Total | 23,433 | 100.000% | | $5,239,527,350 | 100.000% | |

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

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

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Largest 2019-20 Local Secured Taxpayers**

| | Property Owner | Primary Land Use | 2019-20 Assessed Valuation | Percent of Total[1] |
|---|---|---|---|---|
| 1. | Target Corporation | Industrial | $ 345,182,024 | 3.80% |
| 2. | Prologis-A4/Prologis-MacQuarie | Industrial | 206,950,434 | 2.28 |
| 3. | Rialto Bldg 6 Project LLC | Industrial | 182,668,654 | 2.01 |
| 4. | Medline Industries Inc. | Industrial | 110,571,117 | 1.22 |
| 5. | Sierra Lakes Commerce LLC | Industrial | 109,023,747 | 1.20 |
| 6. | LHR Renaissance Marketplace South LLC | Shopping Center | 105,828,818 | 1.16 |
| 7. | Rialto SM Logistics Rialto LLC | Industrial | 87,000,000 | 0.96 |
| 8. | GPT BTS Linden Avenue Owner LP | Industrial | 76,372,239 | 0.84 |
| 9. | 5565 Sierra Avenue Investors LLC | Industrial | 74,030,017 | 0.81 |
| 10. | 5885 Sierra Avenue Investors LLC | Industrial | 73,075,950 | 0.80 |
| 11. | DCT Renaissance Rialto LLC | Industrial | 70,292,502 | 0.77 |
| 12. | LBA RVI-Company XXVII LLC | Industrial | 66,360,382 | 0.73 |
| 13. | Thrifty Oil Co. | Industrial | 55,534,949 | 0.61 |
| 14. | Toys L/S Five Crescent Drive LP | Industrial | 53,040,000 | 0.58 |
| 15. | ET Sub REIT LLC | Industrial | 52,020,000 | 0.57 |
| 16. | Madison-Ind Locust CA LLC | Industrial | 50,507,380 | 0.55 |
| 17. | 100 Cedar Avenue LLC | Industrial | 50,052,421 | 0.55 |
| 18. | Glen Helen Parkway LLC | Industrial | 39,397,910 | 0.43 |
| 19. | Space Center Rialto LLC | Industrial | 31,491,494 | 0.35 |
| 20. | 1364 Rialto Avenue LLC | Industrial | 27,001,489 | 0.30 |
| | | | $1,866,301,527 | 20.52% |

(1) 2019-20 local secured assessed valuation: $9,094,553,801
Source: California Municipal Statistics, Inc.

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

## Tax Rates

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

The rate of tax necessary to pay fixed debt service on the Series 2019 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 Series 2019 Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, drought, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal, accreted value or maturity value of and interest on the Series 2019 Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

***Typical Tax Rate Area.*** The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 6-000). The assessed valuation for this Tax Rate Area for fiscal year 2019-20 is $1,577,521,167 which comprises approximately 16.22% of the total assessed value of the District.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Typical Total Tax Rates per $100 of Assessed Valuation (TRA 6-000)**
**Fiscal Years 2015-16 through 2019-20**

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| General | $1.0000 | $1.0000 | $1.0000 | $1.0000 | $1.0000 |
| Rialto Unified School District | 0.1194 | 0.0992 | 0.0957 | 0.0771 | 0.0848 |
| San Bernardino Community College District | 0.0403 | 0.0350 | 0.0376 | 0.0407 | 0.0562 |
| San Bernardino Valley Municipal Water | 0.1625 | 0.1625 | 0.1525 | 0.1525 | 0.1425 |
| Total Tax Rate | $1.3222 | $1.2967 | $1.2858 | $1.2703 | $1.2835 |

Source: California Municipal Statistics, Inc.

In accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2010 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2010 Authorization will require a tax rate no greater than $60.00 per $100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2019 Bonds, the District projects that the maximum tax rate required to repay the Series 2019 Bonds and all other outstanding bonds approved at the 2010 Authorization, will be within that legal limit. The tax rate limitation applies only when new bonds are issued and does not restrict the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2019 Bonds and any other series of bonds issued under the 2010 Authorization in each year.

**Tax Charges and Delinquencies**

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Series 2019 Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a $10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a $15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer.

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

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The County does not provide information with respect to the real property tax charges and delinquencies for property within the District. See "−Teeter Plan" below.

**Teeter Plan**

The County has implemented an alternative method for the assessment, levy and distribution of secured property taxes to local agencies, known as the "Teeter Plan," which is set forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. This method guarantees distribution of 100% of the assessments levied to the taxing entities, with the County retaining all penalties and interest. As a result, the County does not provide information with respect to the real property tax charges and delinquencies for property within the District.

Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The Teeter Plan became effective beginning in fiscal year 1996-97 and applies to the District and to its outstanding general obligation bonds, including the Series 2019 Bonds.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then-accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of assessments (if a county has elected to include assessments), 100% of the assessment delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the assessment. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. The District is not aware of any plans by the Board of Supervisors to discontinue the Teeter Plan.

**Direct and Overlapping Debt**

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective as of October 10, 2019 for debt outstanding as of October 1, 2019. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not set forth in the table) produces the amount set forth in column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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

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**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Statement of Direct and Overlapping Bonded Debt**

October 10, 2019

2019-20 Assessed Valuation: $9,727,851,247

| | % Applicable | Debt 10/1/19 |
|---|---|---|
| DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT: | | |
| Metropolitan Water District | 0.037% | $ 17,779 |
| San Bernardino Community College District | 12.857 | 53,770,399 |
| Rialto Unified School District | 100.000 | 78,573,902[1] |
| City of Fontana Community Facilities District No. 71 | 100.000 | 5,475,000 |
| City of Rialto Community Facilities District No. 2006-1 | 100.000 | 4,500,000 |
| San Bernardino County Community Facilities Districts | 34.091-74.059 | 5,773,465 |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | $148,110,545 |
| DIRECT AND OVERLAPPING GENERAL FUND DEBT: | | |
| San Bernardino County General Fund Obligations | 4.104% | $ 9,814,306 |
| San Bernardino County Pension Obligation Bonds | 4.104 | 9,735,207 |
| San Bernardino County Flood Control District General Fund Obligations | 4.104 | 2,345,641 |
| Rialto Unified School District Certificates of Participation | 100.000 | 12,389,391 |
| City of Colton General Fund and Pension Obligation Bonds | 13.512 | 3,729,231 |
| City of Fontana Certificates of Participation | 2.930 | 1,096,260 |
| City of Rialto Certificates of Participation | 72.236 | 4,971,844 |
| City of San Bernardino General Fund Obligation and Pension Obligation Bonds | 4.461 | 2,135,425 |
| TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT | | $46,217,305 |
| OVERLAPPING TAX INCREMENT DEBT (Successor Agencies): | | $ 87,241,968 |
| COMBINED TOTAL DEBT | | $281,569,818[2] |

Ratios to 2019-20 Assessed Valuation:

Direct Debt ($78,573,902)........................................................0.81%
Total Direct and Overlapping Tax and Assessment Debt .........1.52%
Combined Direct Debt ($90,963,293).......................................0.94%
Combined Total Debt................................................................2.89%

Ratio to Redevelopment Incremental Valuation ($3,934,915,053):

Total Overlapping Tax Increment Debt ....................................2.22%

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(1) Excludes the Series 2019 Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

## BOND INSURANCE FOR INSURED BONDS

### Bond Insurance Policy

Concurrently with the issuance of the Series 2019 Bonds, BAM will issue its Policy for the Insured Bonds. The Policy guarantees the scheduled payment of principal or maturity value of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

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

### Build America Mutual Assurance Company

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

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

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

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

*Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $525 million, $114 million and $411 million, respectively.

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

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

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

*Additional Information Available from BAM*

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

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

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

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

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series 2019 Bonds is less than the amount to be paid at maturity of such Series 2019 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2019 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2019 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2019 Bonds is the first price at which a substantial amount of such maturity of the Series 2019 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2019 Bonds accrues daily over the term to maturity of such Series 2019 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2019 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2019 Bonds. Beneficial Owners of the Series 2019 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2019 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2019 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2019 Bonds is sold to the public.

Series 2019 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2019 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2019 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2019 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2019 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2019 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2019 Bonds.

Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2019 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2019 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2019 Bonds. Prospective purchasers of the Series 2019 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2019 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2019 Bonds ends with the issuance of the Series 2019 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series 2019 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2019 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2019 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

## OTHER LEGAL MATTERS

### Legal Opinion

The validity of the Series 2019 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Series 2019 Bonds at the time of issuance substantially in the form set forth in Appendix C hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District and for the District by Fagen

Friedman & Fulfrost LLP, as counsel to the District. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, as counsel to the Underwriter.

**Legality for Investment in California**

Under the provisions of the California Financial Code, the Series 2019 Bonds are legal investments for commercial banks in California to the extent that the Series 2019 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the California Government Code, the Series 2019 Bonds are eligible securities for deposit of public moneys in the State.

**Continuing Disclosure**

The District has covenanted for the benefit of the holders and Beneficial Owners of the Series 2019 Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the "EMMA System") certain annual financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2018-19 fiscal year (which is due no later than April 1, 2020) and notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D − "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") of the Securities and Exchange Commission (the "SEC").

In the past five years, the District failed to timely file its audited financial statement for fiscal year 2014-15, but has since filed such audited financial statement.

KNN Public Finance LLC currently serves as the District's dissemination agent in connection with its prior undertakings and has been engaged by the District as its dissemination agent for its undertakings relating to the Series 2019 Bonds.

**Litigation**

No litigation is pending or threatened concerning or contesting the validity of the Series 2019 Bonds or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Series 2019 Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Series 2019 Bonds or District officials who will sign certifications relating to the Series 2019 Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2019 Bonds.

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

## MISCELLANEOUS

### Ratings

Moody's Investors Service, Inc. has assigned its underlying rating of "Aa3" to the Series 2019 Bonds. A rating agency generally bases its rating on its own investigations, studies and assumptions as well as information and materials furnished to it (which may include information and materials from the District, which are not included in this Official Statement). The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Series 2019 Bonds. There is no assurance that any rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2019 Bonds. Neither the Underwriter (defined herein) nor the District have undertaken any responsibility after the offering of the Series 2019 Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

In addition, S&P has assigned its rating of "AA" to the Insured Bonds with the understanding that, upon delivery of the Insured Bonds, the Policy will be delivered by BAM. See "BOND INSURANCE FOR INSURED BONDS." Such rating is expected to be assigned solely as a result of the issuance of the Policy and will reflect only the rating agency's view of the claims-paying ability and financial strength of BAM. Neither the District nor the Underwriter have made any independent investigation of the claims-paying ability of BAM and no representation is made that any insured rating of the Insured Bonds based upon the purchase of the Policy will remain higher than the rating agency's underlying rating of the Insured Bonds described above, which did not take bond insurance into account. The existence of the Policy will not, of itself, negatively affect such underlying ratings. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal or maturity value and interest on the Insured Bonds and the claims paying ability of BAM, particularly over the life of the investment. Without regard to any bond insurance, the Insured Bonds are payable from the proceeds of an *ad valorem* tax approved by the voters of the District pursuant to all applicable laws and constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal or maturity value of and interest on the Insured Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS." However, any downward revision or withdrawal of any rating of BAM may have an adverse effect on the market price or marketability of the Insured Bonds.

### Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and as Disclosure Counsel with respect to the Series 2019 Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Series 2019 Bonds. From time to time, Orrick, Herrington & Sutcliffe LLP represents the Underwriter on matters unrelated to the Series 2019 Bonds. California Financial Services is acting as the District's Municipal Advisor and Program Funding Manager with respect to the Series 2019 Bonds. Fagen Friedman & Fulfrost LLP is acting as counsel to the District with respect to the Series 2019 Bonds. Payment of the fees and expenses of the Municipal Advisor and District counsel is also contingent upon the sale and delivery of the Series 2019 Bonds. Nixon Peabody LLP is acting as Underwriter's counsel with respect to the Series 2019 Bonds.

**Underwriting**

The Series 2019 Bonds are being purchased for reoffering to the public by Citigroup Global Markets Inc. (the “Underwriter”) pursuant to the terms of a bond purchase agreement executed on __________, 2019 (the “Purchase Agreement”), by and between the Underwriter and the District. The Underwriter has agreed to purchase the Series 2019 Bonds at a price of $_________ [(which represents the aggregate principal amount of the Series 2019 Bonds, [plus/less] [net] original issue [premium/discount] of $__________, and less an Underwriter’s discount in the amount of $__________)]. The Purchase Agreement provides that the Underwriter will purchase all of the Series 2019 Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Series 2019 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, “Fidelity”). Under this distribution agreement, the Underwriter may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, the Underwriter will compensate Fidelity for its selling efforts.

## ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Series 2019 Bonds. Quotations from and summaries and explanations of the Series 2019 Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Series 2019 Bonds.

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

**RIALTO UNIFIED SCHOOL DISTRICT**

By: ____________________________________
Superintendent

# APPENDIX A

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

*The information in this appendix concerning the operations of the Rialto Unified School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal (or, in the case of Capital Appreciation Bonds, accreted value) of or interest on the Series 2019 Bonds are payable from the general fund of the District or from State revenues. The Series 2019 Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County of San Bernardino (the "County") on property within the District in an amount sufficient for the timely payment of principal (or, in the case of Capital Appreciation Bonds, accreted value), of and interest on the Series 2019 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS" in the front portion of this Official Statement.*

## THE DISTRICT

### Introduction

The Rialto Unified School District was founded in 1891 and has operated as a unified school district since 1964. The District provides preschool, elementary and secondary educational services to residents of an area of the County encompassing approximately 55 square miles that include the City of Rialto (the "City"), the western portion of the City of San Bernardino, small segments of the cities of Colton and Fontana and some unincorporated County territory.

The District currently operates 19 elementary schools, five middle schools, three comprehensive high schools, one continuation high school, one alternative high school, one adult school, and a preschool and infant program. The District budgets that total K-12 enrollment for fiscal year 2019-20 will be 24,731 students.

### Board of Education

The governing board of the District is the Board of Education of the District (the "Board of Education"). The Board of Education consists of five members who are elected at large to four-year terms in alternate slates of two and three at elections held every two years. Each December the Board of Education elects a President, Vice-President and Clerk to serve one-year terms. Current members of the Board of Education, together with their office and the date their term expires, are listed below.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**

**Board of Education**

| Name | Office | Term Expires |
|---|---|---|
| Edgar Montes | President | December 2022 |
| Nancy G. O'Kelley | Vice President | December 2020 |
| Dina Walker | Clerk | December 2022 |
| Joseph Ayala | Member | December 2020 |
| Joseph W. Martinez | Member | December 2020 |

**Superintendent and Business Services Personnel**

The Superintendent of the District is appointed by the Board of Education and reports to the Board of Education. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and Associate Superintendent, Business Services is set forth below.

***Dr. Cuauhtémoc Avila, Superintendent.*** Dr. Avila has served as the Superintendent of the District since July 1, 2015. Prior to joining the District, Dr. Avila served as the Assistant Superintendent of Educational Programs for the Los Angeles County Office of Education. Dr. Avila also previously served as Principal of Alternative Education and Director of Educational Services for the Glendale Unified School District for five years. Dr. Avila began his career in public education in 1997, serving as a high school principal, middle school principal, elementary principal, curriculum specialist and middle school teacher for the Compton Unified School District. Dr. Avila earned a Bachelor's degree in Sociology from the University of California, Los Angeles, a Master's degree in Educational Administration from California State University, Dominguez Hills, and a Doctoral degree in Educational Leadership from the University of Southern California.

***Mohammad Z. Islam, Associate Superintendent, Business Services.*** Mr. Islam began his career in public education in 1988 as an Accounting Manager. He then served in the positions of Director, Business Services Administrator, Assistant Superintendent of Business, Chief Business and Financial Associate, Associate Superintendent of Business and as an Interim Superintendent from August 2013 to 2015. Mr. Islam has served as Associate Superintendent, Business Services of the District since 2012. Mr. Islam received a Bachelor of Science Degree in Accounting and a Master of Business Administration in Management from the Woodbury University in Burbank, California. He also holds a Chief Business Official's Professional Designation Certificate from the Association of California School Administrators.

## DISTRICT FINANCIAL MATTERS

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

***General.*** As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF") (see "− *Allocation of State Funding to School Districts; Local Control Funding Formula*") and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "− Local Sources of Education Funding"). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has budgeted to receive approximately 83.72% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), budgeted at approximately $278.59 million in fiscal year 2019-20. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "*–Allocation of State Funding to School Districts; Local Control Funding Formula,*" and "*–Attendance and LCFF*" and "Other District Revenues – *Other State Revenues*" below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations.

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

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

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

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

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

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

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

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

The District cannot predict how State income or State education funding will vary over the term to maturity of the Series 2019 Bonds, and the District takes no responsibility for informing owners of the Series 2019 Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, **www.dof.ca.gov**, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at **www.lao.ca.gov**. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, **www.treasurer.ca.gov**. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

***2019-20 State Budget.*** The Governor signed the fiscal year 2019-20 State Budget (the "2019-20 State Budget") on June 27, 2019. The 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20 that projects approximately $143.8 billion in revenues, and $91.9 billion in non-Proposition 98 expenditures and $55.9 billion in Proposition 98 expenditures. The 2019-20 State Budget includes a $1.4 billion reserve in the Special Fund for Economic Uncertainties. To provide immediate and long-term relief to school districts facing rising pension costs, the 2019-20 State Budget includes a $3.15 billion non-Proposition 98 General Fund payment to the California State Teachers' Retirement System ("CalSTRS") and the California Public Employees' Retirement System ("CalPERS") Schools Pool. Of this amount, an estimated $850 million will buy down the employer contribution rates in fiscal years 2019-20 and 2020-21. The 2019-20 State Budget includes total funding of $103.4 billion ($58.8 billion General Fund and $44.6 billion other funds) for all K-12 education programs. The 2019-20 State Budget provides $1.9 billion in new Proposition 98 funding for the LCFF, reflecting a 3.26% cost of living adjustment. The 2019-20 State Budget also includes a constitutionally required deposit into the Public School System Stabilization Account (also referred to as the Proposition 98 Rainy Day Fund) in the amount of $376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps, as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately $2.1 billion).

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

- Special Education. The 2019-20 State Budget includes $645.3 million ongoing Proposition 98 General Fund resources for special education, including $152.6 million to provide for all Special Education Local Plan Areas with at least the statewide target rate for base special education funding, and $492.7 million allocated based on the number of children ages 3 to 5 years with exceptional needs that the school district is serving.

- After School Education and Safety Program. The 2019-20 State Budget includes $50 million ongoing Proposition 98 General Fund resources to provide an increase of approximately 8.3% to the per-pupil daily rate for the After School Education and Safety Program.

- Longitudinal Data System. The 2019-20 State Budget includes $10 million one-time non-Proposition 98 General Fund resources to plan and develop a longitudinal data system to improve coordination across data systems and better track the impacts of State investments on achieving educational goals.

- Retaining and Supporting Well-Prepared Educators. The 2019-20 State Budget includes $89.8 million one-time non-Proposition 98 General Fund resources to provide up to 4,487 grants of $20,000 for students enrolled in a professional teacher preparation program who commit to working in a high-need field at a priority school for at least four years. The 2019-20 State Budget also includes $43.8 million one-time non-Proposition 98 General Fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, to build capacity around key state priorities. Finally, the 2019-20 State Budget includes $13.8 million ongoing federal funds to establish the 21st Century California Leadership Academy, to provide professional learning opportunities for public K-12 administrators and school leaders to acquire the knowledge, skills, and competencies necessary to successfully support the diverse student population served in California public schools.

- Broadband Infrastructure. The 2019-20 State Budget includes $7.5 million one-time non-Proposition 98 General Fund resources to assist school districts in need of infrastructure and updates to meet the growing bandwidth needs of digital learning.

- School Facilities Bond Funds. The 2019-20 State Budget assumes $1.5 billion Proposition 51 bond funds, an increase of $906 million over the prior year, to support school construction projects.

- Full-Day Kindergarten. The 2019-20 State Budget includes $300 million one-time non-Proposition 98 General Fund resources to construct new or retrofit existing facilities to support full-day kindergarten programs, which will increase participation in kindergarten by addressing barriers to access.

- Proposition 98 Settle-Up. The 2019-20 State Budget includes an increase of $686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through fiscal year 2017-18.

- Classified School Employees Summer Assistance Program. The 2019-20 State Budget includes an increase of $36 million one-time Proposition 98 General Fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.

- Wildfire-Related Cost Adjustments. The 2019-20 State Budget includes an increase of $2 million one-time Proposition 98 General Fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. Additionally, the 2019-20 State Budget includes an increase of $727,000 one-time Proposition 98 General Fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses. Further, the 2019-20 State Budget holds both school districts and charter schools impacted by the wildfires harmless for State funding for two years.

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

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

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

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment has been to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

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

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

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

- A Base Grant for each local education agency ("LEA"). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2019-20, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to $8,503 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to $7,818 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to $8,050 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to $9,572 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further, this amount also includes a costs-of-living adjustment of 3.26% authorized by the 2019-20 State Budget.

- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional Concentration Grant of up to 50% of a LEA's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.

- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF in fiscal year 2018-19. Upon full implementation in fiscal year 2018-19, LEAs now receive the greater of the Base Grant or the ERT.

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

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

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

Performance evaluations are to be conducted to assess progress toward goals and guide future actions. County superintendents are expected to review and provide support to the school districts under their jurisdiction, while the State Superintendent of Public Instruction performs a corresponding role for county offices of education. The California Collaborative for Education Excellence (the "Collaborative"), a newly established body of educational specialists, was created to advise and assist local education agencies in achieving the goals identified in their LCAPs. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency's LCAP.

***Attendance and LCFF.*** The following table sets forth the District's actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, "EL/LI Students")), and targeted Base Grant per unit of A.D.A. for fiscal years 2014-15 through 2018-19, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Average Daily Attendance, Enrollment and Targeted Base Grant**
**Fiscal Years 2014-15 through 2018-19**

| | | A.D.A./Base Grant | | | | | Enrollment[10] | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | | K-3 | 4-6 | 7-8 | 9-12 | Total A.D.A. | Total Enrollment | Unduplicated Percentage of EL/LI Students |
| 2014-15 | A.D.A.[1]: | 7,905.43 | 5,881.97 | 4,007.29 | 7,842.37 | 25,637.06 | 26,255 | 83.43% |
| | Targeted Base Grant[2][3]: | $7,740 | $7,116 | $7,328 | $8,712 | -- | -- | -- |
| 2015-16 | A.D.A.[1]: | 7,659.95 | 5,869.19 | 3,993.41 | 7,756.77 | 25,279.32 | 25,994 | 84.33% |
| | Targeted Base Grant[2][4]: | $7,820 | $7,189 | $7,403 | $8,801 | -- | -- | -- |
| 2016-17 | A.D.A.[1]: | 7,563.93 | 5,967.79 | 3,950.13 | 7,642.45 | 25,124.30 | 25,684 | 84.81% |
| | Targeted Base Grant[2][5]: | $7,820 | $7,189 | $7,403 | $8,801 | -- | -- | -- |
| 2017-18 | A.D.A.[1]: | 7,401.99 | 6,023.31 | 3,774.78 | 7,670.26 | 24,870.34 | 25,480 | 86.12% |
| | Targeted Base Grant[2][6]: | $7,941 | $7,301 | $7,518 | $8,939 | -- | -- | -- |
| 2018-19 | A.D.A.[1]: | 7,275.17 | 5,836.67 | 3,949.12 | 7,576.80 | 24,637.76 | 25,066 | 87.35% |
| | Targeted Base Grant[2][7]: | $8,235 | $7,571 | $7,796 | $9,269 | -- | -- | -- |
| 2019-20[8] | A.D.A.[8]: | 7,154.97 | 5,579.09 | 4,021.76 | 7,398.40 | 24,154.42 | 24,731 | 88.46% |
| | Targeted Base Grant[2][9]: | $8,503 | $7,818 | $8,050 | $9,572 | -- | -- | -- |

(1) A.D.A. for the second period of attendance, typically in mid-April of each school year, which does not reflect subsequent revisions related to days deemed later by the California Department of Education to have a "material decrease" in attendance or attendance at Saturday school.
(2) Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF was fully implemented as of fiscal year 2018-19, two years ahead of its anticipated implementation.
(3) Targeted fiscal year 2014-15 Base Grant amount reflects a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.
(4) Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.
(5) Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.
(6) Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.
(7) Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This "super COLA" amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.
(8) Figures are estimates.
(9) Targeted fiscal year 2019-20 Base Grant amount reflects a 3.26% cost-of-living adjustment from targeted fiscal year 2018-19 Base Grant amounts.
(10) Except for fiscal year 2019-20, reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and California Longitudinal Pupil Achievement Data System ("CALPADS") for the 2015-16 through 2017-18 school year. 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 fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment was based on the two-year average of EL/LI Students 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 has been based on a rolling average of such school district's EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.
Source: Rialto Unified School District.

The District received approximately $270.93 million (unaudited) in aggregate revenues reported under LCFF sources in fiscal year 2018-19, and has budgeted to receive approximately $280.84 million in aggregate revenues under the LCFF in fiscal year 2019-20 (or approximately 84.40% of its general fund revenues in fiscal year 2019-20). Such amount includes supplemental grants and concentration grants budgeted to be approximately $36.74 million and $34.74 million, respectively, in fiscal year 2019-20.

**Local Sources of Education Funding**

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

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

Local property tax revenues account for approximately 9.00% of the District's aggregate revenues reported under LCFF sources and are budgeted to be approximately $25.27 million, or 7.59% of total general fund revenues in fiscal year 2019-20.

For information about the property taxation system in California and the District's property tax base, see "–Property Taxation System," "–Assessed Valuation of Property Within the District," and "–Tax Charges and Delinquencies," under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS" in the front portion of the Official Statement.

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

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

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

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

### Other District Revenues

***Federal Revenues.*** The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 5.30% (or approximately $17.64 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

***Other State Revenues.*** In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 6.92% (or approximately $23.02 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is budgeted at approximately $5.04 million for fiscal year 2019-20.

***Other Local Revenues.*** In addition to *ad valorem* property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 3.38% (or approximately $11.26 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

### Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2018, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year.

