PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 22, 2019

NEW ISSUE - FULL BOOK-ENTRY | **INSURED RATING: S&P: "AA"**

UNDERLYING RATING: S&P: "A+"
See "RATINGS" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

$3,550,000*
General Obligation Bonds of
School Facilities Improvement District No. 1 of
UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
(Lake County, California)
Election of 2018, Series B

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

Authority and Purposes. The General Obligation Bonds of School Facilities Improvement District No. 1 of Upper Lake Unified School District (K-8 Area) (Lake County, California), Election of 2018, Series B (the "Bonds") are being issued by the Upper Lake Unified School District (the "School District") on behalf of School Facilities Improvement District No. 1 (K-8 Area) of the School District K-8 Area) (the "Improvement District"), pursuant to certain provisions of the California Government Code and a resolution of the Board of Trustees of the School District adopted on November 12, 2019 (the "Bond Resolution"). The Bonds were authorized at an election of the registered voters of the Improvement District held on November 6, 2018, which authorized the issuance of $12,000,000 principal amount of general obligation bonds for the purpose of financing the construction of school facilities. The Bonds are the second series of bonds to be issued under such authorization. See "THE BONDS – Authority For Issuance" and "THE FINANCING PLAN" herein.

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

Book-Entry Only. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See "THE BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payments. The Bonds are dated the date of delivery and are being issued as Current Interest Bonds and Capital Appreciation Bonds (both as defined herein). The Current Interest Bonds accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity or earlier redemption, commencing February 1, 2020. The Capital Appreciation Bonds accrete interest at the accretion rates set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing on February 1, 2020 until payment of the accreted value thereof at maturity or upon earlier redemption. Payments of principal and accreted value of and interest on the Bonds will be paid by U.S. Bank National Association, as the designated paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS - Description of the Bonds."

Redemption. The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Optional Redemption" and "-Mandatory Sinking Fund Redemption."

Bond Insurance. The scheduled payment of principal of (or, in the case of Capital Appreciation Bonds, Accreted Value) and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp.

ASSURED GUARANTY
MUNICIPAL

MATURITY SCHEDULE
(See inside cover)

Cover Page. This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the School District, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the School District. Kutak Rock LLP, Irvine, California, California is serving as Underwriter's Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about December 18, 2019.

RAYMOND JAMES

The date of this Official Statement is ______, 2019.

**Preliminary; subject to change.*

MATURITY SCHEDULE*

General Obligation Bonds of
School District Facilities Improvement District No. 1 of
UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
(Lake County, California)
Election of 2018, Series B
Base CUSIP†: 91588C

$______ Principal Amount
Current Interest Bonds

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

$______ Denominational Amount
($_______ Maturity Value)
Capital Appreciation Bonds

Maturity Date (August 1)	Denominational Amount	Accretion Rate	Yield to Maturity	Maturity Value	CUSIP(†)

**Preliminary; subject to change.*
† CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the School District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

UPPER LAKE UNIFIED SCHOOL DISTRICT
(Lake County, California)

BOARD OF TRUSTEES OF THE DISTRICT

DISTRICT ADMINISTRATION

Dr. Giovanni H. Annous, *Superintendent*
Michael Kauble, *Chief Business Official*

PROFESSIONAL SERVICES

FINANCIAL ADVISOR

Caldwell Flores Winters Inc.
Emeryville, California

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT

U.S. Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the School District in any press release and in any oral statement made with the approval of an authorized officer of the School District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the School District or any other entity described or referenced herein since the date hereof.

Bond Insurer's Disclaimer. Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "Appendix I - Specimen Municipal Bond Insurance Policy".

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

Stabilization of and Changes to Offering Prices. The Underwriter may overallot or take other steps that stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

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

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

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

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

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General Obligation Bonds of
School Facilities Improvement District No. 1 of
UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
(Lake County, California)
Election of 2018, Series B

*The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the general obligation bonds captioned above (the **"Bonds"**) by the Upper Lake Unified School District (the "**School District**"), with respect to its School Facilities Improvement District No. 1 of the Upper Lake Unified School District (K-8 Area) (the "**Improvement District**").*

INTRODUCTION

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

The School District. The School District is located in an unincorporated community known as Upper Lake in Lake County (the **"County"**), California. Located approximately 140 miles north of San Francisco, 120 miles northwest of Sacramento, and 8 miles north of the City of Lakeport (the **"City"**), which borders the western shore of Clear Lake, Upper Lake is known as the Gateway to the Mendocino National Forest. The School District serves students in kindergarten through grade twelve, and operates an elementary school, a middle school and a high school, as well as three alternative schools. The School District became a unified school district effective July 1, 2016, following unification proceedings (the **"Unification Proceedings"**) between the Upper Lake Union Elementary School District (the **"Elementary School District"**) and the Upper Lake Union High School District (the **"High School District"**). Enrollment in the School District in fiscal year 2019-20 is approximately 915 students. For more information regarding the School District and its finances, see Appendix A and Appendix B attached hereto. See also Appendix C hereto for demographic and other statistical information regarding the City and the County.