The following tables contain data abstracted from financial statements prepared by the District's former independent auditor, Vicenti, Lloyd & Stutzman LLP ("VLS"), Certified Public Accountants, Glendora, California, for fiscal years 2013-14 through 2015-16, and by the District's current independent auditor, CliftonLarsonAllen LLP ("CLA"), Glendora, California, for fiscal years 2016-17 and 2017-18. As of June 1, 2017, VLS was acquired by CLA.

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

The table on the following page sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2013-14 through 2017-18.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Statement of General Fund Revenues, Expenditures and Changes in Fund Balance**
**Fiscal Years 2013-14 through 2017-18**

| | Fiscal Year 2013-14 | Fiscal Year 2014-15 | Fiscal Year 2015-16 | Fiscal Year 2016-17 | Fiscal Year 2017-18 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| LCFF sources: | | | | | |
| State apportionments | $154,465,409 | $184,533,441 | $213,630,368 | $228,089,793 | $228,317,639 |
| Local sources | 16,574,658 | 14,909,742 | 18,426,379 | 21,259,101 | 25,674,876 |
| Total LCFF sources | 171,040,067 | 199,443,183 | 232,056,747 | 249,348,894 | 253,992,515 |
| Federal sources | 13,049,931 | 13,745,972 | 15,626,361 | 18,315,746 | 17,871,192 |
| Other state sources | 22,914,833 | 20,898,201 | 35,285,266 | 28,828,895 | 29,342,790 |
| Other local sources | 13,004,031 | 15,380,025 | 11,329,085 | 12,324,621 | 12,723,728 |
| **Total Revenues** | 220,008,862 | 249,467,381 | 294,297,459 | 308,818,156 | 313,930,225 |
| **Expenditures** | | | | | |
| Instruction | 130,033,115 | 145,086,416 | 158,681,473 | 176,439,172 | 173,272,060 |
| Instruction-related services | 26,137,040 | 29,057,251 | 32,236,703 | 34,350,079 | 42,184,096 |
| Pupil services | 20,397,323 | 20,436,328 | 23,842,760 | 30,057,234 | 31,422,351 |
| Community services | 5,246 | 746 | 476 | 808 | 927 |
| General administration | 14,023,931 | 14,564,932 | 14,991,787 | 15,091,098 | 16,150,632 |
| Plant services | 26,420,569 | 28,121,677 | 41,692,557 | 36,204,894 | 37,096,893 |
| Other outgo | 2,667,286 | 1,123,708 | 89,811 | 80,512 | 668,910 |
| Debt service | 1,051,574 | 1,252,560 | 1,250,281 | 1,210,645 | 1,541,323 |
| **Total Expenditures** | 220,736,084 | 239,643,618 | 272,785,848 | 293,434,442 | 302,337,192 |
| Excess (deficiency) of revenues over expenditures | (727,222) | 9,823,763 | 21,511,611 | 15,383,714 | 11,593,033 |
| **Other Financing Sources (Uses)** | | | | | |
| Operating transfers in | - | - | - | - | 1,194,351 |
| Operating transfers out | (508,204) | (113,473) | (3,994,272) | (4,119,606) | (5,388,298) |
| Total Other Financing Sources (Uses) | (508,204) | (113,773) | (3,994,272) | (4,119,606) | (4,193,947) |
| Net change in fund balance | (1,235,426) | 9,710,290 | 17,517,339 | 11,264,108 | 7,399,086 |
| Fund Balance – Beginning of Year, as Originally Stated | 28,322,974 | 26,028,563 | 35,738,853 | 53,256,192 | 64,520,300 |
| Adjustment for restatement/reclassification | (1,058,985) | - | - | - | - |
| Fund Balance – Beginning of Year, as Restated/Reclassified | 27,263,989 | - | - | - | 64,520,300 |
| Fund Balance – End of Year | $ 26,028,563 | $ 35,738,853 | $ 53,256,192 | $ 64,520,300 | $ 71,919,386 |

Source: Rialto Unified School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

The following table sets forth the general fund balance sheet of the District for fiscal years 2013-14 through 2017-18.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Summary of General Fund Balance Sheet**
**Fiscal Years 2013-14 through 2017-18**

| | Fiscal Year 2013-14 | Fiscal Year 2014-15 | Fiscal Year 2015-16 | Fiscal Year 2016-17 | Fiscal Year 2017-18 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash in county treasury | $30,564,375 | $42,121,011 | $65,315,963 | $72,533,902 | $91,727,192 |
| Cash in revolving fund | 80,000 | 90,000 | 90,000 | 90,000 | 90,000 |
| Cash collections awaiting deposit | 498,549 | - | - | - | - |
| Accounts receivable: | | | | | |
| Federal and state governments | 33,635,304 | 9,508,372 | 11,518,634 | 11,365,594 | 8,692,001 |
| Miscellaneous | 22,179 | 148,271 | 712,369 | 2,483,777 | 1,943,930 |
| Due from other funds | 1,071,694 | 1,153,456 | 1,709,059 | 1,345,653 | 634,738 |
| Inventories | 79,990 | 114,364 | 143,645 | 167,199 | 160,352 |
| Prepaid expenditures | 22,794 | 3,897 | 24,321 | 195,889 | 364,449 |
| **Total Assets** | $65,974,885 | $53,139,371 | $79,513,991 | $88,182,014 | $103,612,662 |
| **Liabilities and Fund Balance** | | | | | |
| **Liabilities** | | | | | |
| Accounts payable | $16,784,712 | $17,100,347 | $25,962,505 | $21,951,474 | $29,977,100 |
| Unearned revenue | 99,227 | 156,092 | 134,964 | 1,557,887 | 1,317,335 |
| Tax revenue anticipation notes | 22,965,000 | - | - | - | - |
| Due to other funds | 97,383 | 144,079 | 160,330 | 152,353 | 398,841 |
| Total Liabilities | 39,946,322 | 17,400,518 | 26,257,799 | 23,661,714 | 31,693,276 |
| **Fund Balance** | | | | | |
| Nonspendable | 182,784 | 208,261 | 257,966 | 453,088 | 614,801 |
| Restricted | 8,796,145 | 7,814,208 | 10,852,233 | 12,428,216 | 9,748,086 |
| Assigned | 2,699,205 | - | 31,080,425 | 39,450,000 | 23,668,256 |
| Unassigned | 14,350,429 | 27,716,384 | 11,065,568 | 12,188,996 | 37,888,243 |
| **Total Fund Balance** | 26,028,563 | 35,738,853 | 53,256,192 | 64,520,300 | 71,919,386 |
| **Total Liabilities and Fund Balance** | $65,974,885 | $53,139,371 | $79,513,991 | $88,182,014 | $103,612,662 |

Source: Rialto Unified School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

**District Budget Process and County Review**

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

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

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15 of such year written recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

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

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

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

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200 and the Education Code (Section 42100 et. seq.), each school district is required to file two interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that, based on then current projections, will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that, based on then current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that, based on then current projections, will not meet its financial obligations for the current fiscal year or the two subsequent fiscal years. A certification may be revised to a negative or qualified certification by the county superintendent, as appropriate. A school district that receives a qualified or negative certification for its second interim report must provide to the county superintendent, the State Controller and the State Superintendent no later than June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30.

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

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from ad valorem property taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president's designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district's return to fiscal solvency.

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

The following table sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2019-20, and unaudited actuals for fiscal years 2016-17 through 2018-19.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**General Fund Budgets for Fiscal Years 2016-17 through 2019-20**
**and Unaudited Actuals for Fiscal Years 2016-17 through 2018-19**

| | 2016-17 Original Budget | 2016-17 Unaudited Actuals[1] | 2017-18 Original Budget | 2017-18 Unaudited Actuals[1] | 2018-19 Original Budget | 2018-19 Unaudited Actuals | 2019-20 Original Budget[2] |
|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | |
| LCFF Sources | $247,131,866.00 | $249,348,893.35 | $253,427,047.00 | $253,992,515.37 | $270,943,630.00 | $270,929,493.00 | $280,842,225.00 |
| Federal Revenue | 15,216,463.00 | 18,315,746.00 | 15,423,175.00 | 17,871,192.05 | 16,639,374.00 | 17,600,097.19 | 17,639,278.00 |
| Other State Revenue | 26,030,967.92 | 28,828,894.70 | 23,052,966.58 | 27,842,788.68 | 30,250,836.00 | 39,709,985.07 | 23,023,366.00 |
| Other Local Revenue | 9,055,570.00 | 12,324,607.59 | 8,353,897.00 | 12,708,387.80 | 10,018,672.00 | 13,962,928.52 | 11,264,096.00 |
| **TOTAL REVENUES** | 297,434,866.92 | 308,818,141.64 | 300,257,085.58 | 312,414,883.90 | 327,852,512.00 | 342,202,503.78 | 332,768,965.00 |
| **EXPENDITURES** | | | | | | | |
| Certificated Salaries | 126,789,362.00 | 123,681,369.70 | 126,074,143.80 | 124,691,044.76 | 134,541,773.00 | 130,440,028.45 | 131,364,268.50 |
| Classified Salaries | 40,629,303.36 | 39,576,683.19 | 41,669,479.48 | 40,981,355.49 | 46,040,536.51 | 46,725,933.09 | 48,703,999.44 |
| Employee Benefits | 73,097,682.22 | 72,112,304.79 | 77,891,367.86 | 76,777,053.32 | 85,117,802.50 | 97,180,034.16 | 89,590,718.53 |
| Books and Supplies | 20,043,043.07 | 16,827,500.10 | 12,877,301.67 | 8,729,340.90 | 17,903,881.00 | 13,256,161.99 | 10,926,232.00 |
| Services, Other Operating Expenses | 32,868,780.26 | 31,738,038.69 | 34,972,919.79 | 39,352,036.32 | 45,823,448.44 | 40,703,670.79 | 51,402,319.83 |
| Capital Outlay | 8,883,601.00 | 9,407,267.07 | 16,440,780.00 | 8,234,869.22 | 4,428,472.00 | 8,030,81.96 | 7,149,985.00 |
| Other Outgo (excluding Direct Support/Indirect Costs) | 2,121,984.00 | 1,291,157.25 | 1,387,264.00 | 2,210,232.61 | 2,218,264.00 | 5,726,250.88 | 1,541,987.00 |
| Transfers of Direct Support/Indirect Costs | (1,321,126.26) | (1,199,892.23) | (1,299,042.92) | (1,040,800.11) | (1,219,128.38) | (987,833.26) | (1,181,276.00) |
| **TOTAL EXPENDITURES** | 303,112,629.65 | 293,434,428.56 | 310,014,213.68 | 299,935,132.51 | 334,855,049.07 | 341,075,128.06 | 339,498,234.30 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | (5,677,762.73) | 15,383,713.08 | (9,757,128.10) | 12,479,751.39 | (7,002,537.07) | 1,127,375.72 | (6,729,269.30) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | |
| Inter-fund Transfers In | - | - | - | 47,939.99 | - | 820,360.18 | - |
| Inter-fund Transfers Out | (1,519,741.86) | (4,119,605.68) | (2,812,447.24) | (5,388,297.89) | (2,222,047.00) | (4,897,781.71) | (2,105,461.00) |
| Other Sources | - | - | - | - | - | 905,871.17 | - |
| **TOTAL, OTHER FINANCING SOURCES (USES)** | (1,519,741.86) | (4,119,605.68) | (2,812,447.24) | (5,340,357.90) | (2,222,047.00) | (3,171,550.36) | (2,105,461.00) |
| **NET INCREASE (DECREASE) IN FUND BALANCE** | (7,197,504.59) | 11,264,107.40 | (12,569,575.34) | 7,139,393.49 | (9,224,584.07) | (2,044,174.64) | (8,834,730.30) |
| **BEGINNING BALANCE, as of July 1** | 39,832,911.30 | 53,256,192.21 | 51,974,340.65 | 64,520,299.61 | 61,828,386.53 | 71,659,693.10 | 69,615,518.46 |
| **ENDING BALANCE** | $32,635,406.71 | $64,520,299.61 | $39,404,765.31 | $71,659,693.10 | $52,603,802.46 | $69,615,518.46 | $60,780,788.16 |
| **Unrestricted Balance** | $28,642,778.37 | $52,092,084.34 | $35,885,620.26 | $62,171,299.87 | $48,756,934.84 | $59,596,343.21 | $46,917,106.92 |
| **Restricted Balance** | $3,992,628.34 | $12,428,215.27 | $3,519,145.05 | $9,488,393.23 | $3,846,867.62 | $10,019,175.25 | $5,274,032.40 |

(1) The figures reflected in the District's unaudited actuals for fiscal years 2016-17 and 2017-18 differ from the District's audited financial statements for these fiscal years due to the inclusion of the Deferred Maintenance Fund in the audited financial statements.
(2) The figures reflected in the District's Beginning Balance and Ending Balance are sourced from the District's 2019-20 Budget that are presented in the District's 18-19 Unaudited Actual Report.
Source: Rialto Unified School District adopted general fund budgets for fiscal years 2016-17 through 2019-20; and unaudited actuals for fiscal years 2016-17 through 2018-19.

## District Debt Structure

***Long-Term Debt Summary.*** A schedule of changes in the District's long-term obligations for the year ended June 30, 2018, consisted of the following:

| Long-Term Debt | Balance, July 1, 2017[1] | Additions | Reductions | Balance, June 30, 2018 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Bonds[2] | $ 94,854,319 | - | $5,316,923 | $ 89,537,396 | $ 5,583,494 |
| Capital appreciation interest | 22,098,187 | $ 7,954,252 | 1,099,807 | 28,952,632 | 1,099,807 |
| Premium on general obligation bonds | 2,308,388 | - | 113,361 | 2,195,027 | - |
| Total general obligation bonds | 119,260,894 | 7,954,252 | 6,530,091 | 120,685,055 | 6,683,301 |
| Energy upgrades lease | - | 11,500,000 | 796,323 | 10,703,677 | 639,286 |
| Compensated absences | 965,832 | - | 8,372 | 957,460 | - |
| Certificates of Participation[3] | 4,995,000 | - | 670,000 | 4,325,000 | 4,325,000 |
| Postemployment healthcare benefits | 31,665,062 | - | 1,247,130 | 30,417,932 | - |
| Net pension liability | 245,791,872 | 43,113,593 | - | 288,905,465 | - |
| City of Rialto redevelopment agency loan | 4,961,941 | - | 75,000 | 4,886,941 | 80,000 |
| Total | $407,640,601 | $62,567,845 | $9,326,916 | $460,881,530 | $11,727,587 |

(1) Reflects the adoption of GASB Statement No. 75 and includes the District's postemployment healthcare benefits plan. See "Other Postemployment Benefits (OPEBs)" below for more information.
(2) Does not include the Series 2019 Bonds.
(3) Includes the 2006 Certificates, which are no longer outstanding as of October 31, 2018.
Source: Rialto Unified School District Audited Financial Report for fiscal year 2017-18.

***General Obligation Bonds.*** In addition to the Series 2019 Bonds, the District has outstanding five series of general obligation bonds, each of which is secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Series 2019 Bonds.

See "THE SERIES 2019 BONDS – Outstanding Bonds" and " – Aggregate Debt Service" in the front portion of this Official Statement for more information about such outstanding bonds.

***Certificates of Participation.*** On June 27, 2006, the District caused its Certificates of Participation (2006 Capital Project) in the aggregate principal amount of $4,770,000 (the "2006 Certificates") to be executed and delivered in order to finance the costs of the acquisition and improvement of certain school facilities and land. As of October 31, 2018, the 2006 Certificates have been prepaid and are no longer outstanding.

On September 19, 1997, the District caused its 1997 Refunding Certificates of Participation (the "Refunding Certificates") in the amount of $12,530,000, with the Refunding Certificates being subject to mandatory tender and remarketing in September 2002, to be executed and delivered. Interest represented by the Refunding Certificates was originally fixed through September 1, 2002. The District, the Rialto Unified School District School Facilities Corporation (the "Corporation") and the trustee for the Refunding Certificates have amended the Trust Agreement related to the Refunding Certificates to accommodate the remarketing and reoffering of the Refunding Certificates in a fixed interest mode through the respective maturity dates of the Refunding Certificates. As a result, the Refunding Certificates were reoffered at $12,040,000 as of September 3, 2002, with the proceeds used to provide funds to purchase the Refunding Certificates from their owners. The Refunding Certificates have been fully paid from the proceeds of the District's Series 2011A Bonds.

For more information about outstanding Certificates of Participation, see Note 9 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

***Operating Leases.*** The District has entered into various operating leases for land, buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these lease agreements are as follows:

| Year Ending June 30, | Lease Payments |
|---|---|
| 2019 | $3,783,068 |
| 2020 | 3,283,065 |
| Total | $7,066,133 |

Source: Rialto Unified School District Audited Financial Report for fiscal year 2017-18.

Expenditures for operating leases in fiscal year 2017-18 was approximately $1,255,655. The District receives no sublease rental revenues nor pays any contingent rentals for these properties. For more information about operating leases, see Note 8 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

***Energy Upgrades Lease.*** On October 27, 2017, the Corporation entered into a lease and assignment financing agreement with Banc of America Public Capital Corp for $11,500,000. The proceeds will be used for District-wide heating, ventilation, and air conditioning, LED lighting and energy managements system upgrades. Repayment terms are annual payments of $929,285 over 15 years at an interest rate of 2.70%. The annual debt service requirements for the lease is:

| Year Ending June 30, | Principal | Interest |
|---|---|---|
| 2019 | $639,286 | $288,999 |
| 2020 | 656,547 | 271,739 |
| 2021 | 674,274 | 254,012 |
| 2022 | 692,479 | 235,806 |
| 2023 | 711,176 | 217,109 |
| 2024-2028 | 3,854,488 | 786,940 |
| 2029-2032 | 3,475,427 | 237,715 |
| Total | $10,703,677 | $2,292,320 |

Source: Rialto Unified School District Audited Financial Report for fiscal year 2017-18.

***City of Rialto Redevelopment Agency Loan.*** During 2005, the District entered into an agreement with the former City of Rialto Redevelopment Agency ("RDA") for a loan of $2,717,131 for the purpose of financing the cost of labor and materials for the design, installation and/or construction of a football stadium at Rialto High School. During 2008, the District borrowed an additional $3,390,000 to complete the project. During fiscal year 2014-15, the District was informed that the City refinanced the 2005 portion of the RDA loans with the District and the former premium was written off.

Historically, the loan has been repaid by the RDA retaining pass-through payments due the District in amounts noted on the debt service schedule below. However, given the dissolution of redevelopment agencies in California (see "− Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos*" below for more information), the RDA has been dissolved and debt service payments are now paid directly to the City. As of June 30, 2018, future payments are as follows:

| Year Ending June 30, | Principal | Interest |
|---|---|---|
| 2019 | $80,000 | $257,434 |
| 2020 | 80,000 | 253,435 |
| 2021 | 85,000 | 249,434 |
| 2022 | 90,000 | 244,972 |
| 2023 | 95,000 | 240,113 |
| 2024 – 2028 | 560,000 | 1,114,846 |
| 2029 – 2033 | 1,918,574 | 854,309 |
| 2034 – 2038 | 1,978,367 | 272,557 |
| Total | $4,886,941 | $3,487,100 |

Source: Rialto Unified School District Audited Financial Report for fiscal year 2017-18.

***Other Postemployment Benefits (OPEBs).*** In addition to the retirement plan benefits with CalSTRS and CalPERS (described below), the District administers a single-employer defined healthcare plan (the "Plan"). The Plan provides health, dental, vision and life insurance benefits to District employees and retirees. Retirees with at least 10 years of service may retire at age 55 and receive a District contribution equal to $1,035 for certificated employees and $1,151 for classified employees. District paid benefits end at age 65. Part-time classified employees who work at least 30 hours per week prior to retirement receive full benefits. Classified unit members who work at least 20 hours per week and all part-time certificated members receive a pro-rata share of the District contribution. Benefit provisions are established through negotiations between the District and the bargaining unions representing employees and are recognized annually.

The contribution requirements of the Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. The District contributes up to the maximum of $12,420 for certificated employees and $13,807 for classified employees per year to eligible retirees as applicable. For fiscal year 2017-18, the District contributed $5,651,439 to the Plan, which includes an implicit rate subsidy. For more information regarding the Plan, see Note 13 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

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

The District participates in the California Employers' Retiree Benefit Trust (CERBT) Defined Benefit Agent Multiple Employer Other Postemployment Benefits Plan (the "CERBT Plan") administered by CalPERS. CERBT consists of participating employers of the State of California and public agencies. CalPERS is governed by the Board of Administration which consists of 13 members and is responsible for the management and control of CalPERS, including the exclusive control of the administration and investment of the CERBT Plan.

The District's policy regarding the allocation of the CERBT Plan's invested assets is established and may be amended by District management. The primary objective is to maximize total CERBT Plan return, subject to the risk and quality constraints set forth in the investment guidelines. The investment objective the District has selected is the Strategy 1 Plan, which has a dual goal to seek moderate growth of income and principal. As of June 30, 2018, for the year ended on the measurement date, the annual money-weighted rate of return on investments, net of investment expense, was 6.59%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

DFA, LLC has prepared an actuarial valuation (the "Valuation") covering the District's retiree health benefits and reports that, as of June 30, 2019, the District had a net OPEB liability of $29,859,852 and a total OPEB liability of $39,173,755. The actuarial assumptions included an investment rate of return of 5.50% per year and a medical trend rate of 5.90% per year. The Valuation did not take into account the District's irrevocable trust, which was established on March 7, 2016, for the pre-funding of retiree healthcare benefits. As of October 1, 2019, the District's irrevocable trust had an ending fund balance of $12,988,095.54. For more information regarding the Valuation and the District's OPEB liability, see Note 13 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

***Tax and Revenue Anticipation Notes.*** The District did not issue tax and revenue anticipation notes ("TRANS") in fiscal year 2018-19 and does not expect to issue TRANS in fiscal year 2019-20. The District may issue TRANS or borrow funds in future fiscal years as and if necessary to supplement cash flow.

**Employment**

As of July 1, 2019, the District employed 2,475 employees, consisting of 1,306 non-management certificated employees, 112 certificated management employees, 91 classified non-management employees, and 966 classified management employees. For the year ended June 30, 2019, the total certificated and classified payrolls were approximately $130.44 million (unaudited) and $46.73 million (unaudited), respectively. For fiscal year 2019-20, the total certificated and classified payrolls are budgeted to be approximately $131.36 million and $48.70 million, respectively. These employees, except management and some part-time employees, are represented by the bargaining units as noted below:

| Name of Bargaining Unit | Number of FTEs Represented | Current Contract Expiration Date |
|---|---|---|
| Rialto Unified School District/CTA/NEA | 1,183 | June 30, 2020 |
| California School Employees Association – Ch. 203 | 1,059 | June 30, 2020 |
| Communications Workers of America, Local 9588 | 132 | June 30, 2021 |

Source: Rialto Unified School District.

**Retirement Benefits**

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

***CalSTRS.*** Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, covered employees contributed 8.00% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the member and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. However, on July 1, 2018, for members hired on or after January 1, 2013, the rate increased from 9.205% of pay to 10.250% of pay. The State's total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 9.328%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

On February 1, 2017, the State Teachers' Retirement Board voted to adopt revised actuarial assumptions reflecting members' increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016 actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017 actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor.

As of June 30, 2018, an actuarial valuation (the "2018 CalSTRS Actuarial Valuation") for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of $107.2 billion, a decrease of approximately $0.1 billion from the June 30, 2017 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2018, June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 64.0%, 62.6%, 63.7% and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions used for the CalSTRS valuation. The following are certain of the actuarial assumptions set forth in the 2018 CalSTRS Actuarial Valuation: measurement of accruing costs by the "Entry Age Normal Actuarial Cost Method," an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, 3.50% projected wage growth, and 2.75% projected inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2018 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See "−*Governor's Pension Reform*" below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

Pursuant to Assembly Bill 1469, school district's contribution rates will increase in accordance with the following schedule:

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

* Pursuant to the 2019-20 State Budget. See "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget."
Source: Assembly Bill 1469.

The following table sets forth the District's employer contributions to CalSTRS as well as the State's required non-employer contribution for fiscal years 2015-16 through 2017-18, unaudited contributions for fiscal year 2018-19 and the budgeted contribution for fiscal year 2019-20.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Contributions to CalSTRS for Fiscal Years 2015-16 through 2019-20**

| Fiscal Year | District's Contribution | State's On-Behalf Contribution |
|---|---|---|
| 2015-16 | $12,530,465 | $ 7,113,663 |
| 2016-17 | 15,178,376 | 9,096,870 |
| 2017-18 | 17,434,079 | 19,326,894 |
| 2018-19(1) | 20,578,638 | 19,105,434 |
| 2019-20(2) | 22,182,632 | 11,526,324 |

(1) Unaudited actuals for fiscal year 2018-19.
(2) Original adopted budget for fiscal year 2019-20.
Source: Rialto Unified School District.

The District's total employer contributions to CalSTRS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

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

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

School districts are currently required to contribute to CalPERS at an actuarially determined rate, which was 11.847%, 13.888% and 15.531% of eligible salary expenditures for fiscal years 2015-16, 2016-17, and 2017-18, respectively, and 18.062% of eligible salary expenditures for fiscal year 2018-19. Plan participants enrolled in CalPERS 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 was 6% of their respective salaries in fiscal years 2015-16 and 2016-17, 6.50% in fiscal year 2017-18 and 7.00% in fiscal year 2018-19.

Since the June 30, 2015 valuation, CalPERS has employed an amortization and smoothing policy that apportions all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period. In contrast, the previous policy spread investment returns over a 15-year period with experience gains and losses spread over a rolling 30-year period. On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the CalPERS Schools Pool Actuarial Valuation as of June 30, 2017 (the "2017 CalPERS Schools Pool Actuarial Valuation"). The amounts of the pension/award benefit obligation or UAAL will vary from time to time depending upon actuarial assumptions, and actual rates of return on investments, salary scales, and levels of contribution.

The actuarial funding method used in the 2017 CalPERS Schools Pool Actuarial Valuation is the "Entry Age Normal Cost Method." The 2017 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.75% inflation and payroll growth of 3.00% compounded annually. The 2017 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.375% compounded annually (net of administrative expenses) as of June 30, 2017, 7.25% compounded annually (net of administrative expenses) as of June 30, 2018, and 7.0% compounded annually (net of administrative expenses) as of June 30, 2019. The first reduction in the investment rate of return will impact the District's employer contribution rates beginning in fiscal year 2018-19. The CalPERS Board also adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption from 2.75% as of June 30, 2017, to 2.625% as of June 30, 2018, and finally to 2.50% as of June 30, 2019. The reduction in the inflation assumption results in decreases in both the normal cost and the accrued liabilities in the future. The overall payroll growth will be reduced from 3.0% annually as of June 30, 2017, to 2.875 as of June 30, 2018, and finally to 2.75% as of June 30, 2019.

On April 16, 2019, the CalPERS Board established the employer contribution rates for fiscal year 2019-20 and released certain information from the CalPERS Schools Pool Actuarial Valuation as of June 30, 2018, ahead of its summer 2019 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date, to those hired after such date, the projected contribution for fiscal year 2020-21 is projected to be 23.6%, with annual increases and decreases thereafter, resulting in a projected 26.5% employer contribution rate for fiscal year 2025-26.

The following table sets forth the District's total employer contributions to CalPERS for fiscal years 2015-16 through 2017-18, unaudited contributions for fiscal year 2018-19 and the budgeted contribution for fiscal year 2019-20.

**RIALTO UNIFIED SCHOOL DISTRICT**
**(County of San Bernardino, California)**
**Contributions to CalPERS for Fiscal Years 2015-16 through 2019-20**

| Fiscal Year | District Contribution |
|---|---|
| 2015-16 | $4,599,351 |
| 2016-17 | 5,770,703 |
| 2017-18 | 6,748,836 |
| 2018-19[1] | 10,468,525 |
| 2019-20[2] | 8,030,379 |

(1) Unaudited actuals for fiscal year 2018-19.
(2) Original adopted budget for fiscal year 2019-20.
Source: Rialto Unified School District.

The District's total employer contributions to CalPERS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see "−*Governor's Pension Reform*" below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

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

***Governor's Pension Reform.*** On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is $127,200 for 2017, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 14 to the District's financial statements in APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

***GASB 67 and 68.*** In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 68 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were typically included as notes to the government's financial statements); (ii) full pension costs are shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements, which generally increases pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15.

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

The District participates in three joint ventures under joint powers agreements ("JPAs"): Schools Excess Liability Fund (SELF), Protected Insurance Program for Schools (PIPS), and Southern California Regional Liability Excess Fund (SoCal ReliEF). Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the District beyond the District's representation on the governing boards. Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA. Separate financial statements for each JPA may be obtained from each respective entity.

The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

See Note 15 to the District's audited financial statements in APPENDIX B— "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018" for more information.

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

### Limitations on Revenues

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

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

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

***Legislation Implementing Article 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 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

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

### Article XIIIB of the California Constitution

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

### Article XIIIC and Article XIIID of the California Constitution

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

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

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

### Statutory Limitations

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

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

**Proposition 98 and Proposition 111**

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

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9%, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article 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 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 districts Appropriations Limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to schools is 4% of the minimum State spending for education mandated by the Accountability Act, as described above.

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

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

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

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

It is possible that there will be additional legislation proposed and/or enacted to clarify various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a "tax claw back" provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This "tax claw back" provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

**Proposition 30 and Proposition 55**

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

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

**Applications of Constitutional and Statutory Provisions**

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

**Proposition 2**

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

***Rainy Day Fund.*** The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues; (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year's deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year's deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the "Public School System Stabilization Account") to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

The 2019-20 State Budget includes a constitutionally required deposit into the Public School System Stabilization Account in the amount of $376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps under SB 858 or SB 751 (described below), as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately $2.1 billion). For more information, see "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget."

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

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

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

The Series 2019 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. Accordingly, the District does not expect SB 858 or SB 751 to adversely affect its ability to pay the principal of and interest on the Series 2019 Bonds as and when due.

**Future Initiatives**

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

**APPENDIX B**

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

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**RIALTO UNIFIED SCHOOL DISTRICT**
**SAN BERNARDINO COUNTY**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**
**AND SUPPLEMENTARY INFORMATION**
**INCLUDING REPORTS ON COMPLIANCE**
**June 30, 2018**

# RIALTO UNIFIED SCHOOL DISTRICT

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RIALTO UNIFIED SCHOOL DISTRICT

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# INDEPENDENT AUDITOR'S REPORT

Board of Education
Rialto Unified School District
182 East Walnut Avenue
Rialto, CA 92376

**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 Rialto 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 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 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.

**INDEPENDENT AUDITOR'S REPORT**

Board of Education
Rialto Unified School District
Rialto, CA 92376

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 in the aforementioned table of contents present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 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 a Matter

During fiscal year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* As a result of the implementation of this standard, the District reported a restatement for the change in accounting principle (see Note 16). Our auditors' opinion was not modified with respect to the restatement.

## Other Matters

*Required Supplementary Information*

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

**INDEPENDENT AUDITOR'S REPORT**

Board of Education
Rialto Unified School District
Rialto, CA 92376

## Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, the other supplementary schedules and the combining non-major fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Average Daily Attendance (ADA), Schedule of Instructional Time, Schedule of Expenditures of Federal Awards, Reconciliation of the Annual Financial and Budget Report with the Audited Financial Statements, the Notes to the Supplementary Information and the combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the District's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
December 6, 2018

# MANAGEMENT'S DISCUSSION AND ANALYSIS
## For the Fiscal Year Ended June 30, 2018

## MD&A

## Introduction

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement No. 34 (Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments) issued June 1999. Certain comparative information between the current and prior year is required to be presented in the MD&A.

### *Financial Highlights*

- Overall revenues and other financing sources for governmental activities totaled $348.4 million or $4.5 million less than expenditures.
- Overall the District's net capital assets increased by $13.4 or 3.9% over the course of the year. This was primarily due to the completion of the new stadium at Eisenhower High School.
- The District's total long-term debt obligations increased by $53.2 million during the current fiscal year. The increase was due to an increase in the Net Pension Liability and the new loan to implement energy efficiency measures.
- At the end of the current fiscal year, assigned and unassigned fund balances for the General Fund, including the reserve for economic uncertainties was $71.9 million or 23.3% of total General Fund expenditures.

### *Student Enrollment and Average Daily Attendance (ADA)*

This section provides an overview of the District's enrollment and attendance trends.

**Projected Student Enrollment** –

- Enrollment has been decreasing since the 2005-06 school year. On average, the District's enrollment has decreased by 322 students over the last three years.
- The District anticipates enrollment to continue to decline at the same rate in the upcoming years.

**Projected Student Average Daily Attendance (ADA) –**

- The Districts ADA has decreased because of an overall decrease in student enrollment.

- ADA will continue to decline as enrollment is projected to continue decreasing.

**Fund Financial Statements**

More detailed information about the District's major governmental funds, not the District as a whole, are provided in the fund financial statements. Other governmental funds are combined and presented in a single column. Funds are accounting formats the District uses to keep track of specific sources of funding and expenditures in a particular program. Some funds are required by bond covenants, by state law and other funds are established by the District to control and manage a variety of activities for particular purposes (such as repaying its long-term debts). Other funds may also address specific accounting requirements for certain revenue and expenditure classifications (such as federal grants).

The District maintains three classes of funds:

**Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on how cash and other financial assets can readily be converted to cash flow (in and out) and focus on the balances left at year-end that are available for expenditure in subsequent years. A detailed short-term view is provided by the government fund statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information is presented in a separate reconciliation provided after the governmental fund statements that explains the differences (or relationships) between the governmental fund statements and the government-wide statements.

**Fiduciary funds:** For assets that belong to others, such as student activities funds, the District acts as the trustee, or fiduciary. The District has nine Associated Student Body Funds. The District is responsible for ensuring that the assets reported in these funds are only used for their intended purpose and by those to whom the assets belong. A separate statement of fiduciary net position and a statement of changes in fiduciary net position reports the District's fiduciary activities. These activities are excluded from the District-wide financial statements, as the assets cannot be used to finance other District operations.

**Statement of Net Position**

The Statement of Net Position presents the assets and liabilities of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Position is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Position presents end-of-year data concerning assets, deferred outflow of resources, liabilities (current and non-current) and net position (assets, plus deferred outflow of resources, minus liabilities).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the District. Readers are also able to determine the amount owed by the District. Finally, the Statement of Net Position provides a picture of the net position and the availability of those assets for expenditure.

The difference between total assets, plus deferred outflow of resources, less total liabilities (net position) is one indicator of the current financial condition of the District, and the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense. The deferred outflow of resources is comprised of the deferred charge on refunding general obligation bond debt. The deferred charge on refunding is the difference between the reacquisition price and the net carrying amount of the old debt refunded, and a portion is amortized each year.

The net position is presented in three major categories. The first category provides the information in regards to equity amount in property, plant, and equipment owned by the District. The second category provides information on net position that is restricted by external parties as to use. The third category provides information on unrestricted net position that is available for obligations as may be approved by the Board of Education.

The Statement of Net Position for both the governmental activities for the years ended June 30, 2017and June 30, 2018 are summarized and analyzed below:

| | Governmental Activities | | |
|---|---|---|---|
| **Summary of Statement of Net Position** | **2017-18** | **2016-17** | **Variance** |
| Non-capital Assets | $ 166,185,623 | $ 135,528,511 | $ 30,657,112 |
| Capital Assets | 352,924,964 | 335,454,986 | 17,469,978 |
| Total Assets | 519,110,587 | 470,983,497 | 48,127,090 |
| Deferred Outflows of Resources | 100,841,907 | 62,363,185 | 38,478,722 |
| Current Liabilities | 35,939,605 | 30,239,925 | 5,699,680 |
| Long Term Liabilities | 460,881,530 | 378,538,928 | 82,342,602 |
| Total Liabilities | 496,821,135 | 408,778,853 | 88,042,282 |
| Deferred Inflows of Resources | 11,925,567 | 9,159,370 | 2,766,197 |
| Deferred Inflows - OPEB | 12,053 | - | 12,053 |
| Total Deferred Inflows | 11,937,620 | 9,159,370 | 2,778,250 |
| Net Position Invested in Capital Assets | 224,096,024 | 227,985,686 | (3,889,662) |
| Net Position Legally Restricted | 49,671,255 | 29,609,511 | 20,061,744 |
| Net Position Unrestricted | (162,573,540) | (142,186,738) | (20,386,802) |
| Total Net Position (as restated) | $ 111,193,739 | $ 115,408,459 | $ (4,214,720) |

## Statement of Activities

The purpose of this statement is to present the revenues earned, whether received or not, by the District, and the expenses incurred, whether paid or not, by the District. Thus, this statement presents the District's results of operations.

The Statement of Activities for the years ended June 30, 2017 and June 30, 2018 are summarized below:

| | Governmental Activities | | |
|---|---|---|---|
| | 2017-18 | 2016-17 | Variance |
| **Revenues** | | | |
| Program revenues: | | | |
| Charges for services | $ 3,917,676 | $ 2,572,272 | $ 1,345,404 |
| Operating grants and contributions | 65,907,528 | 51,578,792 | 14,328,736 |
| Capital grants and contributions | 18,896 | 27,831 | (8,935) |
| General revenues: | | | |
| Property Taxes | 36,727,485 | 31,179,639 | 5,547,846 |
| Federal and state aid not restricted | 239,427,042 | 238,782,410 | 644,632 |
| Interest and investment earnings | 863,075 | 504,445 | 358,630 |
| Miscellaneous | 1,538,622 | 572,288 | 966,334 |
| Total Revenues | 348,400,324 | 325,217,677 | 23,182,647 |
| **Expenses** | | | |
| Instruction | 184,123,589 | 183,811,552 | 312,037 |
| Instruction-related services | 44,945,975 | 36,365,665 | 8,580,310 |
| Pupil services | 45,632,739 | 28,407,472 | 17,225,267 |
| Community services | 927 | 808 | 119 |
| General administration | 17,533,634 | 15,581,034 | 1,952,600 |
| Plant services | 33,848,798 | 29,926,780 | 3,922,018 |
| Other outgo | 72,935 | - | 72,935 |
| Debt service - interest | 10,390,259 | 6,785,308 | 3,604,951 |
| Depreciation (unallocated) | 16,341,334 | 15,246,703 | 1,094,631 |
| Total Expenses | 352,890,190 | 316,125,322 | 36,764,868 |
| Change in net position | (4,489,866) | 9,092,355 | (13,582,221) |
| Net Position, beginning of year | 115,683,605 | 106,316,104 | 9,367,501 |
| Net Position, end of year | $ 111,193,739 | $ 115,408,459 | $ (4,214,720) |

**Statement of Activities (continued)**

- Total revenues of the governmental activities increased by $23.1 million between fiscal years. The increase is a result of Federal and State aide, the majority arising from the Local Control Funding Formula (LCFF), one time state funds, and the receipt of funds from the energy efficiency loan.

- Total expenses of the governmental activities increased in 2017-2018 by $36.7 million between fiscal years. The increase is mainly attributed to the increase in salaries and benefits, several capital projects at our schools, investment in instructional technology and the Local Control Accountability Plan (LCAP) approved programs.

## Capital Assets and Debt Administration

### Capital Assets

As of June 30, 2017, the District had an increase of $13.4 million invested in capital assets, net of depreciation, in governmental funds. The change is net effect of the completion of several classroom addition projects and the increase in depreciation expense.

Note 6 to the financial statements provides additional information on capital assets. A summary of capital assets net of depreciation at year-end for 2017 and 2018 are presented below:

| | Governmental Activities | |
|---|---|---|
| | Balance June 30, 2018 | Balance June 30, 2017 |
| Land | $ 39,752,485 | $ 39,752,485 |
| Buildings and improvements | 457,945,114 | 437,072,988 |
| Equipment and vehicles | 30,962,470 | 26,855,330 |
| Construction in progress | 30,205,511 | 25,666,161 |
| Totals at historical cost | 558,865,580 | 529,346,964 |
| Less: accumulated depreciation for | | |
| Buildings and improvements | 185,580,246 | 170,667,345 |
| Equipment and vehicles | 20,360,370 | 19,121,275 |
| Total accumulated depreciation | 205,940,616 | 189,788,620 |
| Governmental capital assets, net | $ 352,924,964 | $ 339,558,344 |

**Capital Assets and Debt Administration (continued)**

Debt

Notes 7-12 to the financial statements provide additional information on outstanding debt. A summary of the District's outstanding debt at year-end for 2017 and 2018 is presented below:

| | Governmental Activities | |
|---|---|---|
| | Balance June 30, 2018 | Balance June 30, 2017 |
| General obligation bonds, including accreted interest | $ 120,685,055 | $ 119,260,894 |
| Certificates of participation | 4,325,000 | 4,995,000 |
| Banc of America | 10,703,677 | - |
| City of Rialto redevelopment agency loan | 4,886,941 | 4,961,941 |
| Compensated absences | 957,460 | 965,832 |
| Net Pension Liability | 288,905,465 | 245,791,872 |
| Post employment healthcare benefits | 30,417,932 | 31,665,062 |
| | $ 460,881,530 | $ 407,640,601 |

## Economic Factors That May Affect the Future

***2017-18 STATE BUDGET*** - The Local Control Funding Formula (LCFF) has increased the funding and resources for all school districts. The new funding model gives local school districts the discretion to implement the programs and strategies that best support their educational program and needs of their community. The LCFF provides concentration and supplemental grants to further support economically disadvantaged, English learner and foster youth students.

To ensure the funds are utilized effectively, the LCFF required the school district to prepare a Local Control Accountability Plan. This plan is a strategic planning and evaluation tool developed amongst the parent, community, and District stakeholders. It intends to increase public transparency and accountability for improving student achievement by utilizing dollars effectively. The Rialto Unified School District LCAP was adopted on June 27, 2018.

The LCFF provides a positive forecast for the future of education; however, the District will have to be strategic and cautious in administering its finances. There is no statutory guaranteed increase in any given year. The LCFF will be funded 100% by the end of 18-19. A conservative approach must be taken to sustain a balanced budget and protect the current and future fiscal solvency of the school district.

## Contacting the District's Financial Management

This financial report is designed to provide the governing board, administration, faculty, parents, students, community stakeholders, investors, creditors, etc., with a general overview of the District's financial condition and to establish accountability for the funding it receives. If you have questions regarding this report or need additional financial information, Rialto Unified School District, 182 E Walnut Avenue, Rialto, California, 92376, or email mislam@rialto.k12.ca.us.

# FINANCIAL SECTION

# RIALTO UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION
## June 30, 2018

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash on hand and in banks | $ 151,193,771 |
| Accounts receivable | |
| Federal and state governments | 11,317,091 |
| Miscellaneous | 2,691,195 |
| Inventories | 609,667 |
| Prepaid expenses | 373,899 |
| Land | 39,752,485 |
| Construction in progress | 30,205,511 |
| Depreciable assets, net | 282,966,968 |
| **Total Assets** | 519,110,587 |
| **Deferred Outflows of Resources** | |
| Deferred charge on refunding | 1,737,251 |
| Deferred outflows - OPEB | 4,651,439 |
| Deferred outflows - pensions | 94,453,217 |
| **Total Deferred Outflows of Resources** | 100,841,907 |
| **Liabilities** | |
| Accounts payable and other current liabilities | 34,512,112 |
| Accrued interest | 1,028,652 |
| Unearned revenue | 398,841 |
| Current portion of long-term liabilities | 11,727,587 |
| Non-current portion of long term liabilities | 449,153,943 |
| **Total Liabilities** | 496,821,135 |
| **Deferred Inflows of Resources** | |
| Deferred inflows - pensions | 11,925,567 |
| Deferred inflows - OPEB | 12,053 |
| **Total Deferred Inflows** | 11,937,620 |
| **Net Position** | |
| Net investment in capital assets | 224,096,024 |
| Restricted for: | |
| Debt service | 9,936,340 |
| Capital projects | 9,790,406 |
| Educational programs | 29,944,509 |
| Unrestricted | (162,573,540) |
| **Total Net Position** | $ 111,193,739 |

See accompanying notes to the financial statements.

## RIALTO UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES
## For the Fiscal Year Ended June 30, 2018

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|---|
| Functions | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| **Governmental Activities** | | | | | |
| Instruction | $ 184,123,589 | $ - | $ 32,542,851 | $ - | $ (151,580,738) |
| Instruction - related services | 44,945,975 | - | 6,953,253 | - | (37,992,722) |
| Pupil services | 45,632,739 | 1,216,603 | 20,570,628 | - | (23,845,508) |
| Community services | 927 | - | - | - | (927) |
| General administration | 17,533,634 | 76,407 | 2,269,760 | - | (15,187,467) |
| Plant services | 33,848,798 | 1,614,748 | 3,067,279 | 18,896 | (29,147,875) |
| Other outgo | 72,935 | 1,009,918 | 503,757 | - | 1,440,740 |
| Debt service - interest | 10,390,259 | - | - | - | (10,390,259) |
| Depreciation (unallocated) | 16,341,334 | - | - | - | (16,341,334) |
| **Total Governmental Activities** | $ 352,890,190 | $ 3,917,676 | $ 65,907,528 | $ 18,896 | (283,046,090) |

| | |
|---|---|
| **General Revenues** | |
| Property taxes levied for | |
| General purposes | 25,674,876 |
| Debt service | 8,848,807 |
| Other specific purposes | 2,203,802 |
| Federal and state aid not restricted to specific purposes | 239,427,042 |
| Interest and investment earnings | 863,075 |
| Miscellaneous | 1,538,622 |
| **Total General Revenues and Special Items** | 278,556,224 |
| Change in net position | (4,489,866) |
| Net Position - Beginning of Year | 135,607,084 |
| Cumulative effect of change in accounting principle (see note 16) | (19,923,479) |
| Net Position - Beginning of Year | 115,683,605 |
| Net Position - End of Year | $ 111,193,739 |

See accompanying notes to the financial statements.

# RIALTO UNIFIED SCHOOL DISTRICT

## BALANCE SHEET
## GOVERNMENTAL FUNDS
## June 30, 2018

| | General Fund | Building Fund | Nutrition Services Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash in county treasury | $ 91,727,192 | $ 12,697,398 | $ 17,669,009 | $ 29,010,172 | $ 151,103,771 |
| Cash in revolving fund | 90,000 | - | - | - | 90,000 |
| Accounts receivable | | | | | |
| Federal and state governments | 8,692,001 | - | 1,920,709 | 704,381 | 11,317,091 |
| Miscellaneous | 1,943,930 | 61,364 | 376,548 | 309,353 | 2,691,195 |
| Due from other funds | 634,738 | - | 249,030 | 1,076,888 | 1,960,656 |
| Inventories | 160,352 | - | 449,315 | - | 609,667 |
| Prepaid expenditures | 364,449 | - | - | 9,450 | 373,899 |
| **Total Assets** | $ 103,612,662 | $ 12,758,762 | $ 20,664,611 | $ 31,110,244 | $ 168,146,279 |
| **Liabilities and Fund Balances** | | | | | |
| **Liabilities** | | | | | |
| Accounts payable | $ 29,977,100 | $ 2,724,280 | $ 406,969 | $ 1,403,763 | $ 34,512,112 |
| Due to other funds | 1,317,335 | - | 197,932 | 445,389 | 1,960,656 |
| Unearned revenue | 398,841 | - | - | - | 398,841 |
| **Total Liabilities** | 31,693,276 | 2,724,280 | 604,901 | 1,849,152 | 36,871,609 |
| **Fund Balances** | | | | | |
| Nonspendable | 614,801 | - | 449,315 | 9,450 | 1,073,566 |
| Restricted | 9,748,086 | 10,034,482 | 19,449,100 | 21,502,721 | 60,734,389 |
| Assigned | 23,668,256 | - | 161,295 | 7,748,921 | 31,578,472 |
| Unassigned | 37,888,243 | - | - | - | 37,888,243 |
| **Total Fund Balances** | 71,919,386 | 10,034,482 | 20,059,710 | 29,261,092 | 131,274,670 |
| **Total Liabilities and Fund Balances** | $ 103,612,662 | $ 12,758,762 | $ 20,664,611 | $ 31,110,244 | $ 168,146,279 |

See accompanying notes to the financial statements.

# RIALTO UNIFIED SCHOOL DISTRICT

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

| | | |
|---|---|---|
| Total fund balances - governmental funds | | $ 131,274,670 |
| Amounts reported for governmental funds are different than the statement of net position because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets consist of: | | |
| Land | $ 39,752,485 | |
| Construction in progress | 30,205,511 | |
| Depreciable assets, net | 282,966,968 | 352,924,964 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of: | | |
| Compensated absences | (957,460) | |
| Certificates of participation (COPS) | (4,325,000) | |
| Energy upgrades lease | (10,703,677) | |
| General obligation bonds | (120,685,055) | |
| Postemployment health care benefits (OPEB) | (30,417,932) | |
| Net pension liability | (288,905,465) | |
| City of Rialto redevelopment agency loan | (4,886,941) | (460,881,530) |
| In governmental funds, deferred outflows and inflows of resources are not reported because they are applicable to future periods. Deferred outflows and inflows of resources at year-end consist of: | | |
| Deferred charge on refunding | 1,737,251 | |
| Deferred outflows - OPEB | 4,651,439 | |
| Deferred outflows - pensions | 94,453,217 | |
| Deferred inflows - OPEB | (12,053) | |
| Deferred inflows - pensions | (11,925,567) | 88,904,287 |
| Interest expense related to certificates of participation, energy upgrades lease and general obligation bonds payable was incurred but not accrued through June 30, 2018. | | (1,028,652) |
| Total net position - governmental activities | | $ 111,193,739 |

See accompanying notes to the financial statements.

# RIALTO UNIFIED SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS For the Fiscal Year Ended June 30, 2018

| | General Fund | Building Fund | Nutrition Services Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Local control funding formula sources: | | | | | |
| State apportionments | $ 228,317,639 | $ - | $ - | $ - | $ 228,317,639 |
| Local sources | 25,674,876 | - | - | - | 25,674,876 |
| Total local control funding formula sources | 253,992,515 | - | - | - | 253,992,515 |
| Federal sources | 17,871,192 | - | 14,622,213 | - | 32,493,405 |
| Other state sources | 29,342,790 | - | 1,032,441 | 4,750,602 | 35,125,833 |
| Other local sources | 12,723,728 | 550,704 | 1,637,268 | 11,895,102 | 26,806,802 |
| **Total Revenues** | 313,930,225 | 550,704 | 17,291,922 | 16,645,704 | 348,418,555 |
| **Expenditures** | | | | | |
| Instruction | 173,272,060 | - | - | 3,628,444 | 176,900,504 |
| Instruction - related services | 42,184,096 | - | - | 1,202,360 | 43,386,456 |
| Pupil services | 31,422,351 | - | 16,084,904 | 116,280 | 47,623,535 |
| Community services | 927 | - | - | - | 927 |
| General administration | 16,150,632 | - | 745,795 | 295,006 | 17,191,433 |
| Plant services | 37,096,893 | 12,264,757 | 191,800 | 9,676,354 | 59,229,804 |
| Other outgo | 668,910 | - | - | - | 668,910 |
| Debt service | 1,541,323 | - | - | 8,682,088 | 10,223,411 |
| **Total Expenditures** | 302,337,192 | 12,264,757 | 17,022,499 | 23,600,532 | 355,224,980 |
| Excess (deficiency) of revenues over expenditures | 11,593,033 | (11,714,053) | 269,423 | (6,954,828) | (6,806,425) |
| **Other Financing Sources (Uses)** | | | | | |
| Interfund transfers in | 1,194,351 | - | - | 5,594,582 | 6,788,933 |
| Interfund transfers out | (5,388,298) | - | - | (1,400,635) | (6,788,933) |
| Other financing sources | - | - | - | 11,962,818 | 11,962,818 |
| **Total Other Financing Sources** | (4,193,947) | - | - | 16,156,765 | 11,962,818 |
| Net changes in fund balance | 7,399,086 | (11,714,053) | 269,423 | 9,201,937 | 5,156,393 |
| **Fund Balances at Beginning of Year, as originally stated** | 64,520,300 | 21,748,535 | 20,198,625 | 20,059,155 | 126,526,615 |
| **Adjustment for reclassification (see note 17)** | - | - | (408,338) | - | (408,338) |
| **Fund Balances at Beginning of Year, as reclassified** | 64,520,300 | 21,748,535 | 19,790,287 | 20,059,155 | 126,118,277 |
| **Fund Balances at End of Year** | $ 71,919,386 | $ 10,034,482 | $ 20,059,710 | $ 29,261,092 | $ 131,274,670 |

See accompanying notes to the financial statements.

## RIALTO UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
## For the Fiscal Year Ended June 30, 2018

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | | $ 5,156,393 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. | | |
| Capital outlay | $ 29,726,195 | |
| Depreciation expense | (16,341,334) | |
| Excess of capital outlay over depreciation expense | | 13,384,861 |
| Disposal of fixed assets | | (18,241) |
| Debt proceeds: In governmental fund, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: Energy Upgrades Lease | | (11,500,000) |
| Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | |
| Certificates of participation principal payment | 670,000 | |
| Energy upgrades lease | 796,323 | |
| General obligation bond principal payment | 6,416,730 | |
| City of Rialto redevelopment agency loan | 75,000 | 7,958,053 |
| In governmental funds, pension costs are recognized when the employer contribution is made, but in the statement of activities, pension costs are recognized on the accrual basis. The difference between accrual basis pension costs and actual employer contribution was: | | (12,905,103) |
| In governmental funds, OPEB expenses are recognized when OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. The difference between OPEB expenses and actual employer OPEB contributions was: | | 1,417,543 |
| Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of: | | |
| Net decrease in accrued interest | 10,752 | |
| Net increase in accreted interest | (7,954,252) | |
| Net decrease in compensated absences | 8,372 | |
| Net decrease in premium on general obligation bonds | 113,361 | |
| Net decrease in deferred charge on refunding bonds | (161,605) | (7,983,372) |
| Change in net position of governmental activities | | $ (4,489,866) |

See accompanying notes to the financial statements.

## RIALTO UNIFIED SCHOOL DISTRICT

## STATEMENT OF FIDUCIARY NET POSITION
**June 30, 2018**

| | | Associated Student Body Funds |
|---|---|---|
| **Assets** | | |
| Cash on hand and in banks | $ | 1,148,911 |
| Accounts receivable | | 13,530 |
| Inventories | | 12,392 |
| Prepaid Expense | | 5,000 |
| **Total Assets** | | 1,179,833 |
| | | |
| **Liabilities** | | |
| Accounts payable | | 82,002 |
| Funds held in trust | | 1,097,831 |
| **Total Liabilities** | $ | 1,179,833 |

See accompanying notes to the financial statements.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*, updated to conform to the most current financial and reporting requirements promulgated by the California Department of Education. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The significant accounting policies applicable to the District are described below.

### Basis of Presentation

The accompanying financial statements have been prepared in conformity with GAAP as prescribed by GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the District’s financial activities. The entity-wide perspective enhances the fund-group perspective previously required. Fiduciary activities are excluded from the basic financial statements and are reported separately in the fiduciary fund statements.

The District’s basic financial statements consist of government-wide statements, including a Statement of Net Position, a Statement of Activities, and fund financial statements.

### Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities displays information about the District as a whole. These statements include the financial activities of the primary government. Fiduciary funds are excluded.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District. Depreciation and interest expense have not been allocated to specific functions.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

The fund financial statement expenditures are presented in a function-oriented format. The following is a brief description of the functions:

***Instruction:*** includes the activities directly dealing with the interaction between teachers and students.

***Instruction-Related Services:*** includes supervision of instruction, instructional library, media and technology, and school site administration.

***Pupil Services:*** includes home to school transportation, food services, and other pupil services.

***Community Services:*** includes activities that provide services to community participants other than students.

***General Administration:*** includes data processing services and all other general administration services.

***Plant Services:*** includes activities of maintaining the physical plant. This also includes facilities acquisition and construction expenditures.

***Other Outgo:*** includes transfers to other agencies.

***Debt Service:*** includes principal and interest payments for long term debt.

The proprietary and fiduciary fund expenses are presented by natural classification.

### Fund Accounting

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations, and equities.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Statement of Revenues, Expenditures and Changes in Fund Balance are statements of financial activities of the particular fund related to the current reporting period. Expenditures of the various funds frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization. The modified accrual basis of accounting is used for all governmental funds.

### Governmental Funds – Major

**General Fund:** used to account for all financial resources except those required to be accounted for in another fund.

*Deferred Maintenance Fund:* used for the purpose of major repair or replacement of District property.

**Building Fund:** used to account for proceeds from the sale of bonds and may not be used for any purposes other than those for which the bonds were issued.

**Nutrition Services Fund:** used to account for revenues received and expenses made to operate the District's food service programs.

### Governmental Funds – Non-Major

**Special Revenue Funds:** used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

*Adult Education Fund:* used to account for resources restricted or committed to adult education programs maintained by the District.

*Child Development Fund:* used to account for resources committed to child development programs.

**Capital Projects Funds:** used to account for the financial resources that are restricted, committed or assigned for the acquisition and/or construction of major governmental general fixed assets.

*Capital Facilities Fund:* used to account for resources received from residential and commercial developer impact fees.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*County School Facilities Fund:* used to account for the School Facility Program grants award for modernization and new construction of various school sites.

*Special Reserve Fund:* used to account for specific board-approved capital expenditures.

**Debt Service Funds:** used to account for the financial resources that are restricted, committed or assigned and the accumulation of resources for, the payment of general long-term debt principal, interest, and related costs.

*Bond Interest and Redemption Fund:* used to account for the payment of principal and interest on general long-term debt.

### Fiduciary Funds

**Associated Student Body Fund:** used to account for raising and expending money to promote the general welfare, morale, and educational experiences of the student body. The District operates nine organized Associated Student Body funds.

### Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. Revenues in governmental fund financial statements are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the county treasury is recorded at cost, which approximates fair value.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Receivables

Receivables are generally recorded when the amount is earned and can be estimated. All material receivables are considered fully collectible.

### Inventories

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists of expendable supplies held for consumption. At June 30, 2018, the inventory for supplies is $160,352. The inventory for food is $449,315.

### Prepaid Expenses/Expenditures

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense/expenditure is reported in the year in which goods or services are consumed.

### Capital Assets

Generally, capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the 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 values as of the date received. The District maintains a capitalization threshold of $5,000. The District does not own any infrastructure as defined by GASB. 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 useful lives:

| Description | Estimated Lives |
|---|---|
| Buildings and improvements | 20-50 years |
| Furniture and equipment | 2-15 years |
| Vehicles | 2-15 years |

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Depreciation expense reported on the government-wide statement of activities excludes direct depreciation expense recorded to functions where applicable.

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position by the District that is applicable to a future reporting period. The District has the following deferred outflows of resources:

***Deferred Charge on Refunding:*** A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

***Deferred Outflows – OPEB***: The deferred outflows of resources related to OPEB benefits results from District contributions to employee plans subsequent to the measurement date of the actuarial valuations for the plans. The deferred outflows – OPEB will be deferred and amortized as detailed in Note 13 to the financial statements.

***Deferred Outflows – Pensions***: The deferred outflows of resources related to pensions resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans and the effects of actuarially-determined changes to the pension plan. The deferred outflows – pensions will be deferred and amortized as detailed in Note 14 to the financial statements.

**Postemployment Healthcare Benefits (OPEB)**.

For purposes of measuring the District's OPEB liability related to the California Employers' Retiree Benefit Trust (CERBT) Defined Benefit Agent Multiple Employer Other Postemployment Benefits Plan administered by the California Public Employee's Retirement System (CalPERS), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERBT Program and additions to/deductions from the CERBT fiduciary net position have been determined on the same basis as they are reported by the CERBT. For this purpose, the CERBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Net Pension Liability

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

### Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position by the District that is applicable to a future reporting period. The District has the following deferred inflows of resources:

***Deferred Inflows – OPEB***: The deferred inflows of resources related to OPEB benefits results from the difference between the estimated and actual return on OPEB plan investments. These amounts are deferred and amortized as detailed in Note 13 to the financial statements.

***Deferred Inflows – Pensions***: The deferred inflows of resources related to pensions resulted from the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 14 to the financial statements.

### Unearned Revenue

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

### Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave, therefore, accumulated employee sick leave benefits are

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken. However, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

**Long-Term Obligations**

The District reports long-term debt of governmental funds at face value in the government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. General obligation bonds are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Net Position**

Net position represents the difference between assets plus deferred outflows of resources less 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 improvements of those assets. Net position is reported as restricted when there are limitations imposed on use through external restrictions imposed by donors, grantors, laws or regulations of other governments or by enabling legislation adopted by the District. All other net position is unrestricted.

**Fund Balance Classification**

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

***Nonspendable:*** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

***Restricted:*** Amounts for which constraints have been placed on the use of the resources either (a)

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

***Assigned:*** Amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. The Board of Education, through a formal action has given authority to Assistant Superintendent of Business to assign amounts for a specific purpose that is neither restricted nor committed.

***Unassigned:*** The residual fund balance for the General Fund and all other spendable amounts.

### Spending Order Policy

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted net position or fund balance is available.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District's policy considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment functions.

### Minimum Fund Balance Policy

The District has adopted a minimum fund balance policy in order to protect against revenue shortfalls and unexpected one-time expenditures. The policy requires a reserve for economic uncertainties consisting of unassigned amounts which represent the minimum recommended reserve consistent with the criteria and standards for fiscal solvency adopted by the State Board of Education. The minimum recommended reserve for a district this size is 3% of budgeted General Fund expenditures and other financing uses.

### State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year. Second period to annual corrections for local control funding formula and other state apportionments (either positive or negative) are accrued at the end of the fiscal year.

### Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1$^{st}$. Taxes are payable in two installments on November 1$^{st}$ and February 1$^{st}$. Unsecured property taxes are payable in one installment on or before August 31$^{st}$.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Real and personal property tax revenues are reported in the same manner in which the county auditor records and reports actual property tax receipts to the California Department of Education. This is generally on a cash basis. A receivable has not been recognized in the General Fund for property taxes due to the fact that any receivable is offset by a payable to the state for local control funding formula purposes.

### On-Behalf Payments

GAAP requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all school districts in California. The amount of on-behalf payments made for the District has been recorded in the fund financial statements.

### Contributed Services

Generally accepted accounting principles require that contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are to be recorded at fair value in the period received. Although the District receives numerous hours of volunteer time, it is not deemed necessary to record these hours on the books of the District based on the above guidelines. In addition, the District receives donations of immaterial equipment and supplies which are not recorded upon receipt.

### Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

### Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and a financial benefit or burden relationship is present and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the District, including ongoing financial support of the District or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

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

Based upon the application of the criteria listed above, the following potential component unit has been included in the District's reporting entity:

**The Rialto Unified School District School Facilities Corporation:** The financial activity has been blended in the District's Special Reserve for Capital Outlay Fund and the General Fund. The liability associated with the Certificates of Participation issued by the Corporation are included in the Statement of Net Position. Individually prepared financial statements are not prepared for the Corporation.

The following potential component unit has been excluded from the District's reporting entity:

**Various PTA, PTO and Booster Clubs:** Each of these types of organizations at each of the school sites within the District were evaluated using the three criterions listed above. Each entity has been excluded as a component unit because the third criterion was not met in all cases; the economic resources received and held by the PTA, PTO and the Booster Club individually are not significant to the District.

## NOTE 2: BUDGETS

By state law, the District's Governing Board must approve a budget no later than July 1, using

## NOTE 2: BUDGETS

the Single Adoption Budget process. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with GAAP.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. The original and final revised budget for the General Fund is presented in a budgetary comparison schedule in the required supplementary section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

## NOTE 3: DEPOSITS AND INVESTMENTS

### Deposits

#### Custodial Credit Risk

Custodial credit risk 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 deposit policy for custodial risk. As of June 30, 2018, $1,149,451 of the District’s bank balance of $1,646,567 was exposed to credit risk as uninsured and collateral held by the pledging bank’s trust department, not in the District’s name.

### Investments

#### Cash in County

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Bernardino County Treasury as part of the common investment pool. The District is considered an involuntary participant in the investment pool. These pooled funds are recorded at amortized cost which approximates fair value. Fair value of the pooled investments at June 30, 2018 is measured at 98.66% of amortized cost. The District’s deposits in the fund are considered to be highly liquid.

The county is authorized to deposit cash and invest excess funds by California Government Code Sections 53601, 53635, 53534 and 53648. The county is restricted to invest time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer’s investment pool, bankers’ acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the county are either secured by federal depository insurance or are collateralized. The county investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses

## NOTE 3: DEPOSITS AND INVESTMENTS

are proportionately shared by all funds in the pool.

The county investment pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statues and the County Board of Supervisors set forth the various investment policies that the Country Treasurer follow. The method used to determine the value of the participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

The pool sponsor's annual financial report may be obtained from the San Bernardino County office at 760 East Brier Drive, San Bernardino, CA 92408.

## NOTE 4: INTERFUND TRANSACTIONS

Interfund activity has been eliminated in the Government-wide statements. The following balances and transactions are reported in the fund financial statements.

### Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2018 are temporary loans and are detailed as follows:

| Fund | Interfund Receivables | Interfund Payables |
|---|---|---|
| General Fund | $ 634,738 | $ 1,317,335 |
| Nutrition Services Fund | 249,030 | 197,932 |
| Special Revenue Funds | | |
| Adult Education Fund | 100,000 | 32,356 |
| Child Development Fund | - | 413,033 |
| Capital Projects Funds | | |
| Special Reservefor Capital Outlay Fund | 976,888 | - |
| Total | $ 1,960,656 | $ 1,960,656 |

## NOTE 4: INTERFUND TRANSACTIONS

### Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2017-18 fiscal year are as follows:

| | |
|---|---|
| Transfer from the Child Development Fund to the General Fund for salary benefits paid from the general fund but are Child Development Fund expenses. | $ 47,940 |
| Transfer from the General Fund to the Adult Education Fund for contribution for concurrently enrolled students costs. | 100,000 |
| Transfer from the General Fund to the Child Development Fund for cost of operation of Rialto Unified School District preschool. | 1,100,000 |
| Transfer from the General Fund to the Deferred Maintenance Fund for various deferred maintenance projects. | 1,146,410 |
| Transfer from the General Fund to the Special Reserve for Capital Outlay Fund for various capital projects including the HVAC system replacements, CNG station, Nutrition Services roofing, etc. | 4,394,583 |
| Total | $ 6,788,933 |

## NOTE 5: FUND BALANCES

The following amounts were nonspendable, restricted, assigned or unassigned as shown below:

| | General Fund | Building Fund | Nutrition Services Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Nonspendable: | | | | | |
| Cash in revolving fund | $ 90,000 | $ - | $ - | $ - | $ 90,000 |
| Inventories | 160,352 | - | 449,315 | - | 609,667 |
| Prepaid expenditures | 364,449 | - | - | 9,450 | 373,899 |
| Total nonspendable | 614,801 | - | 449,315 | 9,450 | 1,073,566 |
| Restricted: | | | | | |
| Debt service | - | - | - | 10,964,992 | 10,964,992 |
| Capital projects | - | 10,034,482 | - | 9,790,406 | 19,824,888 |
| Nutrition services | - | - | 19,449,100 | - | 19,449,100 |
| Educational programs | 9,748,086 | - | - | 747,323 | 10,495,409 |
| Total restricted | 9,748,086 | 10,034,482 | 19,449,100 | 21,502,721 | 60,734,389 |
| Assigned: | | | | | |
| Capital projects | | | | 7,748,921 | 7,748,921 |
| Other assignments | 23,668,256 | - | 161,295 | - | 23,829,551 |
| Total assigned | 23,668,256 | - | 161,295 | 7,748,921 | 31,578,472 |
| Unassigned: | | | | | |
| Economic uncertainties | 9,384,800 | - | - | - | 9,384,800 |
| Unassigned | 28,503,443 | - | - | - | 28,503,443 |
| Total unassigned | 37,888,243 | - | - | - | 37,888,243 |
| Total fund balance | $ 71,919,386 | $ 10,034,482 | $ 20,059,710 | $ 29,261,092 | $ 131,274,670 |

## NOTE 6: CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES

Capital asset activity for the year ended June 30, 2018 is shown below.

| | Balance July 1, 2017 | Additions | Retirements | Balance June 30, 2018 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 39,752,485 | $ - | $ - | $ 39,752,485 |
| Construction in progress | 25,666,161 | 20,349,671 | 15,810,321 | 30,205,511 |
| Total capital assets not being depreciated | 65,418,646 | 20,349,671 | 15,810,321 | 69,957,996 |
| Capital assets being depreciated: | | | | |
| Buildings | 437,072,988 | 20,872,126 | - | 457,945,114 |
| Equipment | 26,855,330 | 4,314,719 | 207,579 | 30,962,470 |
| Total capital assets being depreciated | 463,928,318 | 25,186,845 | 207,579 | 488,907,584 |
| Less accumulated depreciation for: | | | | |
| Buildings | (170,667,345) | (14,912,901) | - | (185,580,246) |
| Equipment | (19,121,275) | (1,428,433) | (189,338) | (20,360,370) |
| Total accumulated depreciation | (189,788,620) | (16,341,334) | (189,338) | (205,940,616) |
| Depreciable assets, net | 274,139,698 | 8,845,511 | 18,241 | 282,966,968 |
| Governmental activities capital assets, net | $ 339,558,344 | $ 29,195,182 | $ 15,828,562 | $ 352,924,964 |

## NOTE 7: LONG-TERM DEBT – SCHEDULE OF CHANGES

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

| | Balance July 1, 2017 * | Additions | Reductions | Balance June 30, 2018 | Amount Due in One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 94,854,319 | $ - | $ 5,316,923 | $ 89,537,396 | $ 5,583,494 |
| Capital appreciation interest | 22,098,187 | 7,954,252 | 1,099,807 | 28,952,632 | 1,099,807 |
| Premium on general obligation bonds | 2,308,388 | - | 113,361 | 2,195,027 | - |
| Total general obligation bonds | 119,260,894 | 7,954,252 | 6,530,091 | 120,685,055 | 6,683,301.0 |
| Energy upgrades lease | - | 11,500,000 | 796,323 | 10,703,677 | 639,286 |
| Compensated absences | 965,832 | - | 8,372 | 957,460 | - |
| Certificates of participation | 4,995,000 | - | 670,000 | 4,325,000 | 4,325,000 |
| Postemployment healthcare benefits | 31,665,062 | | 1,247,130 | 30,417,932 | |
| Net pension liability | 245,791,872 | 43,113,593 | - | 288,905,465 | - |
| City of Rialto redevelopment agency loan | 4,961,941 | - | 75,000 | 4,886,941 | 80,000 |
| Total | $ 407,640,601 | $ 62,567,845 | $ 9,326,916 | $ 460,881,530 | $ 11,727,587 |

* The July 1, 2017 balance has been restated by $24,392,453 for the cumulative effect of the adoption of the Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pension. This includes the District's Postemployment Healthcare Benefits Plan. See note 13.

Payments for the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments for the City of Rialto Redevelopment Agency Loan, Certificates of Participation and the Energy Upgrades Lease are made by the General Fund. The accumulated vacation liability will be paid from the fund from which the employee was paid. Postemployment healthcare benefits are paid by the General Fund.

## NOTE 8: LEASES

### Operating Leases

The District has entered into various operating leases for land, buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

| Year Ending June 30, | Lease Payment |
|---|---|
| 2019 | $ 3,783,068 |
| 2020 | 3,283,065 |
| Total | $ 7,066,133 |

Current year expenditures for operating leases is approximately $1,255,655. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

## NOTE 9: CERTIFICATES OF PARTICIPATION

The agreement dated June 2006, is between the District as the "lessee" and the Rialto Unified School District School Facilities Corporation as the "lessor" or "corporation". The Rialto Unified School District Corporation is a legally separate entity which was formed for the sole purpose of acquiring equipment and capital outlay and then leasing such items to the District.

The Corporation's funds for acquiring these items were generated by the issuance of $4,770,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and, therefore, issued at interest rates below current market levels for taxable investments.

Lease payments are required to be made by the District under the lease agreement on each March and September for use and possession of the equipment for the period commencing March 1, 2007 and terminating September 1, 2029. Lease payments will be funded in part from the proceeds of the Certificates. Interest rates range from 4.00% to 6.00% for the length of the issuance.

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable.

In September 1997, the Rialto Unified School District Facilities Corporation issued the 1997 Refunding Certificates of Participation in the amount of $12,530,000, with the Certificates being subject to mandatory tender and remarketing in September 2002. Interest represented by the Certificates was originally fixed through September 1, 2002. The District, the Corporation, and the trustee have amended the Trust Agreement to accommodate the remarketing and reoffering

## NOTE 9: CERTIFICATES OF PARTICIPATION

of the Certificates in a fixed interest mode through the respective maturity dates of the Certificates.

As a result, the Certificates were reoffered at $12,040,000 as of September 3, 2003, with the proceeds used to provide funds to purchase the Certificates from their current owners. The certificates have a maturity date of September 1, 2020, with an interest rate of 4.65 percent.

The annual requirements to amortize the 2006 Certificates of Participation and 1997 Refunding Certificates of Participation, outstanding as of June 30, 2018 are as follows:

| Year Ending June 30, | Principal | Interest |
|---|---|---|
| 2019 | $ 700,000 | $ 175,628 |
| 2020 | 730,000 | 144,566 |
| 2021 | 760,000 | 111,387 |
| 2022 | 200,000 | 90,038 |
| 2023 | 210,000 | 81,325 |
| 2024-2028 | 1,175,000 | 260,763 |
| 2029-2030 | 550,000 | 25,500 |
| Total | $ 4,325,000 | $ 889,207 |

Certificates of Participation were paid in full during October 2017, contrary to the above payoff schedule.

## NOTE 10: GENERAL OBLIGATION BONDS

### Measure H 1999 Election

On September 14, 1999, $60,000,000 in general obligation bonds were authorized at a special election held within the District. The bonds were authorized to finance the acquisition, construction, and modernization of school facilities and paying related costs.

Between 2000 and 2004, the District issued bonds, Series A – C, totaling $59,995,038. In 2012, the District issued a refunding bond (Series 2012) to advance refund portions of Series B and C.

The balance of the bonds refunded was $2,545,274 less than the amount paid into the escrow account. This amount is recorded as a deferred charge on the statement of net position and amortized to interest expense over the life of the new debt. Amortization of $161,605 was recognized during the year ended June 30, 2018.

Capital appreciation bonds were issued as part of Series A with maturity dates from 2012 through 2025. Prior to the applicable maturity date, each bond will accrue accreted interest on the principal components, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest

## NOTE 10: GENERAL OBLIGATION BONDS

accrued and included as an addition in the long-term debt schedule is $641,560. Accreted interest paid and included as a deduction in the long–term debt schedule is $1,099,807. The balance of accreted interest at June 30, 2018 is $6,117,822.

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The refunding bonds included a premium of $1,716,066. The amount will be amortized using the straight-line method. Amortization of $107,254 was recognized for fiscal year 2017-18.

### Measure Y 2010 Election

On November 2, 2010, $98,000,000 in general obligation bonds were authorized by an election held within the District. The bonds were authorized to finance the acquisition, construction, and modernization of school facilities and paying related costs.

Between 2011 and 2015, the District issued bonds, Series A, B and 2015, totaling $68,642,187.

Capital appreciation bonds were issued as part of Series A with maturity dates from 2027 through 2042. Prior to the applicable maturity date, each bond will accrue accreted interest on the principal components, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued and included as an addition in the long–term debt schedule is $7,312,692. The balance of accreted interest at June 30, 2018 is $22,834,809.

Premium and discounts are netted against the carrying amount of the bonds and are amortized to interest expense over the life of the liability. The Series A bonds included a premium of $2,347,592 and the Series B bonds included a discount of $1,068,488. These amount will be amortized using the straight-line method. Net amortization of $6,107 was recognized for fiscal year 2017-18.

## NOTE 10: GENERAL OBLIGATION BONDS

The outstanding general obligation bonded debt of the District at June 30, 2018 is:

| General Obligation Bonds | Date of Issue | Date of Maturity | Interest Rate % | Amount of Original Issue | Outstanding June 30, 2018 |
|---|---|---|---|---|---|
| 1999: | | | | | |
| Series A | 6/1/2000 | 2025 | 4.75-6.25 | $ 19,995,038 | $ 3,045,210 |
| 2012 Refunding | 5/17/2012 | 2029 | 2.00-5.00 | 29,865,000 | 23,175,000 |
| Total Measure 1999 | | | | 49,860,038 | 26,220,210 |
| 2010: | | | | | |
| Series A | 3/17/2011 | 2042 | 7.35 | 26,932,187 | 26,932,187 |
| Series B | 3/17/2011 | 2027 | 5.280-6.911 | 9,695,000 | 9,695,000 |
| Series 2015 | 3/26/2015 | 2027 | 1.258-4.128 | 32,015,000 | 26,690,000 |
| Total Measure 2010 | | | | 68,642,187 | 63,317,187 |
| Total | | | | $ 118,502,225 | $ 89,537,397 |

The annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending June 30, | Principal | Interest | Accreted Interest |
|---|---|---|---|
| 2019 | $ 5,583,495 | $ 2,136,901 | $ 1,131,506 |
| 2020 | 5,866,759 | 1,987,589 | 1,175,426 |
| 2021 | 6,172,683 | 1,799,397 | 1,204,259 |
| 2022 | 6,519,683 | 1,572,868 | 1,229,459 |
| 2023 | 6,894,914 | 1,316,838 | 1,257,664 |
| 2024-2028 | 31,123,737 | 8,331,877 | 6,951,068 |
| 2029-2033 | 5,862,404 | 18,847,850 | 18,622,484 |
| 2034-2038 | 7,221,660 | 18,535,781 | 27,547,627 |
| 2039-2042 | 14,292,062 | 6,847,628 | 29,057,939 |
| Total | $ 89,537,397 | $ 61,376,729 | $ 88,177,432 |

## NOTE 11: ENERGY UPGRADES LEASE:

On October 27, 2017, the Rialto Unified School District School Facilities Corporation entered into a lease and assignment financing agreement with Banc of America Public Capital Corp for $11,500,000. Proceeds will be used for District-wide heating, ventilation and air conditioning, LED lighting and energy management system upgrades. Repayment terms are annual payments of $928,285 over 15 years at an interest rate of 2.70%. The annual debt service requirements for lease is:

| Year Ending June 30, | Principal | Interest |
|---|---|---|
| 2019 | $ 639,286 | $ 288,999 |
| 2020 | 656,547 | 271,739 |
| 2021 | 674,274 | 254,012 |
| 2022 | 692,479 | 235,806 |
| 2023 | 711,176 | 217,109 |
| 2024-2028 | 3,854,488 | 786,940 |
| 2029-2032 | 3,475,427 | 237,715 |
| Total | $ 10,703,677 | $ 2,292,320 |

## NOTE 12: CITY OF RIALTO REDEVELOPMENT AGENCY LOAN

During 2005, the District entered into an agreement with the City of Rialto Redevelopment Agency (RDA) for a loan of $2,717,131 for the purpose of financing the cost of labor and materials for the design, installation and/or construction of a football stadium at Rialto High School. A portion of the proceeds was used to retire the remaining balance owed from an original $1,000,000 loan with the RDA.

During 2008, the District borrowed an additional $3,390,000 to complete the project.

During the 2014-2015 school year, the District was informed that the City of Rialto refinanced the 2005 portion of the RDA loans with the District. The former premium was written off. The current payment schedule was provided by the city.

The RDA has since been dissolved and debt service payments are now paid directly to the City of Rialto. As of June 30, 2018, future minimum loan payments are:

| Year Ending June 30, | Principal | Interest |
|---|---|---|
| 2019 | $ 80,000 | $ 257,434 |
| 2020 | 80,000 | 253,435 |
| 2021 | 85,000 | 249,434 |
| 2022 | 90,000 | 244,972 |
| 2023 | 95,000 | 240,113 |
| 2024-2028 | 560,000 | 1,114,846 |
| 2029-2033 | 1,918,574 | 854,309 |
| 2034-2038 | 1,978,367 | 272,557 |
| Total | $ 4,886,941 | $ 3,487,100 |

## NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

The District administers a single-employer defined healthcare plan (the Retiree Health Plan). The plan provides health, dental, vision and life insurance benefits to District employees and retirees. Medical insurance is provided through CalPERS and the District offers the following plans: Kasier HMO, Blue Shield Access+ HMO, Anthem Select HMO, Anthem Traditional HMO, Health Net Salud Y Mas HMO, Health Net SmartCare HMO, United Health Care HMO, PERS Choice PPO, PERS Select PPO, and PERS Care PPO. Dental insurance is provided through Delta Dental of California; vision insurance is provided through VSP; and group term life insurance is provided through Hartford.

As of June 30, 2018, the District's total liability for post-employment healthcare benefits consisted of the following:

| OPEB Plan | Net OPEB Liability | Deferred Outflows of Resources | Deferred Inflows of Resources | OPEB Expense |
|---|---|---|---|---|
| Retiree Benefits Plan | $ 30,417,932 | $ 4,651,439 | $ 12,053 | $ 3,233,897 |

The details of the plan are as follows:

### Plan Description and Eligibility

Retirees with at least 10 years of service may retire at age 55 and receive a District contribution equal to $1,035 for certificated employees and $1,151 for classified employees. District paid benefits end at age 65. Part-time Classified employees who work at least 30 hours per week prior to retirement receive full benefits as described above. Classified unit members who work at least 20 hours per week, and all part-time Certificated members, receive a pro-rata share of the District contribution. Benefit provisions are established through negotiations between the District

## NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

and the bargaining unions representing employees and are renegotiated annually. The Retiree Health Plan does not issue a separate financial report.

Membership in the health benefit plan consisted of the following at July 1, 2017, the date of the latest actuarial valuation.

| Participant Type: | Number of Participants |
|---|---|
| Inactive participants currently receiving benefits | 145 |
| Active employees | 2,027 |
| Total | 2,172 |

### Funding Policy

The contribution requirements of the Plan members and the District are established and may be amended by the District and District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. The District contributes up to the maximum of $12,420 for certificated employees and $13,807 for classified employees per year to eligible retirees as applicable. For fiscal year ended 2018, the District contributed $4,651,439 to the plan, which includes an implicit rate subsidy.

### Net OPEB Liability

| Net OPEB Liability | Balance June 30, 2018 |
|---|---|
| Total OPEB liability | $ 35,919,429 |
| Plan fiduciary net position | 5,501,497 |
| Net OPEB liability | $ 30,417,932 |
| | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 15.32% |

At June 30, 2018, the District reported a deferred inflow of resources of $12,052 related to the net difference between projected and actual earnings on OPEB plan investments. This deferred inflow is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period.

## NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

This amount will be amortized to OPEB expense as follows:

| Year Ending June 30, | Amortization |
|---|---|
| 2019 | $ (3,013) |
| 2020 | (3,013) |
| 2021 | (3,013) |
| 2022 | (3,013) |
| | $ (12,052) |

### Plan Investments

The District participates in the California Employers' Retiree Benefit Trust (CERBT) Defined Benefit Agent Multiple Employer Other Postemployment Benefits Plan administered by the California Public Employee's Retirement System (CalPERS). CERBT consists of participating employers of the State of California and public agencies. CalPERS is governed by the Board of Administration (the Board), which consists of 13 members; two elected by CalPERS members, one elected by retired members of CalPERS, two appointed by the Governor, one public representative appointed jointly by the Speaker of the Assembly and Senate Rules Committee and four ex-officio members: State Treasurer, State Controller, Director of California Department of Human Resources and Designee of the State Personal Board. The Board is responsible for the management and control of CalPERS, including the exclusive control of the administration and investment of the plan.

The CERBT was established by Chapter 331 of the 1988 California Statutes, and employers elect to participate in the CERBT to pre-fund health, dental, and other non-pension postemployment benefits for their retirees and survivors. The CERBT has pooled administrative and investment functions, while separate employer accounts are maintained to prefund and pay for health care or other postemployment benefits in accordance with the terms of the participating employers' plans. There are three Board approved investment strategies for employers to choose from depending on their expected levels of return and volatility. Benefit provisions are established by participating employers. CERBT is reported as an OPEB trust fund within the CalPERS Comprehensive Annual Financial Report and also issues a separate Schedule of Changes in Fiduciary Net Position by Employer that is prepared in accordance with accounting principles generally accepted in the United States of America.

The District's policy regarding the allocation of the plan's invested assets is established and may be amended by District management. The primary objective is to maximize total Plan return, subject to the risk and quality constraints set forth in the investment guidelines. The investment objective the District has selected is the Strategy 1 Plan, which has a dual goal to seek moderate growth of income and principal. The asset allocation ranges for this objective as of June 30, 2018, are listed below:

## NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

| Asset Class | Strategic Asset Allocation Ranges |
|---|---|
| Global equity | 57.00% |
| Fixed income | 27.00% |
| Securities | 5.00% |
| Real estate | 8.00% |
| Commodities | 3.00% |

Market conditions may cause the account's asset allocation to vary from the stated range from time to time. The investment manager (assisting the District) will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with the objectives.

For the year ended on the measurement date the annual money-weighted rate of return on investments, net of investment expense, was 6.59 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

### Actuarial Methods and Assumptions

The total OPEB liability was determined by applying update procedures to an actuarial valuation as of February 1, 2017 and rolling forward to total OPEB liability to June 30, 2017. The following actuarial assumptions used in the February 1, 2017 valuation, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Valuation Data | February 1, 2017 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age, Level Percent of Pay |
| Discount Rate | 6.0% |
| Salary Increases | 3.0% |
| Healthcare Costs Trend Rate | 6.0% |
| Retiree's Share of Costs | Retirees pay the balance of the premium after District contribution (limited to $1,151 per annum) |

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

The assumptions were based on plan experience during the period February 1, 2015 to January 31, 2017.

## NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

### Discount Rate

The discount rate used to measure the OPEB liability was 6%. This is the single, blended rate that reflects the long-term rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return. Based on the most recent crossover test, the plan's fiduciary net position was determined to be sufficient to make the projected benefits payments. 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 6%.

### Changes in the Net OPEB Liability

| | Total OPEB Liability | Fiduciary Net Position | Net OPEB Liability |
|---|---|---|---|
| Balances at June 30, 2017 | $ 34,414,897 | $ 2,749,835 | $ 31,665,062 |
| Changes for the year: | | | |
| Service cost | 1,400,274 | - | 1,400,274 |
| Interest | 2,008,596 | - | 2,008,596 |
| Employer contributions | - | 4,468,974 | (4,468,974) |
| Net investment income | | 189,251 | (189,251) |
| Benefit payments | (1,904,338) | (1,904,338) | - |
| Trustee fees and administrative expense | - | (2,225) | 2,225 |
| Net changes | 1,504,532 | 2,751,662 | (1,247,130) |
| Balances at June 30, 2018 | $ 35,919,429 | $ 5,501,497 | $ 30,417,932 |

The following presents the District's OPEB liability calculated using the discount rate of 6 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5 percent) or 1 percentage-point higher (7 percent) than the current rate:

## NOTE 13: POST EMPLOYMENT HEALTHCARE BENEFITS

| Discount rate | Net OPEB Liability |
|---|---|
| 1% decrease (5.00%) | $ 33,047,437 |
| Current discount rate (6.00%) | 30,417,932 |
| 1% increase (7.00%) | 27,950,623 |

The following presents the District's OPEB liability calculated using the healthcare cost trend rate of 6.00 percent, as well as what the OPEB liability would be if it were calculated using healthcare trend rates that are 1 percentage-point lower (5.00 percent) or 1 percentage-point higher (7.00 percent) than the current rate:

| Healthcare trend rate | Net OPEB Liability |
|---|---|
| 1% decrease (5.0% decreasing to 4.0% ) | $ 34,460,319 |
| Current healthcare trend rate (6.0% decreasing to 5.0%) | 30,417,932 |
| 1% increase (7.0% decreasing to 6.0%) | 26,919,151 |

### Changes of Assumptions

The February 1, 2017 actuarial valuation included changes to the discount rate, medical trend rate and actuarial cost method to align with the requirements of GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The following changes were made:

| Assumptions: | As of February 1, 2015 | As of February 1, 2017 |
|---|---|---|
| Investment Rate of Return | 4.00% | 6.00% |
| Medical Trend Rate | 5.00% | 6.00% |
| Actuarial cost method | Projected Unit Credit | Entry-age Normal |

### OPEB Expense

For the year ended June 30, 2018, the District's actuarially determined OPEB expense is $3,323,897.

## NOTE 14: EMPLOYEE RETIREMENT PLANS

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

## NOTE 14: EMPLOYEE RETIREMENT PLANS

As of June 30, 2018, the District's net pension liabilities, deferred outflows of resources, deferred inflows of resources and pension expense for each of the retirement plans are as follows:

| Pension Plan | Net Pension Liability | Deferred Outflows of Resources | Deferred Inflows of Resources | Pension Expense |
|---|---|---|---|---|
| CalSTRS (STRP) | $ 212,704,000 | $ 70,172,872 | $ 9,902,922 | $ 24,332,471 |
| CalPERS (Schools Pool Plan) | 76,201,465 | 24,280,345 | 2,022,645 | 12,799,754 |
| Total | $ 288,905,465 | $ 94,453,217 | $ 11,925,567 | $ 37,132,225 |

The details of each plan are as follows:

## California State Teachers' Retirement System (CalSTRS)

### Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law.

### Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes to the STRP Defined Benefit Program and STRP Defined Benefit Supplement Program, thus disclosures are not included for the other plans.

## NOTE 14: EMPLOYEE RETIREMENT PLANS

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

| Provisions and Benefits | STRP Defined Benefit Program and Supplement Program | |
|---|---|---|
| Hire date | On or Before December 31, 2012 | On or after January 1, 2013 |
| Benefit formula | 2% at 60 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 60 | 62 |
| Monthly benefits as a percentage of eligible compensation | 2.0%-2.4% | 2.0%-2.4% |
| Required employee contribution rate | 10.25% | 9.205% |
| Required employer contribution rate | 14.43% | 14.43% |
| Required state contribution rate | 9.328% | 9.328% |

### Contributions

Required member, District and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. The contribution rates for each plan for the year ended June 30, 2018 are presented above and the total District contributions were $17,434,079.

### 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:

| Proportionate Share of Net Pension Liability | Balance June 30, 2018 |
|---|---|
| District proportionate share of net pension liability | $ 212,704,000 |
| State's proportionate share of the net pension liability associated with the District | 125,834,915 |
| Total | $ 338,538,915 |

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2017, the District's proportion was 0.2300%.

For the year ended June 30, 2018, the District recognized pension expense of $24,332,471. In

## NOTE 14: EMPLOYEE RETIREMENT PLANS

addition, the District recognized revenue and corresponding expense of $12,666,492 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:

| Pension Deferred Outflows and Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 17,434,079 | $ - |
| Differences between expected and actual experience | 786,600 | 3,709,900 |
| Changes of assumptions | 39,405,900 | - |
| Changes in proportion | 12,546,293 | 528,122 |
| Net differences between projected and actual earnings on pension plan investments | - | 5,664,900 |
| Total | $ 70,172,872 | $ 9,902,922 |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement periods on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the STRP for the June 30, 2017 measurement date is seven years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed six years.
The remaining amount will be recognized to pension expense as follows:

| Year Ending June 30, | Amortization |
|---|---|
| 2019 | $ 4,082,849 |
| 2020 | 12,355,949 |
| 2021 | 9,306,150 |
| 2022 | 3,759,319 |
| 2023 | 6,414,498 |
| 2024 | 6,917,106 |
| Total | $ 42,835,871 |

## NOTE 14: EMPLOYEE RETIREMENT PLANS

### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016 used the following methods and assumptions, applied to all prior periods included in the measurement:

| Actuarial Methods and Assumptions | |
|---|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Experience Study | July 1, 2010 through June 30, 2015 |
| Actuarial Cost Method | Entry Age Normal |
| Discount Rate | 7.10% |
| Investment Rate of Return | 7.10% |
| Consumer Price Inflation | 2.75% |
| Wage Growth | 3.50% |

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant and adopted by the CalSTRS Board in February 2017. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2017, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

## NOTE 14: EMPLOYEE RETIREMENT PLANS

| Asset Class | Assumed Asset Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Global equity | 47% | 6.30% |
| Real estate | 13% | 5.20% |
| Private equity | 13% | 9.30% |
| Fixed income | 12% | 0.30% |
| Absolute return/risk mitigating strategies | 9% | 2.90% |
| Inflation sensitive | 4% | 3.80% |
| Cash/liquidity | 2% | -1.00% |

### Discount Rate

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

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

| Discount rate | Net Pension Liability |
|---|---|
| 1% decrease (6.10%) | $ 312,317,000 |
| Current discount rate (7.10%) | 212,704,000 |
| 1% increase (8.10%) | 131,861,300 |

### Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, CalSTRS completed an experience study for the period starting July 1, 2010 and ending June 30, 2015. The experience study was adopted by the CalSTRS Board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability of the STRP changed, including the discount rate, price inflation, wage growth, mortality assumptions and the mortality tables used in the actuarial valuation of the net pension liability. The changes to the assumptions as a result of the experience study follow:

## NOTE 14: EMPLOYEE RETIREMENT PLANS

| Assumptions: | As of June 30, 2017 | As of June 30, 2016 |
|---|---|---|
| Investment Rate of Return | 7.10% | 7.60% |
| Consumer Price Inflation | 2.75% | 3.00% |
| Wage Growth | 3.50% | 3.75% |

### Plan Fiduciary Net Position

Detailed information about the STRP's plan fiduciary net position is available in a separate comprehensive annual financial report for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

## California Public Employees Retirement System (CalPERS)

### Plan Description

Qualified employees are eligible to participate in the Schools Pool Plan 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 Law.

### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

## NOTE 14: EMPLOYEE RETIREMENT PLANS

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

| Provisions and Benefits | Schools Pool Plan (CalPERS) | |
|---|---|---|
| Hire date | On or Before December 31, 2012 | On or after January 1, 2013 |
| Benefit formula | 2% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 55 | 62 |
| Monthly benefits as a percentage of eligible compensation | 1.1%-2.5% | 1.0%-2.5% |
| Required employee contribution rate | 7.00% | 6.00% |
| Required employer contribution rate | 15.531% | 15.531% |

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018 are as presented above and the total District contributions were $6,748,836.

### Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $76,201,465. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.3192%.

For the year ended June 30, 2018, the District recognized pension expense of $12,799,754. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

## NOTE 14: EMPLOYEE RETIREMENT PLANS

| Pension Deferred Outflows and Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 6,748,836 | $ - |
| Differences between expected and actual experience | 2,729,984 | - |
| Changes of assumptions | 11,130,423 | 897,178 |
| Changes in proportion | 1,035,053 | 1,125,467 |
| Net differences between projected and actual earnings on pension plan investments | 2,636,049 | - |
| Total | $ 24,280,345 | $ 2,022,645 |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the CalPERS Schools Pool Plan for the June 30, 2017 measurement date is 4.0 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 3.0 years.

The remaining amount will be recognized in pension expense as follows:

| Year Ending June 30, | Amortization |
|---|---|
| 2019 | $ 4,045,599 |
| 2020 | 7,317,634 |
| 2021 | 5,589,131 |
| 2022 | (1,443,500) |
| Total | $ 15,508,864 |

### Actuarial Methods and Assumptions

Total pension liability for the Schools Pool Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016

## NOTE 14: EMPLOYEE RETIREMENT PLANS

used the following methods and assumptions, applied to all prior periods included in the measurement:

| Actuarial Methods and Assumptions | |
|---|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Experience Study | July 1, 1997 through June 30, 2011 |
| Actuarial Cost Method | Entry Age Normal |
| Discount Rate | 7.15% |
| Investment Rate of Return | 7.50% |
| Consumer Price Inflation | 2.75% |
| Wage Growth | Varies by entry age and service |

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Global equity | 47% | 5.38% |
| Fixed income | 19% | 2.27% |
| Inflation assets | 6% | 1.39% |
| Private equity | 12% | 6.63% |
| Real estate | 11% | 5.21% |
| Infrastructure and forestland | 3% | 5.39% |
| Liquidity | 2% | -0.90% |

## NOTE 14: EMPLOYEE RETIREMENT PLANS

### Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Schools Pool Plan net of investment expenses and without reduction for administrative expenses. . The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the Schools Pool Plan fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

| Discount rate | Net Pension Liability |
|---|---|
| 1% decrease (6.15%) | $ 112,116,773 |
| Current discount rate (7.15%) | 76,201,465 |
| 1% increase (8.15%) | 46,406,709 |

### Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, the financial reporting discount rate for the Schools Pool Plan was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions represents the unamortized portion of this assumption change.

### Plan Fiduciary Net Position

Detailed information about CalPERS Schools Pool Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

## NOTE 15: JOINT POWERS AGREEMENTS

The District participates in three joint powers agreement (JPA) entities, the Schools Excess Liability Funds (SELF), the Protected Insurance Programs for Schools (PIPS) and the Southern California Regional Liability Excess Fund (SoCalReLiEF).

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the District

## NOTE 15: JOINT POWERS AGREEMENTS

beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA. Separate financial statements for each JPA may be obtained from the respective entity.

The relationships between the District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes.

Condensed financial information for the year ended June 30, 2018 is as follows:

| JPA Condensed Financial Information | SELF (Audited) June 30, 2017 | PIPS (Audited) June 30, 2017 | SoCal ReLiEF (Audited) June 30, 2018 |
|---|---|---|---|
| Total assets | $ 126,580,131 | $ 129,260,118 | $ 69,369,330 |
| Total liabilities | 104,151,104 | 111,815,654 | 83,524,421 |
| Total revenues | 14,352,055 | 300,784,657 | 52,719,235 |
| Total expenditures | 13,457,649 | 296,996,362 | 5,493,600 |

## NOTE 16: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPAL

The beginning net position of the basic financial statements has been restated by a net reduction of $19,923,479 in the statement of activities to recognize the beginning balance of the OPEB liability resulting from the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

## NOTE 17: ADJUSTMENT FOR RECLASSIFICATION

The beginning balance of the Nutrition Services Fund was adjusted by ($408,338) to reflect the reclassification of the fund from a full accrual, enterprise fund to a modified accrual, special revenue fund. The adjustment consisted of:

| | |
|---|---|
| Nutrition Services Enterprise Fund - Ending balance 6/30/17 as full accrual | $ 20,198,625 |
| Adjustments for items not reported under modified accrual | |
| Depreciable assets, net | (4,103,358) |
| Net pension liability | 4,709,220 |
| Deferred inflows of resources - pensions | 340,920 |
| Deferred outflows of resources - pensions | (1,355,120) |
| Net adjustment | (408,338) |
| Reclassified beginning fund balance for Nutrition Services Fund as modified accrual, governmental fund | $ 19,790,287 |

## NOTE 18: DEFICIT FUND BALANCE – FRISBE MIDDLE SCHOOL ASB

The Frisbe Middle School ASB ended the 6/30/18 fiscal year with a deficit fund balance of $9,300. See finding 2018-001.

## NOTE 19: COMMITMENTS AND CONTINGENCIES

### Litigation

The District is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

### State and Federal Allowances, Awards, and Grants

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

### County School Facilities Funds

The District is currently involved in several construction and modernization projects funded through the Office of Public School Construction. These projects are subject to future audits by the State, which may result in other adjustments to the fund.

### Purchase Commitments

As of June 30, 2018, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling $11.7 million. Projects will be funded through Bond Proceeds, State Facilities Grants, Capital Facilities Funds, and General Funds.

# REQUIRED SUPPLEMENTARY INFORMATION

# RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
## For the Fiscal Year Ended June 30, 2018

| | Budgetary Amounts - General Fund | | Actual Amounts | | |
|---|---|---|---|---|---|
| | Original | Final | General Fund | Deferred Maintenance Fund | Total |
| **Revenues** | | | | | |
| Local control funding formula sources: | | | | | |
| State apportionments | $ 241,544,948 | $ 241,544,948 | $ 228,317,639 | $ - | $ 228,317,639 |
| Local sources | 11,882,099 | 12,511,260 | 25,674,876 | - | 25,674,876 |
| Total local control funding formula sources: | 253,427,047 | 254,056,208 | 253,992,515 | - | 253,992,515 |
| Federal sources | 15,423,175 | 19,458,061 | 17,871,192 | - | 17,871,192 |
| Other state sources | 23,052,967 | 28,775,751 | 27,842,790 | 1,500,000 | 29,342,790 |
| Other local sources | 8,353,897 | 11,373,933 | 12,708,375 | 15,353 | 12,723,728 |
| **Total Revenues** | 300,257,086 | 313,663,953 | 312,414,872 | 1,515,353 | 313,930,225 |
| **Expenditures** | | | | | |
| Certificated salaries | 126,074,144 | 125,834,649 | 124,691,041 | - | 124,691,041 |
| Classified salaries | 41,669,479 | 41,627,969 | 40,981,349 | - | 40,981,349 |
| Employee benefits | 77,891,368 | 77,745,365 | 76,777,056 | - | 76,777,056 |
| Books and supplies | 12,877,302 | 12,077,514 | 14,697,239 | - | 14,697,239 |
| Services and other operating expenditures | 34,972,920 | 43,521,430 | 33,384,138 | - | 33,384,138 |
| Capital outlay | 16,440,780 | 10,193,503 | 8,234,866 | 2,402,070 | 10,636,936 |
| Other outgo | 88,221 | 932,451 | 1,169,432 | - | 1,169,432 |
| **Total Expenditures** | 310,014,214 | 311,932,881 | 299,935,121 | 2,402,070 | 302,337,191 |
| Excess (deficiency) of revenues over expenditures | (9,757,128) | 1,731,072 | 12,479,751 | (886,717) | 11,593,034 |
| **Other Financing Uses** | | | | | |
| Interfund transfers in | - | - | 47,940 | 1,146,410 | 1,194,350 |
| Interfund transfers out | (2,812,447) | (4,422,984) | (5,388,298) | - | (5,388,298) |
| **Total Other Financing Uses** | (2,812,447) | (4,422,984) | (5,340,358) | 1,146,410 | (4,193,948) |
| Net change in fund balances | $ (12,569,575) | $ (2,691,912) | 7,139,393 | 259,693 | 7,399,086 |
| **Fund Balance - Beginning of Year** | | | 64,520,300 | - | 64,520,300 |
| **Fund Balance - End of Year** | | | $ 71,659,693 | $ 259,693 | $ 71,919,386 |

See the accompanying notes to the required supplementary information.

## RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
### For the Fiscal Year Ended June 30, 2018

| **Total OPEB Liability - Postemployment Medical Benefits Plan** | **2018** |
|---|---|
| Service Cost | $ 1,400,274 |
| Interest | 2,008,596 |
| Benefit Payments | (1,904,338) |
| Net Change in Total OPEB Liability | 1,504,532 |
| Total OPEB Liability - beginning | 34,414,897 |
| Total OPEB Liability - ending (a) | $ 35,919,429 |

| **Plan Fiduciary Net Position - Postemployment Medical Benefits Plan** | **2018** |
|---|---|
| Contributions - Employer | $ 4,468,974 |
| Net investment income | 189,251 |
| Benefit payments | (1,904,338) |
| Trustee fees and administrative expense | (2,225) |
| Net Change in Plan Fiduciary Net Position | 2,751,662 |
| Plan Fiduciary Net Position - beginning | 2,749,835 |
| Plan Fiduciary Net Position - ending (b) | $ 5,501,497 |
| Net OPEB Liability (Asset) - ending (a) - (b) | $ 30,417,932 |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 15.32% |
| Covered-employee payroll | $ 170,599,989 |
| Net OPEB liability (asset) as a percentage of covered-employee payroll | 17.83% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

## RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS
## EMPLOYER CONTRIBUTIONS
## For the Fiscal Year Ended June 30, 2018

| OPEB Contributions | 2018 |
|---|---|
| Actuarially Determined Contribution (ADC) | $ 3,081,579 |
| Contributions in relation to the ADC | (4,651,439) |
| Contribution deficiency (excess) | $ (1,602,402) |
| | |
| District's covered-employee payroll | $ 171,697,971 |
| | |
| Contributions as a percentage of covered-employee payroll | 2.60% |

See the accompanying notes to the required supplementary information.

## RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS MONEY WEIGHTED RATE OF RETURN ON PLAN ASSETS
### For the Fiscal Year Ended June 30, 2018

| Year | Annual money-weighted rate of return, net of investment expense |
|---|---|
| 2018 | 6.59% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

# RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
## For the Fiscal Year Ended June 30, 2018

| State Teachers' Retirement Plan | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| District's proportion of the net pension liability (assets) | 0.2020% | 0.2290% | 0.2280% | 0.2300% |
| District's proportionate share of the net pension liability (asset) | $ 118,042,470 | $ 154,171,960 | $ 184,408,680 | $ 212,704,000 |
| State's proportionate share of the net pension liability (asset) associated with the District | 71,280,019 | 81,539,753 | 104,996,028 | 125,834,915 |
| Total | $ 189,322,489 | $ 235,711,713 | $ 289,404,708 | $ 338,538,915 |
| District's covered payroll | $100 Million | $103 Million | $117 Million | $121 Million |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 118.04% | 149.68% | 157.88% | 176.23% |
| Plan fiduciary net position as a percentage of the total pension liability | 77.00% | 74.00% | 70.00% | 69.00% |

| California Public Employees' Retirement Plan | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| District's proportion of the net pension liability (assets) | 0.3270% | 0.3249% | 0.3108% | 0.3192% |
| District's proportionate share of the net pension liability (asset) | $ 37,122,462 | $ 47,890,581 | $ 61,383,192 | $ 76,201,465 |
| District's covered payroll | $34 Million | $36 Million | $39 Million | $42 Million |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 109.00% | 133.69% | 158.00% | 184.00% |
| Plan fiduciary net position as a percentage of the total pension liability | 83.37% | 79.43% | 73.90% | 72.00% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

## RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS
## For the Fiscal Year Ended June 30, 2018

| State Teachers' Retirement Plan | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Contractually required contribution | $ 9,293,881 | $ 12,530,465 | $ 15,178,376 | $ 17,439,079 |
| Contributions in relation to the contractually required contribution | 9,293,881 | 12,530,465 | 15,178,376 | 17,439,079 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| District's covered payroll | $106 Million | $117 Million | $121 Million | $121 Million |
| Contributions as a percentage of covered payroll | 8.88% | 10.73% | 12.58% | 14.43% |

| California Public Employees' Retirement Plan | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Contractually required contribution | $ 4,216,681 | $ 4,599,351 | $ 5,770,703 | $ 6,748,836 |
| Contributions in relation to the contractually required contribution | 4,216,681 | 4,599,351 | 5,770,703 | 6,748,836 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| District's covered payroll | $36 Million | $39 Million | $42 Million | $44 Million |
| Contributions as a percentage of covered payroll | 11.77% | 11.85% | 13.89% | 15.53% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

## NOTE 1: PURPOSE OF SCHEDULES

### Schedule of Budgetary Comparison For The General Fund and Major Special Revenue Fund(s)

A budgetary comparison is presented for the general fund and for any major special revenue fund that has a legally adopted annual budget. This schedule presents the budget as originally adopted, the revised budget as of the fiscal year end, actual amounts at fiscal year end, and any adjustments needed to present the amounts in accordance with generally accepted accounting principles (GAAP).

### Schedule of Changes in the Net OPEB Liability

The schedule is intended to show trends about the changes in the District's actuarially determined liability for postemployment benefits other than pensions.

**Changes in Benefit terms and Assumptions used:**

Benefit changes – No change.

Changes of Assumptions:

- Increased the discount rate from 4.0% to 6.0% to reflect the long-term rate of return on OPEB plan investments.
- Health care trend rate increased from 5% to 6% to better reflect increased medical costs.
- Actuarial cost method was changed from projected unit credit to entry-age normal to align with the requirements of GASB 75.

### Schedule of Postemployment Healthcare Benefits Employer Contributions

The schedule is intended to show trends about the amounts contributed in relation to the actuarially determined contribution.

Actuarially determined contribution rates are calculated as of February 1, 2017.

Methods of assumptions used to determine contribution rates are:

| | |
|---|---|
| Actuarial Cost Method | Entry Age, Level Percent of Pay |
| Discount Rate | 6% |
| Salary Increases | 3% |

Mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection for the valuations.

## NOTE 1: PURPOSE OF SCHEDULES

### Schedule of Postemployment Healthcare Benefits Money-Weighted Rate of Return on Plan Assets

The schedule is intended to show trends about the rate of return on plan assets.

### Schedules of District's Proportionate Share of the Net Pension Liability – CalSTRS (STRP) and CalPERS (Schools Pool Plan)

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

### Schedules of District Contributions – CalSTRS (STRP) and CalPERS (Schools Pool Plan)

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

## NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were excesses of expenditures over appropriations in the General Fund:

| | |
|---|---|
| Books and Supplies | $1,821,383 |
| Other Outgo | 145,434 |

## SUPPLEMENTARY INFORMATION

## RIALTO UNIFIED SCHOOL DISTRICT

### HISTORY AND ORGANIZATION
### For the Fiscal Year Ended June 30, 2018

The Rialto Unified School District was established in 1964 and serves the Rialto area of San Bernardino County. The District operates nineteen elementary schools, five middle schools, three high schools, one continuation high school, an alternative high school, an adult education school, a preschool program, and an infant program. There were no boundary changes during the year.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2018 were as follows:

### BOARD OF EDUCATION

| Member | Office | Term Expires |
|---|---|---|
| Joseph W. Martinez | President | November 30, 2020 |
| Edgar Montes | Vice President | November 30, 2018 |
| Nancy G. O'Kelley | Clerk | November 30, 2020 |
| Joseph Ayala | Member | November 30, 2020 |
| Dina Walker | Member | November 30, 2018 |

### DISTRICT ADMINISTRATORS

| | |
|---|---|
| Dr. Cuauhtémoc Avila | Superintendent |
| Mohammad Z. Islam | Associate Superintendent, Business Services |
| Kelly Bruce | Lead Innovation Agent |
| Diane Romo | Lead Fiscal Services Agent |

## RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
## For the Fiscal Year Ended June 30, 2018

The requirements governing ADA, admission of pupils, types of schools, recording and reporting of pupil attendance, and similar matters are controlled by provisions of the Education Code and by regulations of the California Department of Education.

ADA statistics reported to the state for the fiscal year ended June 30, 2018 are as follows:

| | Revised Second Period | Annual |
|---|---|---|
| Grades Transitional Kindergarten through third: | | |
| Regular ADA | 7,242 | 7,224 |
| Extended year special education | 5 | 9 |
| Special education - nonpublic, nonsectarian schools | 1 | 1 |
| Total grades transitional kindergarten through third ADA | 7,248 | 7,234 |
| Grades four through six: | | |
| Regular ADA | 5,814 | 5,793 |
| Extended year special education | 2 | 5 |
| Special education - nonpublic, nonsectarian schools | 6 | 5 |
| Total grades four through six ADA | 5,822 | 5,803 |
| Grades seven and eight: | | |
| Regular ADA | 3,934 | 3,906 |
| Extended year special education | 1 | 2 |
| Special education - nonpublic, nonsectarian schools | 8 | 7 |
| Total grades seven and eight ADA | 3,943 | 3,915 |
| Grades nine through twelve: | | |
| Regular ADA | 7,513 | 7,421 |
| Extended year special education | 6 | 5 |
| Special education - nonpublic, nonsectarian schools | 27 | 29 |
| Extended year special education - nonpublic, nonsectarian schools | 1 | 2 |
| Total grades nine through twelve ADA | 7,547 | 7,457 |
| Total ADA | 24,560 | 24,409 |

See the accompanying notes to the supplementary information.

## RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME
## For the Fiscal Year Ended June 30, 2018

| Grade Level | Minute Requirement | Actual Minutes | Number of Days Traditional Calendar | Status |
|---|---|---|---|---|
| Kindergarten | 36,000 | 36,180 | 180 | In Compliance |
| Grade 1 | 50,400 | 50,902 | 180 | In Compliance |
| Grade 2 | 50,400 | 50,902 | 180 | In Compliance |
| Grade 3 | 50,400 | 50,902 | 180 | In Compliance |
| Grade 4 | 54,000 | 54,220 | 180 | In Compliance |
| Grade 5 | 54,000 | 54,220 | 180 | In Compliance |
| Grade 6 | 54,000 | 62,457 | 180 | In Compliance |
| Grade 7 | 54,000 | 62,457 | 180 | In Compliance |
| Grade 8 | 54,000 | 62,457 | 180 | In Compliance |
| Grade 9 | 64,800 | 65,465 | 180 | In Compliance |
| Grade 10 | 64,800 | 65,465 | 180 | In Compliance |
| Grade 11 | 64,800 | 65,465 | 180 | In Compliance |
| Grade 12 | 64,800 | 65,465 | 180 | In Compliance |

See the accompanying notes to the supplementary information.

## RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### For the Fiscal Year Ended June 30, 2018

| Program Name | Federal Catalog Number | Pass-Through Entity Identifying Number | Total Program Expenditures |
|---|---|---|---|
| **United States Department of Agriculture** | | | |
| Pass-Through Program From California Department of Education: | | | |
| Child Nutrition Cluster: | | | |
| National School Lunch Program | 10.555 | 13396 | $10,070,007 |
| Especially Needy Breakfast Program | 10.553 | 13526 | 202,151 |
| Meal Supplements | 10.553 | (1) | 2,887,555 |
| Summer Food Service Program | 10.559 | 13396 | 286,768 |
| Fresh Fruit and Vegetable Program | 10.582 | 14968 | 67,701 |
| Commodities | 10.555 | 13396 | 1,108,031 |
| Subtotal: Child Nutrition Cluster | | | 14,622,213 |
| Forest Reserve Funds | 10.665 | 10044 | 23,762 |
| Total U.S. Department of Agriculture | | | 14,645,975 |
| **United States Department of Education** | | | |
| Pass-Through Program From California Department of Education: | | | |
| Title I Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | 9,420,903 |
| Title II, Part A, Improving Teacher Quality Local Grants | 84.367 | 14341 | 966,444 |
| Title III, Immigrat Education Program | 84.365 | 15299 | 36,590 |
| Title III, Limited English Proficient Student Program | 84.365 | 14346 | 906,326 |
| Subtotal Title III | | | 942,916 |
| Special Education Cluster: | | | |
| IDEA Local Assistance, Part B, Sec 611, Private School ISPs | 84.027 | 10115 | 5,022 |
| IDEA Preschool Staff Development, Part B, Sec 619 | 84.173A | 13431 | 987 |
| IDEA Preschool Staff Development, Part B, Age 3-4-5 | 84.173 | 13430 | 113,511 |
| IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (Formerly 94-142) | 84.027 | 13379 | 4,051,332 |
| IDEA Preschool Local Entitlement | 84.027A | 13682 | 309,070 |
| IDEA Quality Assurance & Focused Monitoring | 84.027A | 13693 | 4,334 |
| IDEA Mental Health Services, Part B, Sec 611 | 84.027A | 14468 | 288,240 |
| Subtotal: Special Education Cluster | | | 4,772,496 |
| Carl D. Perkins Career and Technical Education, Secondary | 84.048 | 14894 | 227,760 |
| Pass-Through Programs from California State University, San Bernardino: | | | |
| California State Gear Up Program | 84.334A | 10088 | - |
| Total: United States Department of Education | | | 16,330,519 |

See the accompanying notes to the supplementary information.

# RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## For the Fiscal Year Ended June 30, 2018

| Program Name | Federal Catalog Number | Pass-Through Entity Identifying Number | Total Program Expenditures |
|---|---|---|---|
| **United States Department of Defense** | | | |
| Pass-Through Program From California Department of Education: | | | |
| Junior Reserve Officers' Training Corps | 12.000 | (1) | 626,945 |
| Total U.S. Department of Defense | | | 626,945 |
| **United States Department of Health and Human Services** | | | |
| Pass-Through Program From California Department of Health Services: | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 643,912 |
| Total U.S. Department of Health and Human Services | | | 643,912 |
| **Total Federal Programs** | | | $32,247,351 |
| **Reconciliation to Federal Revenue** | | | |
| Total Federal Program Expenditures | | | $32,247,351 |
| Expenditures in excess of revenues related to Federal Entitlements: | | | |
| Medi-Cal Billing Option | | | (1,326) |
| Junior Reserve Officers' Training Corps | | | (416,402) |
| Revenues in excess of expenditures related to Federal Entitlements: | | | |
| Medi-Cal Administrative Activities (MAA) | | | 663,782 |
| Total Federal Program Revenue | | | $32,493,405 |

(1) Pass-Through Entity Identifying Number was not available.

See the accompanying notes to the supplementary information.

# RIALTO UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
## For the Fiscal Year Ended June 30, 2018

| | 2019 (Budgeted) | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Total revenues | $ 327,852,512 | $ 313,930,225 | $ 308,818,156 | $ 294,297,459 |
| Total expenditures | 334,855,049 | 302,337,192 | 293,434,442 | 272,785,848 |
| Total other sources and uses | (2,222,047) | (4,193,947) | (4,119,606) | (3,994,272) |
| Change in fund balance | (9,224,584) | 7,399,086 | 11,264,108 | 17,517,339 |
| Ending fund balance | $ 62,435,109 | $ 71,919,386 | $ 64,520,300 | $ 53,256,192 |
| Available reserve | $ 18,374,635 | $ 37,888,243 | $ 12,188,996 | $ 11,065,568 |
| Available reserve % | 5% | 13% | 4% | 4% |
| ADA | 24,252 | 24,560 | 24,761 | 25,030 |
| Total long term debt | $ 449,153,943 | $ 460,881,530 | $ 378,538,928 | $ 338,975,889 |

Available reserves are those amounts reserved for economic uncertainty and any other remaining unassigned fund balance from the General Fund.

The 2019 budget is the original budget adopted on June 27, 2018.

For a District this size, the state recommends an available reserve at 3% of total General Fund expenditures, transfers out and other uses. For the year ended June 30, 2018, the District has met this requirement.

**RIALTO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS**
**For the Fiscal Year Ended June 30, 2018**

The District is not the granting agency for any Charter Schools.

**RIALTO UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE ANNUAL FINANCIAL AND BUDGET REPORT WITH THE AUDITED FINANCIAL STATEMENTS**
**For the Fiscal Year Ended June 30, 2018**

There were no differences between the fund balances reported on the June 30, 2018 Annual Financial and Budget Report for the governmental funds and the audited financial statements.

See the accompanying notes to the supplementary information.

## NOTE 1: PURPOSE OF SCHEDULES

### Schedule of Average Daily Attendance (ADA)

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

### Schedule of Instructional Time

The District has not met or exceeded its target funding and has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

### Schedule of Expenditures of Federal Awards

#### Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal governmental for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

#### Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District did not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

### Schedule of Financial Trends and Analysis

The *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance*

## NOTE 1: PURPOSE OF SCHEDULES

*Reporting* requires that this schedule be prepared showing financial trends of the general fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

### Schedule of Charter Schools

The *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule list all charter schools chartered by the District and inform the users whether or not the charter school information is included in the District's financial statements.

### Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the annual Financial and Budget Report form to the audited financial statements.

## OPTIONAL SUPPLEMENTARY INFORMATION

# RIALTO UNIFIED SCHOOL DISTRICT

## COMBINING BALANCE SHEET
## NON-MAJOR GOVERNMENTAL FUNDS
## June 30, 2018

| | Adult Education Fund | Child Development Fund | Capital Facilities Fund | County School Facilities Fund | Special Reserve for Capital Outlay Fund | Bond Interest and Redemption Fund | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash in county treasury | $ 549,359 | $ 337,139 | $ 8,067,636 | $ 1,527,444 | $ 7,563,602 | $ 10,964,992 | $ 29,010,172 |
| Accounts receivable: | | | | | | | |
| Federal and state governments | 158,564 | 545,817 | - | - | - | - | 704,381 |
| Miscellaneous | - | 3,190 | 250,466 | 5,991 | 49,706 | - | 309,353 |
| Due from other funds | 100,000 | - | - | - | 976,888 | - | 1,076,888 |
| Prepaid expenses | - | - | 9,450 | - | - | - | 9,450 |
| **Total Assets** | $ 807,923 | $ 886,146 | $ 8,327,552 | $ 1,533,435 | $ 8,590,196 | $ 10,964,992 | $ 31,110,244 |
| **Liabilities and Fund Balances** | | | | | | | |
| **Liabilities** | | | | | | | |
| Accounts payable | $ 95,166 | $ 406,191 | $ 61,131 | $ - | $ 841,275 | $ - | $ 1,403,763 |
| Due to other funds | 32,356 | 413,033 | - | - | - | - | 445,389 |
| **Total Liabilities** | 127,522 | 819,224 | 61,131 | - | 841,275 | - | 1,849,152 |
| **Fund Balances** | | | | | | | |
| Nonspendable | - | - | 9,450 | - | - | - | 9,450 |
| Restricted | 680,401 | 66,922 | 8,256,971 | 1,533,435 | - | 10,964,992 | 21,502,721 |
| Assigned | - | - | - | - | 7,748,921 | - | 7,748,921 |
| **Total Fund Balances** | 680,401 | 66,922 | 8,266,421 | 1,533,435 | 7,748,921 | 10,964,992 | 29,261,092 |
| **Total Liabilities and Fund Balances** | $ 807,923 | $ 886,146 | $ 8,327,552 | $ 1,533,435 | $ 8,590,196 | $ 10,964,992 | $ 31,110,244 |

See the accompanying notes to the Optional Supplementary Information

## RIALTO UNIFIED SCHOOL DISTRICT

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
## NON-MAJOR GOVERNMENTAL FUNDS
## For the Fiscal Year Ended June 30, 2018

| | Adult Education Fund | Child Development Fund | Capital Facilities Fund | County School Facilities Fund | Special Reserve for Capital Outlay Fund | Bond Interest and Redemption Fund | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Other state sources | $ 948,973 | $ 3,712,210 | $ - | $ - | $ - | $ 89,419 | $ 4,750,602 |
| Other local sources | 8,120 | 79,897 | 2,698,106 | 18,896 | 172,938 | 8,917,145 | 11,895,102 |
| **Total Revenues** | 957,093 | 3,792,107 | 2,698,106 | 18,896 | 172,938 | 9,006,564 | 16,645,704 |
| **Expenditures** | | | | | | | |
| Instruction | 486,007 | 3,142,437 | - | - | - | - | 3,628,444 |
| Instruction - related services | 228,733 | 973,627 | - | - | - | - | 1,202,360 |
| Pupil services | 58,551 | 57,729 | - | - | - | - | 116,280 |
| General administration | 51,366 | 243,640 | - | - | - | - | 295,006 |
| Plant services | 188,547 | 368,896 | 163,678 | - | 8,955,233 | - | 9,676,354 |
| Debt service | - | - | - | - | - | 8,682,088 | 8,682,088 |
| **Total Expenditures** | 1,013,204 | 4,786,329 | 163,678 | - | 8,955,233 | 8,682,088 | 23,600,532 |
| Excess (deficiency) of revenues over expenditures | (56,111) | (994,222) | 2,534,428 | 18,896 | (8,782,295) | 324,476 | (6,954,828) |
| **Other Financing Sources** | | | | | | | |
| Interfund transfers in | 100,000 | 1,100,000 | - | - | 4,394,582 | - | 5,594,582 |
| Interfund transfers out | - | (47,940) | (160,323) | - | (1,192,372) | - | (1,400,635) |
| Other Sources | - | - | - | - | 11,500,000 | 462,818 | 11,962,818 |
| **Total Other Financing Sources** | 100,000 | 1,052,060 | (160,323) | - | 14,702,210 | 462,818 | 16,156,765 |
| Net changes in fund balance | 43,889 | 57,838 | 2,374,105 | 18,896 | 5,919,915 | 787,294 | 9,201,937 |
| **Fund Balances at Beginning of Year** | 636,512 | 9,084 | 5,892,316 | 1,514,539 | 1,829,006 | 10,177,698 | 20,059,155 |
| **Fund Balances at End of Year** | $ 680,401 | $ 66,922 | $ 8,266,421 | $ 1,533,435 | $ 7,748,921 | $ 10,964,992 | $ 29,261,092 |

# NOTES TO THE OPTIONAL SUPPLEMENTARY INFORMATION
**For the Fiscal Year Ended June 30, 2018**

## NOTE 1: PURPOSE OF SCHEDULES

### Combining Fund Financial Statements

Combining fund balance sheets and statements of revenues, expenditures and changes in fund balance have been presented for the non-major funds to provide additional information to the users of these financial statements. These statements have been prepared using the basis of accounting described in the notes to the financial statements.

## OTHER INDEPENDENT AUDITOR'S REPORT

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

Board of Education
Rialto Unified School District
Rialto, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rialto Unified School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2018.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

## Compliance and Other Matters

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

## District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of 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.

*CliftonLarsonAllen LLP*

CliftonLarsonAllen LLP
Glendora, California
December 6, 2018

CliftonLarsonAllen LLP
CLAconnect.com

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Education
Rialto Unified School District
Rialto, California

## Report on Compliance for Each Major Federal Program

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

***Opinion on Each Major Federal Program***

In our opinion, the 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 the 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 the 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 the 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, 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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**Purpose of this Report**

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
December 6, 2018

CliftonLarsonAllen LLP
CLAconnect.com

# INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Rialto Unified School District
Rialto, California

We have audited the Rialto Unified School District's (the District) compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2018. The District's state compliance requirements are identified in the table provided.

## Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified below.

## Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the types of compliance requirements referred to below. 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the 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 state compliance. However, our audit does not provide a legal determination of the District's compliance.

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

**Compliance Requirements Tested**

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

| Description | Procedures Performed |
|---|---|
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | Yes |
| Continuation Education | Yes |
| Instructional Time | Yes |
| Instructional Materials | Yes |
| Ratio of Administrative Employees to Teachers | Yes |
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | Not Applicable |
| GANN Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | Not Applicable |
| Middle or Early College High Schools | Not Applicable |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Apprenticeship: Related and Supplemental Instruction | Not Applicable |
| Educator Effectiveness | Yes |
| California Clean Energy Act | Yes |
| After/Before School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study-Course Based | Not Applicable |
| Charter Schools: | |
| Attendance | No[1] |
| Mode of Instruction | No[1] |
| Nonclassroom Based Instruction/Independent Study | No[1] |
| Determination of Funding for Nonclassroom Based Instruction | No[1] |
| Annual Instructional Minutes – Classroom Based | No[1] |
| Charter School Facility Grant Program | No[1] |

[1]The District is not the granting agency for any Charter Schools

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

**Opinion on State Compliance**

In our opinion, the District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2018.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, which are described in the accompanying schedule of findings and questions costs as items 2018-002 and 2018-003. Our opinion on state programs is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
December 6, 2018

**FINDINGS AND QUESTIONED COSTS**

**RIALTO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**SUMMARY OF AUDITOR RESULTS**
**June 30, 2018**

## SECTION I – SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

| | | | | |
|---|---|---|---|---|
| Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | | | | *Unmodified* |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | | *Yes* | X | *No* |
| Significant deficiency(ies) identified? | X | *Yes* | | *None Reported* |
| Noncompliance material to financial statements noted? | | *Yes* | X | *No* |

**Federal Awards**

| | | | | |
|---|---|---|---|---|
| Internal control over major federal awards: | | | | |
| Material weakness(es) identified? | | *Yes* | X | *No* |
| Significant deficiency(ies) identified? | | *Yes* | X | *None Reported* |
| Type of auditor's report issued on compliance for major federal programs: | | | | *Unmodified* |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | | *Yes* | X | *No* |

**Identification of Major Federal Programs:**

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 10.553, 10.555, 10.559 | Child Nutrition Cluster |

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | | | | $962,951 |
| Auditee qualified as low-risk auditee? | | *Yes* | X | *No* |

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**RELATED TO THE FINANCIAL STATEMENTS**
**June 30, 2018**

All audit findings must be identified as one or more of the following categories:

| Five Digit Code | Finding Types |
|---|---|
| 10000 | Attendance |
| 20000 | Inventory of Equipment |
| 30000 | Internal Control |
| 40000 | State Compliance |
| 42000 | Charter School Facilities Programs |
| 50000 | Federal Compliance |
| 60000 | Miscellaneous |
| 61000 | Classroom Teacher Salaries |
| 62000 | Local Control Accountability Plan |
| 70000 | Instructional Materials |
| 71000 | Teacher Misassignments |
| 72000 | School Accountability Report Card |

**2018-001 Internal Controls and Deficit Fund Balance: Frisbie Middle School ASB** **30000**

**Criteria:** Employees charged with duties to record and hold custody of ASB records must maintain adequate documentation to substantiate past transactions; keeping records of all disbursements and cash receipts. These should be available as required to substantiate the activities of the ASB and for audit purposes.

**Condition:** Upon arrival to complete ASB internal control testing at Frisbie Middle School, the ASB clerk noted they were not ready and the testing would need to be postponed. Upon inquiry with the Associate Superintendent of Business Services and the Director of Fiscal Services, it was determined that the ASB clerk had not been keeping sufficient records and the ASB information would not be available. As a result, we were unable to complete testing procedures for Frisbie ASB for the fiscal year under audit. Additionally, Frisbie Middle School ASB incurred a net loss for 2017-18 of $21,267, resulting in a deficit ending fund balance of $9,300.

**Context:** Not applicable.

**Effect:** The above condition resulted in a scope limitation for audit. There is also possible misappropriate of funds, inadequate records and clerical mistakes. Because the amounts involved were not material to the financial statements and we were able to confirm the balance in the cash account, our opinion was not modified with respect to this matter.

**Cause:** The overall control issues noted are primarily a result of poor monitoring procedures, record keeping and retention at the school site.

**Questioned Costs and Units:** Not determined

**Recommendation:** It is recommended that management and the ASB implement closing and accounting procedures to ensure that the financial information is prepared in accordance with generally accepted accounting principles. Monitoring procedures should also be developed that include frequent oversight by District Office representatives. All balances and transactions should be supported with adequate documentation to provide for an audit trail. Schedules and source documentation to support the balances in individual accounts and transactions that occurred should be on file and readily available for internal use and audit purposes. District management should determine the cause of the net loss for 2017-18 and work with site administration to develop a plan to restore the deficit fund balance.

**Management Response:** The District has implemented several measures to ensure the Board adopted ASB policies are readily available and understood by all administrative and support staff. All site administration and ASB clerks received training from Fiscal Services and FCMAT. In addition to the FCMAT ASB manual, the District created its own ASB Manual to reflect the District's board policies and best practices. A new procedure was implemented to ensure that anyone handling cash in an ASB activity is properly trained in safeguarding funds. Individuals who monitor ASB activities were properly trained to review monthly financial reports and prevent misappropriation of ASB funds. Additional levels of oversight have been implemented to strengthen ASB internal controls.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
**June 30, 2018**

## FEDERAL AWARDS FINDINGS

There were no findings and questioned costs related to federal awards for June 30, 2018.

**2018-002 <u>School Accountability Report Card</u> 72000**

**Criteria:** The information on the School Accountability Report Card (SARC) should be reported consistent with the Facility Inspection Tool for that school, as required by the provisions of Education Code Section 33126.

**Condition:** The District reported information on the SARC that was inconsistent with the Facilities Inspection Tool (FIT) for one of the six schools selected. The error was noted on the SARC prepared for Zupanic Independent Study High School.

**Context:** Not applicable.

**Effect:** Information regarding the condition of Zupanic Independent Study High School for the 2016-17 school year was incorrectly reported on the SARC published during the 2017-18 school year, pursuant to Education Code Section 33126.

**Cause:** Unknown.

**Questioned Costs and Units:** Not applicable.

**Recommendation:** We recommend that FIT forms are kept on file to substantiate the condition of the District's facilities reported on the SARC to ensure they reconcile. Furthermore, the District should complete a comparison between the SARCs and FIT forms before final publication.

**Management Response:** The District established a procedure to reconcile all supporting documents for the SARC prior to approving the final version for publication.

**2018-003 <u>Instructional Materials Public Hearing Notice</u> 70000**

**Criteria:** According to Education Code Section 60119, a public hearing must be held on or before the end of the eighth week from the first day pupils attend school for that year.

**Condition:** During our testing of the state compliance requirement, it was noted that the first day of school was August 7, 2017 and the public hearing was held November 15, 2017. This is beyond the eighth week as required per above.

**Effect:** Not in compliance with Education Code 60119.

**Cause:** Unknown.

**Questioned Costs:** No questioned costs required.

**Recommendation:** For future years, ensure that the public hearing is scheduled to be held within the first eight weeks of the school year.

**Management Response:** Sufficiency of Instructional Materials Board item is calendared within the first 8 weeks to ensure compliance. Compliance is being monitored by both the Education Services and Business Services offices. That is exemplified this year as the 2018/19 Board item was within the first 8 weeks of school.

# STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2018

**2017-001 Nutrition Services Internal Controls and Year-end Closing 30000**

**Criteria:** California School Accounting Manual Procedure 305 allows a Cafeteria Fund to be accounted for using an enterprise fund type rather than a special revenue fund type. Because the District has elected to use an enterprise fund to record Cafeteria activity, the fund should be recorded in fund 61 in the district's county accounting system and the fund should use the accrual basis of accounting.

**Condition**: The nutrition services day to day transactions are recorded in eTrition at the Nutrition services office and monthly totals of revenue, expenses and cash are recorded in the county system monthly. At yearend balance sheet accounts were recorded for June 30, 2018 balances. The purchase clearing account in the Cafeteria's in-house financial system was not reconciled after the system was converted to a web based platform. The final balance of the account was recognized as an outstanding liability at year end causing an overstatement in accounts payable and expense. Additionally, entries were not completed to bring the fund to full accrual. Balances were not updated for the net pension liability, deferred inflows of resources, deferred outflows of resources, fixed assets and depreciation. This resulted in audit adjustments to the Cafeteria fund.

**Effect:** Audit adjustments were made to accounts payable, food expense, net pension liability and related deferred inflows and outflows of resources and fixed assets and related depreciation accounts.

**Cause:** There are no controls to prevent or mitigate errors that may arise during transitions to new programs. A detailed reconciliation process before and after the new in-house web- based financial system would have identified the discrepancy.

**Questioned Costs:** Net increase to fund balance of $3,451,711.

**Recommendation:** Based on our understanding that the District plans to change the Cafeteria fund to a special revenue fund type in 2017-18, we recommend that the District utilize the County accounting system to record daily activity in the Cafeteria fund throughout the year. This will allow the transactions to become part of the established District internal controls and financial reporting and review process.

**Current Status:** Implemented

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**APPENDIX C**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

*Upon the delivery of the Series 2019 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series 2019 Bonds in substantially the following form:*

[Date of Delivery]

Rialto Unified School District
Rialto, California

Rialto Unified School District
(County of San Bernardino, California)
General Obligation Bonds, Election of 2010, Series 2019
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Rialto Unified School District (the "District"), which is located in the County of San Bernardino (the "County"), in connection with the issuance by the District of $__________ aggregate initial principal amount of Rialto Unified School District (San Bernardino County, California) General Obligation Bonds, Election of 2010, Series 2019 (the "Series 2019 Bonds"), representing part of an issue authorized at an election held in the District on November 2, 2010. The Series 2019 Bonds are issued under and pursuant to a resolution of the Board of Education of the District adopted on August 28, 2019 (the "Resolution"). Capitalized undefined terms used herein have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate, an opinion of counsel to the District, certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2019 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2019 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series

2019 Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. We also express no opinion regarding the accreted value table or calculation set forth or referred to in any of the Series 2019 Bonds or in the Resolution. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated __________, 2019, or other offering material relating to the Series 2019 Bonds and express no opinion with respect thereto.

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

1. The Series 2019 Bonds constitute valid and binding obligations of the District.

2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.

3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series 2019 Bonds and the interest thereon.

4. Interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2019 Bonds.

Faithfully yours,

## APPENDIX D

## FORM OF CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this "Disclosure Certificate") is executed and delivered by the Rialto Unified School District (the "District") in connection with the issuance of $__________ aggregate initial principal amount of Rialto Unified School District (County of San Bernardino, California) General Obligation Bonds, Election of 2010, Series 2019 (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on August 28, 2019 (the "District Resolution"). The District covenants and agrees as follows:

**Section 1. <u>Purpose of the Disclosure Certificate</u>.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

**Section 2. <u>Definitions</u>.** In addition to the definitions set forth in the District Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

"Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"County" means the County of San Bernardino.

"Dissemination Agent" means KNN Public Finance LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Financial Obligation" means (a) a debt obligation of the District, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the District, or (c) a guarantee of (i) a debt obligation of the District, or (ii) a derivative instrument described in clause (b), above; provided, however, that the term "Financial Obligation" shall not include "municipal securities" (as such term is defined in the Securities Exchange Act of 1934, as amended) as to which a "final official statement" (as such term is defined in the Rule) has been provided to the MSRB consistent with the Rule.

"Holder" means the person in whose name any Bond shall be registered.

"Listed Events" means any of the events listed in Section 5(a) or (b) hereof.

"MSRB" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" means the Official Statement, dated __________, 2019 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

"Participating Underwriter" means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**Section 3. <u>Provision of Annual Reports</u>.** (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which due date shall be April 1 of each year, so long as the District's fiscal year ends on June 30), commencing with the report for the 2018-2019 Fiscal Year (which is due not later than April 1, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall, or shall cause the Dissemination Agent to, give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB, a notice in substantially the form attached as Exhibit A.

(c) If a Dissemination Agent has been engaged by the District and is acting as such hereunder, not later than 15 business days prior to the date specified in subsection (a) for the providing of the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received the Annual Report, the Dissemination Agent shall contact the District to remind the District of its compliance obligations under subsection (a). If the Dissemination Agent is unable to provide to the MSRB an Annual Report (or verify that an Annual Report has been provided to the MSRB by the District) by the date required in subsection (a), the Dissemination Agent shall, in a timely manner, send or cause to be sent to the MSRB, a notice in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) provide any Annual Report received by it to the MSRB as provided herein; and

(ii) file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

**Section 4. <u>Content of Annual Reports</u>.** The District's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year.

(ii) The District's average daily attendance for the last completed fiscal year.

(iii) The District's outstanding debt.

(iv) Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County.

(v) Information regarding twenty taxpayers with the greatest combined ownership of taxable property in the District, if and to the extent provided to the District by the County.

(vi) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

**Section 5. Reporting of Listed Events.** (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner, not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of credit or liquidity providers or their failure to perform;

(v) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes;

(ix) bankruptcy, insolvency, receivership or similar event of the obligated person; or

(x) default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties.

For the purposes of the event identified in paragraph (ix) of this subsection, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner, not later than ten business days after the occurrence of the event:

(i) unless described in paragraph (v) of subsection (a) of this section, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) modifications to rights of Bond Holders;

(iii) optional, unscheduled or contingent Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent; or

(viii) incurrence of a Financial Obligation, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation, any of which affect holders of the Bonds.

(c) If a Listed Event described in Section 5(b) hereof occurs, the District shall determine if such event would be material under applicable federal securities laws.

(d) If a Listed Event described in Section 5(a) hereof occurs, or if a Listed Event described in Section 5(b) hereof occurs that the District determines would be material under applicable federal securities laws, the District shall in a timely manner, not later than ten business days of occurrence of the Listed Event, file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in paragraph (iii) of subsection (b) of this section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the District Resolution.

**Section 6. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**Section 7. Termination of Reporting Obligation.** The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in a filing with the MSRB.

**Section 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be KNN Public Finance LLC.

**Section 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the District Resolution for amendments to the District Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**Section 11. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the District Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**Section 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: __________, 2019

**RIALTO UNIFIED SCHOOL DISTRICT**

By: ___________________________________

**ACCEPTED AND AGREED TO:**

**KNN PUBLIC FINANCE LLC,**
**AS DISSEMINATION AGENT**

By: ___________________________________
Authorized Signatory

## EXHIBIT A

## NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

| | |
|---|---|
| Name of Issuer: | **RIALTO UNIFIED SCHOOL DISTRICT** |
| Name of Issue: | Rialto Unified School District (County of San Bernardino, California) General Obligation Bonds, Election of 2010, Series 2019 |
| Date of Issuance: | __________, 2019 |

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the District, dated __________, 2019. [The District anticipates that the Annual Report will be filed by _____________.]

Dated: _______________

**[RIALTO UNIFIED SCHOOL DISTRICT/DISSEMINATION AGENT]**

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## APPENDIX E

## COUNTY OF SAN BERNARDINO INVESTMENT POLICIES AND PRACTICES AND DESCRIPTION OF INVESTMENT POOL

*The following information has been furnished by the Office of the Auditor-Controller/Treasurer/Tax Collector, County of San Bernardino (the "County Treasurer"). It describes (i) the policies applicable to investment of District funds, including bond proceeds and tax levies, and funds of other agencies held by the County Treasurer and (ii) the composition, carrying amount, market value and other information relating to the investment pool. Further information may be obtained directly from the Auditor-Controller/Treasurer/Tax Collector of the County of San Bernardino, 268 West Hospitality Lane, San, San Bernardino, California 92415.*

*Neither the District nor the Underwriter has made an independent investigation of the investments in the Pools and has made no assessment of the current Investment Policy. The value of the various investments in the Pools will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Treasurer, with the consent of the County Board of Supervisors, may change the Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pools will not vary significantly from the values described herein.*

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# REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS OF SAN BERNARDINO COUNTY, CALIFORNIA AND RECORD OF ACTION

June 25, 2019

**FROM:** **ENSEN MASON, Auditor-Controller/Treasurer/Tax Collector**
**Auditor-Controller/Treasurer/Tax Collector**

**SUBJECT:** **TREASURER'S STATEMENT OF INVESTMENT POLICY**

## RECOMMENDATION(S)

1. Renew Treasurer's authority to invest pursuant to Government Code Sections 27000.1 and 53607.
2. Approve the Treasurer's Statement of Investment Policy.

(Presenter: Ensen Mason, Auditor-Controller/Treasurer/Tax Collector, 382-7000)

## COUNTY AND CHIEF EXECUTIVE OFFICER GOALS AND OBJECTIVES

**Operate in a Fiscally-Responsible and Business-Like Manner.**

## FINANCIAL IMPACT

Approval of this item will not impact Discretionary General Funding (Net County Cost).

## BACKGROUND INFORMATION

California Government Code (CGC) Sections 27000.1 and 53607 provide for an annual renewal by the Board of Supervisors of its delegation of investment authority to the County Treasurer. Approval of Recommendation No. 1 will effectuate this renewal of authority.

On May 30, 2019, the Treasury Oversight Committee reviewed revisions to the County Investment Policy as recommended by the Treasurer, and noted no exceptions to the Treasurer's recommendations. The major changes recommended by the Treasurer are:

- Increase the maximum maturity limits of United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest from 5 years to 5.5 years, to allow for forward settlement dates and long-dated benchmark maturities. (CGC Section 53601(b))
- Increase the maximum maturity limits of notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises from 5 years to 5.5 years, to allow for forward settlement dates and long-dated benchmark securities. (CGC Section 53601(f))



| | |
|---|---|
| cc: ATC- Mason<br>CAO- Lofton<br>File - Auditor-Controller/Treasurer/Tax Collector w/ attach<br>jr 07/02/19 | Record of Action of the Board of Supervisors<br>**APPROVED (CONSENT CALENDAR)**<br>**COUNTY OF SAN BERNARDINO**<br>**Board of Supervisors**<br>MOTION MOVE 1 ABSENT 2 SECOND 3 AYE 4 AYE 5<br>**LAURA H. WELCH, CLERK OF THE BOARD**<br>BY<br>**DATED: June 25, 2019** |

**ITEM 18**

Rev 7-12-16

- Remove the weighted-average-life maturity limit of Asset-Backed Securities to align language with current law after passage of Assembly Bill 1770 (now codified in CGC Section 53601(o) effective Jan 1, 2019).
- Increase the purchase limit on FDIC Insured Deposit Accounts Authorized under CGC Sections 53601.8 & 53635.8 from a maximum of $50MM per selected depository institution to a maximum of $100MM, to allow for higher liquidity holdings.
- Increase the purchase limit on JPA Investment Pools authorized under CGC Section 53601(p) from a maximum of $200MM per JPA Pool to a maximum of $300MM, to allow for higher liquidity holdings.

Approval of Recommendation No. 2 will approve the Treasurer's Statement of Investment Policy, as detailed in Attachment A.

**PROCUREMENT**
N/A

**REVIEW BY OTHERS**
This item has been reviewed by County Counsel (Robert F. Messinger, Principal Assistant County Counsel, 387-5455) on May 31, 2019; Finance (Carl Lofton, Administrative Analyst, 387-5404) on June 5, 2019; and County Finance and Administration (Robert Saldana, Deputy Executive Officer, 387-5423) on June 11, 2019.

ATTACHMENT A

# OFFICE OF THE
# AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
# COUNTY OF SAN BERNARDINO

## TREASURER'S STATEMENT OF INVESTMENT POLICY

As approved by the Board of Supervisors on June 25, 2019

**SCOPE:**

The County of San Bernardino's Investment Policy has been prepared in accordance with California State law. This policy shall be reviewed annually by the County's Treasury Oversight Committee and approved by the County Board of Supervisors. The purpose of this policy is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the management and investment of the County Treasury Pool, which consists of the pooled monies held on behalf of the County, school districts, community college districts and certain special districts within the County.

This policy shall apply to all investments held within the County Treasury Pool and made on behalf of the County and member agencies of the Pool, with the exception of certain bond funds for which the Board of Supervisors may specifically authorize other allowable investments, consistent with State law. The Treasurer and Treasurer's staff are responsible for the full-time, active management of the Pool. All investments and activities of the Treasurer and staff are made with the understanding that the Treasurer holds a public trust with the citizens of the County, which shall not be compromised.

**FIDUCIARY RESPONSIBILITY:**

The California Government Code, Section 27000.3, declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a fiduciary subject to the prudent investor standard.

This standard requires that "*When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law*." This standard shall be applied in the context of managing the overall portfolio.

**PORTFOLIO OBJECTIVES:**
It is the policy of the Treasurer to invest public funds in a manner that will preserve the safety and liquidity of all investments within the County investment pool while obtaining a reasonable return within established investment guidelines. The portfolio should be actively managed in a manner that is responsive to the public trust and consistent with State law. Accordingly, the County investment pool will be guided by the following principles, in order of importance:

- The primary objective of the Treasurer's investment of public funds is to safeguard investment principal.
- The secondary objective is to maintain sufficient liquidity to insure that funds are available to meet daily cash flow requirements.
- The third and last consideration is to achieve a reasonable rate of return or yield consistent with these objectives.

**AUTHORITY:**
The Treasurer's authority for making investments is delegated by the Board of Supervisors in accordance with the California Government Code. Statutory authority for the investment and safekeeping functions are found in Sections 53600 et seq. and 53630 et seq. of the California Government Code.

**AUTHORIZED INVESTMENTS:**
Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I, which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply. Whenever a maximum allowable percentage of the portfolio is stated for any type of security as detailed above, the maximum allowable limit is determined by the portfolio size at the market close of the regular business day prior to the security purchase date. Maximum limits are applicable at the time of security purchase only unless otherwise noted or defined in Schedule I.

In conjunction with these restrictions, County Treasurer staff shall diversify its investments by security type, issuer and maturity as specified in Schedule I. The purpose of this diversification is to reduce portfolio risk by avoiding an overconcentration in any particular maturity sector, asset class or specific issuer. As Agency security holdings are the largest portion of the pool, diversification among the Agency issuers should be considered to the extent practical when making investments.

**PROHIBITED INVESTMENTS:**
No investment shall be made that is prohibited by law. Thus, no investments are authorized in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, nor in any other investment that could result in zero interest if held to maturity. Additionally, the following types of investments are also prohibited:

- Mutual bond funds that do not maintain a constant Net Asset Value (NAV).
- Illiquid investments which lack a readily available market for trading. These investments are defined to be: private placement notes or bonds, funding agreements, master notes, and loan participations.

**STAFF AUTHORIZED TO MAKE INVESTMENTS:**
Only the Auditor-Controller/Treasurer/Tax Collector, Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, Investment Analyst(s) and authorized contracted consultant(s) may make investments and jointly order (with the settlement staff) the receipt and delivery of investment securities among custodial security clearance accounts. Authority granted to contracted consultant(s) shall be defined in their contract(s).

**AUTHORIZED BROKER/DEALERS:**
The County Treasurer shall maintain an 'Eligible Broker/Dealer List'. Security transactions are limited solely to those banks, direct issuers and dealers included on this list. All financial institutions must be approved by the County Treasurer before they receive County funds or are able to conduct business with the County Treasurer.

All firms with whom the County does business shall comply with the requirements set forth in Schedule IV. County Treasurer staff shall conduct an annual review of each Broker/Dealer's current financial condition and performance in servicing the County over the prior year. Furthermore, in compliance with Section 27133(c) & (d) of the California Government Code, no dealer and/or securities firm shall be eligible if they have made a political contribution in excess of the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board or exceeded the limit on honoraria, gifts, and gratuities set by State law, by the Fair Political Practices Commission, or by County ordinance.

**DUE DILIGENCE:**
County Treasurer staff shall conduct a thorough review and perform due diligence of all brokers, dealers, issuers of securities, and mutual funds prior to investing or conducting transactions with these parties and on a continuing basis. This due diligence shall include a periodic review of recent news, financial statements and SEC filings related to each entity.

**INTERNAL CONTROLS:**
The County Treasurer has established a system of internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets of the County Treasury Pool are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. The County Treasurer shall develop and maintain written procedures for the operation of the investment program, which are consistent with this policy. These procedures shall include reference to separation of duties, safekeeping, collateralization, wire transfers and banking related activities.

Except for declared emergencies, the County Treasurer's Office shall observe the following procedures on a daily basis:

- Investment transactions in excess of overnight maturity conducted by the County Treasurer's office shall be documented and subsequently reviewed by the Treasurer.
- All investment transactions shall be entered into the Treasurer's accounting system.
- County investments shall be transacted, settled, accounted for, and audited by different people.

**SECURITY CUSTODY & DELIVERIES:**

All securities purchased shall be deposited for safekeeping with the custodial bank that has contracted to provide the County Treasurer with custodial security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. All security holdings shall be reconciled monthly by the County Treasurer and audited at least quarterly by the independent certified public accounting firm approved by the County Board of Supervisors. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

All security transactions are to be conducted on a "delivery-versus-payment basis." Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation. Confirmations resulting from securities purchased under repurchase agreements should clearly state the exact and complete nomenclature of the underlying securities purchased, that these securities have been sold to the County under a repurchase agreement, and the stipulated date and amount of the resale by the County back to the seller of the securities.

**REPURCHASE AGREEMENTS:**

Repurchase agreements are restricted to primary dealers of the Federal Reserve Bank of New York. All counterparties must sign a Securities Industry & Financial Markets Association (formerly known as The Bond Market Association) Master Repurchase Agreement and, for tri-party repurchase agreements, a Tri-Party Repurchase Agreement as well before engaging in any repurchase agreement transactions. Collateral for repurchase agreements shall have a market value of at least 102% of the amount invested and must be marked to market by staff or by an independent third-party or custodial bank acting under contract to the County. Collateral for term repurchase agreements shall be marked to market no less than once weekly. Repurchase agreements are required to be collateralized by securities authorized under Section 53601 et seq. of the California Government Code.

**COMPETITIVE PRICING:**

Investment transactions are to be made at current market prices. When possible, competitive prices should be obtained through multiple bids or offers and documented on the trade ticket or other written forms. When possible, bids and offers for any investment security should be taken from a minimum of three security broker/dealers or banks and awards should be made to the best offer. When identical securities are not available from multiple sources, or investments are purchased directly from issuers (e.g. commercial paper and certificates of deposit), market prices may be documented by reference to offerings of similar securities that are of comparable rating and maturity by other issuers.

**LIQUIDITY:**

The duration-to-maturity of the portfolio shall not exceed 2.00. To provide sufficient liquidity to meet daily expenditure requirements for the following 12 months, the portfolio shall maintain at least 40% of its par value in securities having a maturity of 12 months or less.

**PERFORMANCE EVALUATION:**

Portfolio performance is monitored daily by the Treasurer and monthly by third-party analysis, which includes security pricing, evaluation, and a total return measurement using the Bank of America Merrill Lynch 6-month Treasury Bill Index "G0O2" as a benchmark.

**MITIGATING MARKET & CREDIT RISKS:**
Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the credit ratings issued by Standard & Poor's, Moody's and/or Fitch rating services on the credit worthiness of each issuer of securities, by limiting the duration of investments to the time frames noted in Schedule I, and by maintaining the diversification and liquidity standards expressed within this policy.

In the event of a downgrade of a security held in the portfolio, the Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book loss. In the event of a potential loss upon sale, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.

**TRADING & EARLY SALE OF SECURITIES:**
Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, securities may be sold prior to maturity, either at a profit or loss, when market conditions or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal. In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the County's books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale. However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

**PURCHASE OF SECURITIES FOR FORWARD SETTLEMENT:**
Purchases of securities for forward settlement are only authorized as long as the intent of the purchase is to hold them in the portfolio and not for speculative trading, sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date, there is the ability at purchase to hold them in the portfolio to maturity without violating any of the diversification/maturity limits of this policy, and the forward settlement period does not exceed 21 days.

**PORTFOLIO REPORTS/AUDITING:**
On a monthly basis, the County Treasurer shall prepare and file with the Board of Supervisors, Chief Executive Officer, Chief Deputy Auditor, Superintendent of Schools and Treasury Oversight Committee a report consisting of, but not limited to, the following:

- All investments detailing each by type, issuer, date of maturity, and par value and stating the book vs. current market value together with all other portfolio information required by law.
- Compliance of investments to the existing County Investment Policy.
- A statement confirming the ability of the Pool to meet anticipated cash requirements for the next six months.

**TREASURY OVERSIGHT COMMITTEE:**
In accordance with California Government Code Section 27131, the Board of Supervisors has established a Treasury Oversight Committee. The Treasury Oversight Committee will render unbiased and objective opinions on matters involving the Treasurer's investment of public funds. Specifically, the law requires that the Treasury Oversight Committee meet to:

- Review the Treasurer's annual Investment Policy Statement and any subsequent changes thereto prior to submission to the Board of Supervisors for review and adoption.
- Review the Treasurer's investment portfolio reports and the portfolio's compliance with law and this Investment Policy.
- Cause an annual audit to be conducted on the Treasurer's pooled investment portfolio.

The Treasury Oversight Committee shall receive a copy of every Audit Report as prepared by the independent certified public accounting firm approved by the County Board of Supervisors. Such reports are made in accordance with the California Government Code Sections 26920 and 26922 and County Board of Supervisor's resolution dated July 6, 1971, and which includes an evaluation of investments for compliance with California Government Code Section 53601 and 53635.

All meetings of the Oversight Committee are to be open to the public and subject to the Ralph M. Brown Act. By law, the Treasury Oversight Committee is not allowed to direct individual investment decisions, nor select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury. Members of the Oversight Committee are prohibited from accepting gifts or gratuities from investment advisors, brokers, dealers, bankers or other persons with whom the county treasury conducts business.

**QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS:**
All moneys deposited in the pool by the participants represent an individual interest in all assets and investments in the pool based upon the amount deposited. Portfolio income shall be reconciled daily against cash receipts and quarterly prior to the distribution of earnings among those entities sharing in pooled fund investment income. It is the intent of this policy to safeguard and maintain the principal value of funds invested and to minimize "paper losses" caused by changes in market value. Nonetheless, actual portfolio income and/or losses, and net of any reserves, will be distributed quarterly among those participants sharing in pooled investment income in compliance with the California Government Code. Except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the calendar quarter.

**QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS:**
Prior to the quarterly apportionment of pooled fund investment earnings, the County Treasurer is permitted, pursuant to the California Government Code, to deduct from investment earnings the actual cost of the investments, auditing, depositing, handling and distribution of such income. Accordingly, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: banking services, wire transfers, custodial safekeeping charges, building remodeling costs and other capital outlays, the costs of investment advisory services, credit ratings, the pro-rata annual cost of the salaries including fringe benefits for the personnel in the Treasurer/Tax Collector's office engaged in the administration, investment, auditing, cashiering, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions.

**WITHDRAWAL OF FUNDS:**
Any depositor or public official having funds on deposit, either voluntarily or involuntarily, with this pool, that seeks to withdraw these funds for the purpose of investing or depositing them outside the Treasury Pool, shall first submit a request for withdrawal to the Treasurer for approval prior to withdrawing funds.

The request should be submitted and processed as follows:

- In writing, from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit is to be made, and the reason for the request.
- The request must be received by the County Treasurer no less than thirty (30) days prior to the requested date of withdrawal.
- Prior to approving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the County Treasury pool, in accordance with California Government Code Section 27136(b).

**CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY INTO THE TREASURY POOL:**
The County Treasurer is not soliciting nor accepting any new agency's voluntary entry into the Treasury Pool.

**ETHICS & CONFLICTS OF INTEREST:**
Officers and staff members involved in the investment process shall refrain from any personal business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. The Auditor-Controller/Treasurer/Tax Collector, Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, and Investment Analyst(s) are required to file annually the applicable financial disclosure statements as mandated by the Fair Political Practices Commission (FPPC) and/or by County ordinance. In addition, the Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, and Investment Analyst(s), are required to sign and abide by an Ethics Policy instituted by the Auditor-Controller/Treasurer/Tax Collector.

**POLICY ADOPTION & AMENDMENTS:**
This policy statement will become effective immediately following adoption by the Board of Supervisors. It will remain in force as long as the delegation of authority to the Treasurer to invest is in effect and until the policy statement is subsequently amended in writing by the County Auditor-Controller/Treasurer/Tax Collector, reviewed by the Treasury Oversight Committee and approved by the Board of Supervisors.

**OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR (SCHEDULE I)**

| AUTHORIZED INVESTMENTS | DIVERSIFICATION | PURCHASE RESTRICTIONS | MATURITY (not to exceed) | MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH) |
|---|---|---|---|---|
| United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest | 100% | None | 5 years and 6 months | Not Applicable |
| Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises (excluding mortgage-backed securities) | 100% | Senior debt only | 5 years and 6 months | Not Applicable |
| Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank | 30% | US Dollar denominated Senior Unsecured debt only | 5 years | AA by at least one rating agency* |
| Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within the County of San Bernardino | 10% | With approval of Treasurer | 5 years | AAA by at least 2 of the 3 rating agencies* |
| Commercial paper of U.S. Corps with total assets in excess of $500 MM | 40% total for all Commercial Paper | Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit | 270 Days | Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)* |
| Asset-backed Commercial Paper | 40% total for all Commercial Paper | Issuer must have program-wide credit enhancements | 270 Days | Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)* |
| Negotiable CDs issued by approved banks | 30% | Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit | 3 years from settlement date | Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 short-term rating or long-term letter rating of A- and/or A3, or higher (if rated)* |
| Collateralized Certificates of Deposit | 10% | As stipulated in Article 2, Section 53630 et al. of the Calif. Govt. Code | 1 year from settlement date | See Section 53630 et al. of the California Government Code |

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| Repurchase Agreements with 102% collateral | 40% | Repurchase Agreements (contracts) must be on file | 180 days | Restricted to Primary Dealers on Eligible Broker/Dealer List |
| Reverse Repurchase Agreements | 10% | See Schedule II | 92 days (See Schedule II) | Restricted to Primary Dealers on Eligible Broker/Dealer List |
| Medium Term Notes of U.S. Corporations & Depository Institutions and/or Corporate or Bank notes | 20% (shall not exceed 10% over 13 months) | Max $200MM par value of any one issuer, subject to 5% overall corporate issuer limit. | 3 years and 2 months (38 months) from settlement date | Rated long-term A- and/or A3, or higher by at least 2 of the 3 rating agencies* |
| Asset-Backed Securities | 10% | Max $200MM par value of any one issuer, subject to 5% overall special purpose entity** limit | 5 years | As per Section 53601(o) of the California Government Code |
| FDIC Insured Deposit Accounts Authorized under California Government Code Sections 53601.8 & 53635.8 | 5% | Max $100MM per selected depository institution. Max $100MM per placement service | Term Deposits not permitted | Not Applicable |
| JPA Investment Pools authorized under California Government Code Section 53601(p) | 5% | Max $300MM per JPA Pool Maintain Constant Net Asset Value (NAV) | Immediate Liquidity | AAA by at least one rating agency* |
| Money Market mutual funds that meet requirements of California Government Code | 15% | Registered with SEC. No NAV adjustments. No loads. Max 10% per fund. | Immediate Liquidity | AAA by at least 2 of the 3 rating agencies* |

* Standard & Poor's Ratings Services, Moody's Investors Service Inc., and Fitch Ratings Ltd. "New Issue" securities may be purchased and settled based on anticipated ratings.

** See Glossary Terms

## SCHEDULE II

### POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

1. The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio.

2. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.

3. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.

4. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.

5. Only U.S. Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.

6. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities that are intended to be held to maturity, have been fully paid for, and have been held in the portfolio for a minimum of 30 days.

7. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.

8. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.

9. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

# OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
# COUNTY OF SAN BERNARDINO
# STATEMENT OF INVESTMENT POLICY

## SCHEDULE III

## POLICY CRITERIA FOR COLLATERALIZED CERTIFICATE OF DEPOSITS

1. The bank must provide us with an executed copy of the authorization for deposit of moneys.

2. The money-market yield on the certificate of deposit must be competitive with negotiable CD's offered by banks on the county's pre-approved list in the maturities desired by the County. The County Treasurer's Office reserves the right to negotiate higher yields based on market conditions at the time.

3. Collateral Requirements: the County will only accept U.S. Treasury and/or Agency securities as collateral. The collateral must be held by a separate custodial bank in an account in the name of San Bernardino County. The County must have perfected interest in the collateral. The maximum maturity of securities is 5 years, the collateral must be priced at 110% of the face value of the CD on a daily basis, and the minimum face value per pledged security is $5 million. The County Treasury must receive written confirmation that these securities have been pledged in repayment of the time deposit. Additionally, a statement of the collateral shall be provided on a monthly basis from the custodial bank.

4. The County Treasurer must be given a current audited financial statement for the financial year just ended. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.

5. The County Treasurer must receive a certificate of deposit, which specifically expresses the terms governing the transaction, such as: deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc.).

6. Notwithstanding the above, the certificate of deposit must meet the requirements of Fitch Ratings Ltd. for the County to maintain its AAA pool rating. These requirements typically include an A-1/P-1 and/or F1 short-term rating. The County may rely on credit ratings of Standard & Poor's, Moody's and Fitch to determine the creditworthiness of an institution and/or may supplement this research with its own financial analysis.

7. Deposits will only be made with banks and savings and loans having branch office locations within San Bernardino County.

## SCHEDULE IV

## POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS

1. All financial institutions wishing to be considered for the County of San Bernardino's Broker/Dealer List must confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses.

2. The County Treasurer's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.

3. The firm must acknowledge receipt of the County Treasurer's written Investment Policy guidelines.

4. It is important that the firm provide related services that will enhance the account relationship, which could include:

   (a) An active secondary market for its securities.
   (b) Internal credit research analysis on commercial paper, bankers' acceptances and other securities it offers for sale.
   (c) Be willing to purchase securities from our portfolio.
   (d) Be capable of providing market analysis, economic projections, and newsletters.

5. The firm must provide the County with annual financial statements. All firms with whom the County does business must have a stable financial condition.

6. The County Treasury is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank.

7. Without exception, all transactions are to be conducted on a delivery vs. payment (DVP) basis or, for repurchase agreements, on a tri-party basis.

8. The broker/dealer must have been in operation for more than five (5) years.

9. Firms must have adequate financial strength and capital to support the level of trading that is approved. Adequate financial strength will be assessed by a review of the balance sheet and income statement of the dealer. Broker/dealers with less than $10 million of net capital may be approved for trading that is limited in maturity or amount or may not be approved for extended settlement trades.

10. Repurchase agreement counterparties will be limited to primary government securities dealers who report to the Federal Reserve Bank of New York and meet the following criteria:

    (a) Counterparties must have a minimum of one short-term credit rating of at least A-1, P-1, and/or F1.
    (b) Counterparties and/or their parent must have a minimum of $25 billion in assets and $350 million in capital.

## GLOSSARY OF TERMS

ACCRUED INTEREST – Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

AGENCY ISSUES – Securities issued by federal agencies, those chartered by the federal government or Government Sponsored Enterprises that are considered to be backed by the federal government. See also Government Sponsored Enterprises.

AMORTIZED COST – The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called “Book Value”).

ASSET-BACKED SECURITY (ABS) – A financial security backed by a loan, lease, or receivables against assets other than real estate and mortgage-backed securities.

BASIS POINT – A unit of measurement equal to 1/100 of 1 percent. As an example, the difference between a security yielding 3.25% and one yielding 3.20% is five basis points.

BENCHMARK – An index or security used to compare the performance of a portfolio.

BOND – A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

BULLET – A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

CALLABLE BOND – A bond in which all or a portion of its outstanding principal may be redeemed prior to maturity by the issuer under specified conditions.

COLLATERALIZATION – Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

COLLATERALIZED CERTIFICATE OF DEPOSIT – An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities at a minimum of 110% of the deposit amount.

COMMERCIAL PAPER – Money Market instrument representing an unsecured short-term promissory note of a corporation at a specified rate of return for a specified period of time.

COUPON – The stated interest rate on a debt security that an issuer promises to pay.

CREDIT QUALITY – An indication of risk that an issuer of a security will fulfill its obligation, as rated by a rating agency.

CREDIT RATING – A standardized assessment, expressed in alphanumeric characters, of a company’s creditworthiness.

CREDIT RISK – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSIP – A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit.

DERIVATIVES – Securities that derive their value from that of another security or an underlying index, currency or other measure. Floating rate notes (also "floaters") are not considered derivatives.

DISCOUNT INSTRUMENTS – Securities that are sold at a discount to face value.

DIVERSIFICATION – The practice or concept of investing in a range of securities by sector, maturity, asset class or credit quality in order to reduce and spread financial risk.

DOLLAR WEIGHTED AVERAGE MATURITY – The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION – Is a measure of the price volatility of a portfolio and reflects an estimate of the projected increase or decrease in the value of that portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would decrease by 1.0 percent.

EARNINGS APPORTIONMENT – Is the quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

GOVERNMENT OBLIGATIONS – Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees.

GOVERNMENT SPONSORED ENTERPRISES (GSE'S) – Private, shareholder-owned companies with a relationship with government agencies. These agencies generally are viewed to have an implied guarantee of the U.S. government. These include:

Federal National Mortgage Association (FNMA)
Federal Home Loan Bank (FHLB)
Federal Farm Credit Bank (FFCB)
Federal Home Loan Mortgage Corporation (FHLMC)

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INTEREST RATE RISK – The risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value. Also called "Market Risk".

INVERSE FLOATERS – Floating rate notes that pay interest in inverse relationship to an underlying index.

LIQUID – A security that is easily bought and sold because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LOCAL AGENCY OBLIGATION – An indebtedness issued by a local agency, department, board, or authority within the State of California.

LONG-TERM – The term used to describe a security when the maturity is greater than one year.

MARKET VALUE – An estimate of the value of a security at which the principal would be sold from a willing seller to a willing buyer at the date of pricing.

MEDIUM TERM NOTES – These are Corporate Notes and Bank Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND – A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

NEGOTIABLE CERTIFICATE OF DEPOSIT – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

PAR – The stated maturity value, or face value, of a security.

PASS-THROUGH SECURITIES – A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

POOL – In this context, the pooled monies of different government agencies administered by the County Treasurer. Each pool member owns a fractional interest in the securities held in the Pool.

PORTFOLIO VALUE – The total book value amount of all the securities held in the Treasurer's Pooled Money Fund.

PRIMARY DEALER – A group of dealers and banks that can buy and sell securities directly with the Federal Reserve Bank of New York.

PRIVATE PLACEMENTS – Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

RANGE NOTES – Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

REPURCHASE AGREEMENT – A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the County), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

REVERSE REPURCHASE AGREEMENT – The mirror image of Repurchase Agreements. In this instance the County Pool is the seller of securities to an investor (i.e. brokers).

SAFEKEEPING – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SECURITIES LENDING – A transaction wherein the Treasurer's Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SHORT-TERM – The term used to describe a security when the maturity is one year or less.

SPECIAL PURPOSE ENTITY (or TRUST) - A legally separated pass-through entity, trust or equivalent that makes its obligation secure and independent from the parent entity. This term is used to define purchase of Asset-Backed Securities at either the depositor or master trust level.

TOTAL RETURN – The sum of all investment income plus changes in the capital value of a portfolio for a given period.

VOLUNTARY PARTICIPANTS – Local agencies that are not required to deposit their funds with the County Treasurer.

WEIGHTED AVERAGE MATURITY – The remaining average maturity of all securities held in a portfolio. See Dollar Weighted Average Maturity.

WHEN-ISSUED SECURITIES – A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

YIELD – The gain, expressed as a percentage that an investor derives from a financial asset.

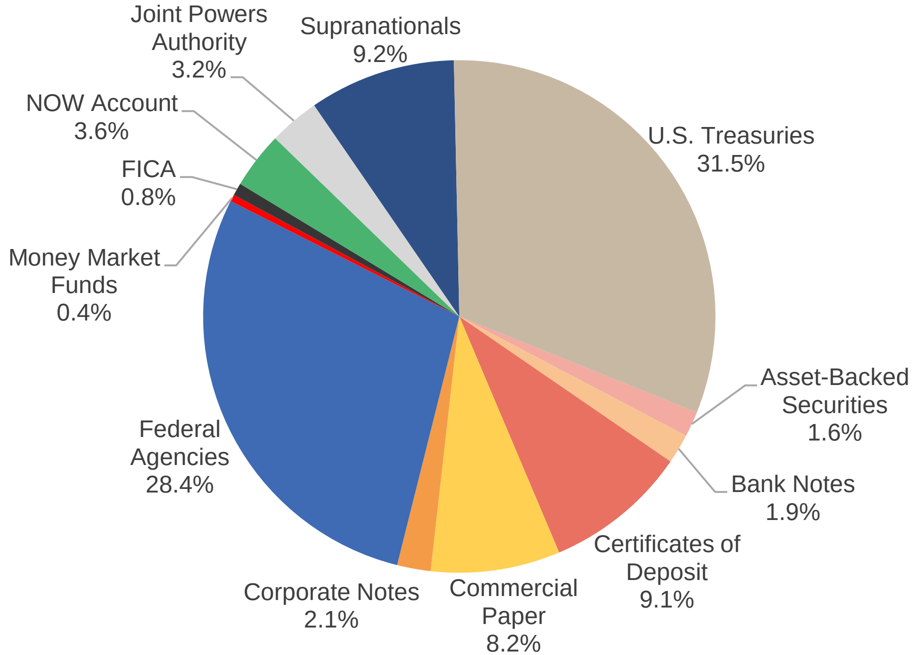
YIELD TO MATURITY – The percentage rate of return paid if the security is held to its maturity date. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate.

# San Bernardino County Pool Summary (as of 8/31/2019)

| Security Type | Par Value | Amortized Cost | Market Value | Market % of Portfolio | Yield to Maturity at Cost | Wtd. Avg. Maturity | Modified Duration |
|---|---|---|---|---|---|---|---|
| Asset-Backed Securities | 99,100,000.00 | 99,091,498.30 | 99,923,789.80 | 1.6% | 2.49% | 1,110 | 1.48 |
| Bank Notes | 117,000,000.00 | 117,048,368.95 | 117,943,932.00 | 1.9% | 2.64% | 548 | 1.45 |
| Certificates of Deposit | 570,000,000.00 | 570,000,000.00 | 570,102,913.75 | 9.1% | 2.29% | 84 | 0.22 |
| Collateralized CD | 0.00 | 0.00 | 0.00 | - | - | - | - |
| Commercial Paper | 515,000,000.00 | 513,758,197.00 | 513,787,480.00 | 8.2% | 2.22% | 40 | 0.10 |
| Corporate Notes | 132,050,000.00 | 131,447,846.93 | 133,210,132.75 | 2.1% | 2.67% | 610 | 1.63 |
| Federal Agencies | 1,775,698,000.00 | 1,773,166,601.22 | 1,796,063,870.99 | 28.4% | 2.26% | 596 | 1.57 |
| Money Market Funds | 27,000,000.00 | 27,000,000.00 | 27,000,000.00 | 0.4% | 1.99% | 1 | - |
| Municipal Debt | 0.00 | 0.00 | 0.00 | - | - | - | - |
| Repurchase Agreements | 0.00 | 0.00 | 0.00 | - | - | - | - |
| Bank Deposit Account | 50,000,000.00 | 50,000,000.00 | 50,000,000.00 | 0.8% | 2.37% | 1 | - |
| NOW Account | 225,000,000.00 | 225,000,000.00 | 225,000,000.00 | 3.6% | 2.35% | 1 | - |
| Joint Powers Authority | 200,000,000.00 | 200,000,000.00 | 200,000,000.00 | 3.2% | 2.25% | 1 | - |
| Supranationals | 580,000,000.00 | 577,445,523.70 | 582,354,340.00 | 9.2% | 2.13% | 416 | 1.10 |
| U.S. Treasuries | 1,975,000,000.00 | 1,956,080,771.50 | 1,979,883,175.00 | 31.5% | 2.15% | 674 | 1.80 |
| **Total Securities** | **6,265,848,000.00** | **6,240,038,807.60** | **6,295,269,634.29** | **100.0%** | **2.24%** | **472** | **1.25** |
| Cash Balance | 204,223,484.21 | 204,223,484.21 | 204,223,484.21 | | | | |
| **Total Investments** | **6,470,071,484.21** | **6,444,262,291.81** | **6,499,493,118.50** | | | | |
| Accrued Interest | | 23,465,596.05 | 23,465,596.05 | | | | |
| **Total Portfolio** | **6,470,071,484.21** | **6,467,727,887.86** | **6,522,958,714.55** | | | | |

1. Yield for the money market funds is a weighted average of the month-end yields for the Federated, Goldman, and Fidelity money market funds.
2. Statistics for the total portfolio include money market funds.
3. Market prices are derived from closing bid prices as of the last business day of the month as supplied by F.T. Interactive Data, Bloomberg, or Telerate.

## Sector Distribution

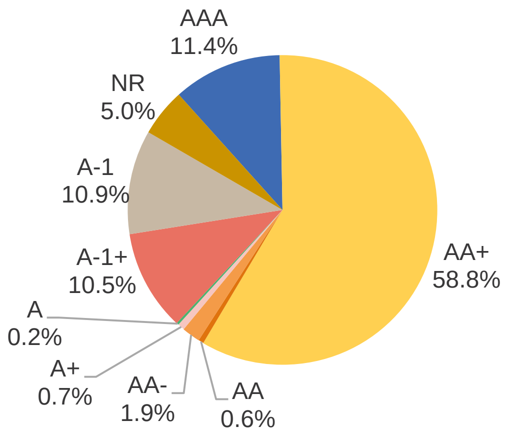



| Sector | Market Value |
|---|---:|
| Asset-Backed Securities | $99,923,789 |
| Bank Notes | $117,943,932 |
| Certificates of Deposit | $570,102,914 |
| Collateralized CD | $0 |
| Commercial Paper | $513,787,480 |
| Corporate Notes | $133,210,133 |
| Federal Agencies | $1,796,063,871 |
| Money Market Funds | $27,000,000 |
| Municipal Debt | $0 |
| Repurchase Agreements | $0 |
| FICA | $50,000,000 |
| NOW Account | $225,000,000 |
| Joint Powers Authority | $200,000,000 |
| Supranationals | $582,354,340 |
| U.S. Treasuries | $1,979,883,175 |

Percentages may not sum to 100% due to rounding.

# Credit Quality Distribution

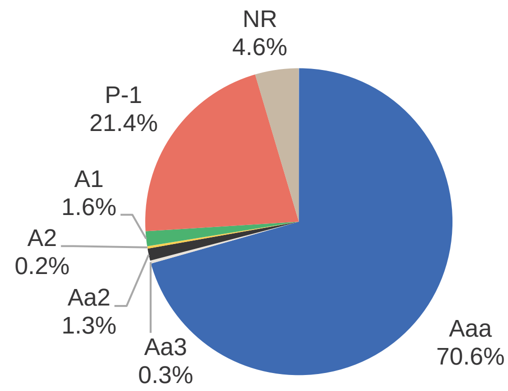
## S&P RATINGS




| Credit Rating | Market Value |
|---|---:|
| A-1+ (Short-Term) | $662,226,597 |
| A-1 (Short-Term) | $683,979,828 |
| AAA (Long-Term) | $715,903,625 |
| AA+ (Long-Term) | $3,704,469,877 |
| AA (Long-Term) | $34,488,377 |
| AA- (Long-Term) | $120,289,642 |
| A+ (Long-Term) | $45,388,029 |
| A (Long-Term) | $15,173,815 |
| Not Rated | $313,349,844 |

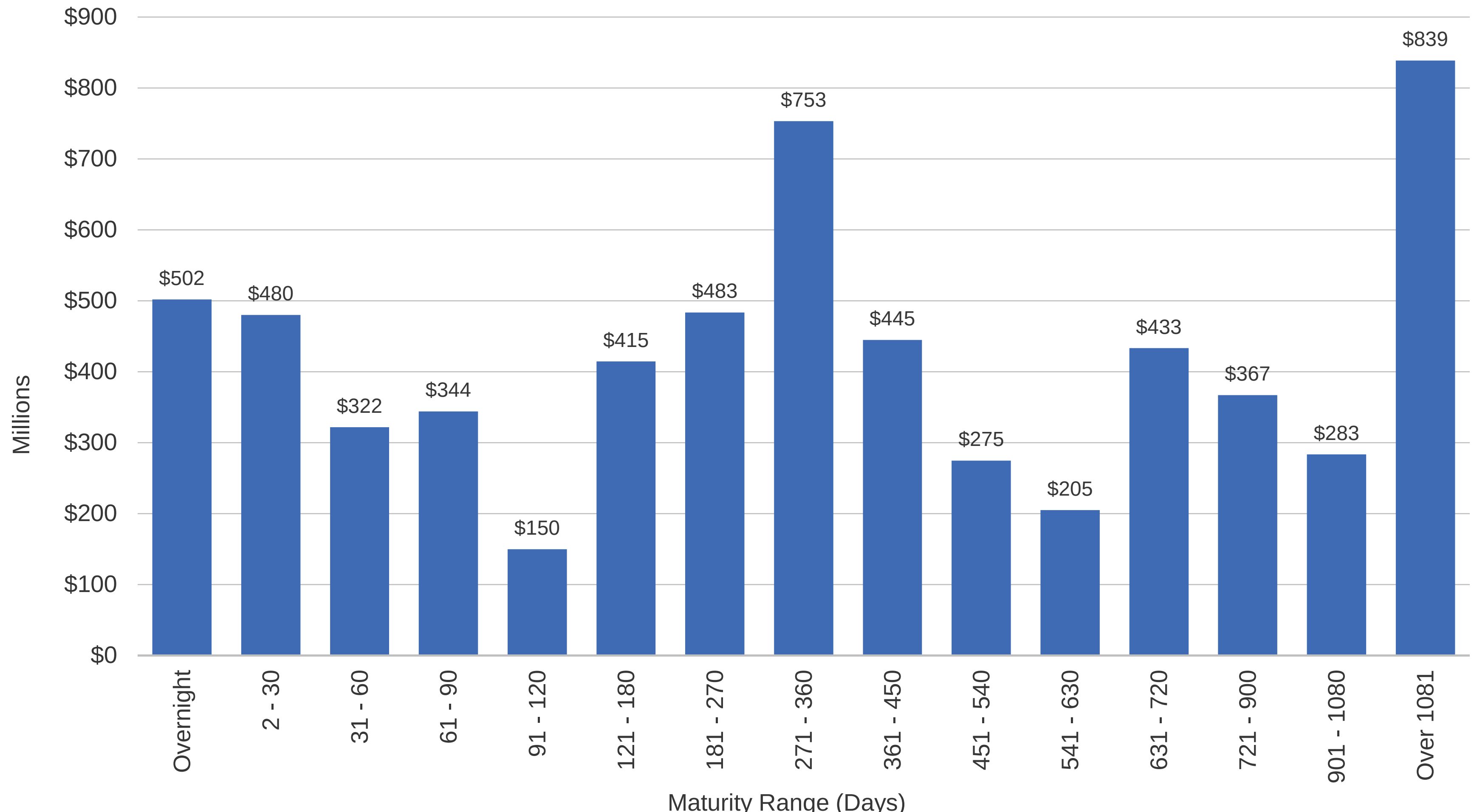
Percentages may not sum to 100% due to rounding.

## MOODY'S RATINGS




| Credit Rating | Market Value |
|---|---:|
| P-1 (Short-Term) | $1,346,206,425 |
| Aaa (Long-Term) | $4,444,505,713 |
| Aa3 (Long-Term) | $20,309,630 |
| Aa2 (Long-Term) | $79,876,406 |
| Aa1 (Long-Term) | $0 |
| A3 (Long-Term) | $0 |
| A2 (Long-Term) | $15,173,815 |
| A1 (Long-Term) | $99,980,012 |
| Not Rated | $289,217,633 |

## Maturity Distribution




Maturity range assumes no securities are called.

# San Bernardino County Pool Portfolio Yield Summary

| Month | Yield to Maturity At Cost |
|---|---|
| August 2018 | 1.89% |
| September 2018 | 1.93% |
| October 2018 | 2.01% |
| November 2018 | 2.03% |
| December 2018 | 2.11% |
| January 2019 | 2.15% |
| February 2019 | 2.18% |
| March 2019 | 2.21% |
| April 2019 | 2.25% |
| May 2019 | 2.25% |
| June 2019 | 2.27% |
| July 2019 | 2.25% |
| **August 2019** | **2.24%** |

1. Gross yields not including non-earning assets (compensating bank balances) or administrative costs for management of the pool.
2. All historical yields restated to include money market funds.

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## APPENDIX F

## BOOK-ENTRY ONLY SYSTEM

*The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series 2019 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2019 Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.*

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2019 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

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# APPENDIX G

## TABLE OF ACCRETED VALUES OF CAPITAL APPRECIATION BONDS

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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)

**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

**ACCRETED VALUE**

**ENDORSEMENT TO**

**MUNICIPAL BOND INSURANCE POLICY**

**NO.**

Re: Bonds Maturing on

It is further understood that with respect to the Bonds maturing on the dates referenced above, the amount insured under this Policy is that portion of the accreted value (as set forth in the bond documents under which the Bonds are issued) of said Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

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