The Improvement District. The Improvement District was formed on June 5, 2018, by the Board of Trustees of the School District following a public hearing, pursuant to the provisions of Chapter 2 (commencing with Section 15300) of Part 10 of Division 1 of the California Education Code (the "**Act**") and proceedings taken by the School District. The Improvement District consists of the area of the Elementary School District, prior to unification as described in the preceding paragraph. The Improvement District has a fiscal year 2019-20 total assessed value of $535,820,068, which is approximately 60.4% of the School District's 2019-20 total assessed valuation of $886,597,475. See "THE FINANCING PLAN" and "THE BONDS – Authority for Issuance."

**Preliminary; subject to change.*

Authority for Issuance of the Bonds. On November 6, 2018, the electors of the Improvement District approved the issuance of $12 million in bonds on behalf of the Improvement District by a 62.2% vote in favor of such issuance (which exceeded the requisite 55% plurality) (the "**2018 Authorization**"). The School District has issued $5,500,000 principal amount of 2018 Authorization designated as Series A. The Bonds described herein are the second series of general obligation bonds to be issued under the 2018 Authorization. The District will have $2,950,000* authorized but unissued bonds remaining after the issuance of the Bonds.

The Bonds will be issued pursuant to certain provisions of the Government Code of the State, commencing with Section 53506 thereof (the **"Bond Law"**) and pursuant to a resolution adopted by the Board of Trustees of the School District on November 12, 2019 (the "**Bond Resolution**"). See "THE BONDS - Authority for Issuance" herein.

Payment and Registration of the Bonds. The Bonds are being issued as current interest bonds (the "**Current Interest Bonds**") and capital appreciation bonds (the "**Capital Appreciation Bonds**"). The Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Bonds will be dated their date of original issuance and delivery (the "**Dated Date**") and will be issued as fully registered bonds, without coupons, in the denominations of $5,000 principal amount or Maturity Value (as defined herein), as applicable, or any integral multiple of $5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company ("**DTC**"), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Purchasers will not receive physical certificates representing their interest in the Bonds. See "THE BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption**.** The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Optional Redemption" and "– Mandatory Sinking Fund Redemption."

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

Bond Insurance. Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (**"AGM"** or the **"Bond Insurer"**) will issue its Municipal Bond Insurance Policy for the Bonds (the "**Policy**"). The Policy guarantees the scheduled payment of principal of (or, in the case of Capital Appreciation Bonds, accreted value) and interest on the Bonds when due, as set forth in the form of the Policy included as Appendix I to this Official Statement. See "BOND INSURANCE" and APPENDIX I.

Tax Matters. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Bonds will not

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**Preliminary; subject to change.*

be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also, in the opinion of Bond Counsel, interest on the Bonds will be exempt from State of California (the **"State"**) personal income taxes. See "TAX MATTERS" herein.

Continuing Disclosure. The School District will execute a Continuing Disclosure Certificate in connection with the issuance of the Bonds in the form attached hereto as Appendix E. See "CONTINUING DISCLOSURE."

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available from the School District from the Facilities Office at 675 Clover Valley Road, Upper Lake, California 95485. The School District may impose a charge for copying, mailing and handling.

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

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

END OF INTRODUCTION

THE FINANCING PLAN

General. The proceeds of the Bonds will be used to finance projects approved by the voters of the Improvement District under the 2018 Authorization, including the payment of related costs of issuance. The abbreviated ballot measure (limited to 75 words or less) presented to voters for the 2018 Authorization, which received more than a 55% affirmative vote, was:

> *"To construct, modernize and rehabilitate K-8 classrooms, improve access to modern technology, install shade structures, improve play areas, enhance safety/security, and provide the local match for State grants, shall the measure of Upper Lake Unified School District SFID #1 be adopted authorizing $12,000,000 in bonds at legal rates, averaging $665,000 raised annually to repay bonds through maturity from levies of approximately six cents per $100 of assessed valuation, with citizens oversight and audits, and no money for administrator salaries?"*

The School District will spend the proceeds of the Bonds on the types of projects set forth on the Full Text of the Project List presented to voters in the Improvement District, which includes the prepayment of interim financing for such projects including the 2018 Certificates of Participation which financed voter-approved projects in Improvement District on an interim basis.

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Prepayment of 2018 Certificates*. A portion of the proceeds of the Bonds will be used to prepay in full outstanding Certificates of Participation, Series 2018 (the **"2018 Certificates"**), which financed capital projects in the Improvement District on an interim basis. The following identifies the 2018 Certificates to be prepaid.

UPPER LAKE UNIFIED SCHOOL DISTRICT
Identification of Prepaid 2018 Certificates of Participation

Maturity Date (August 1)	Principal Amount	Prepayment Date	Prepayment Price	CUSIP†
2020	$120,000	12/20/2019	100.0%	91589A AA3
2021	125,000	12/20/2019	100.0	91589A AB1
2022	125,000	12/20/2019	100.0	91589A AC9
2023	130,000	12/20/2019	100.0	91589A AD7
2024	130,000	12/20/2019	100.0	91589A AE5
2025	135,000	12/20/2019	100.0	91589A AF2
2026	135,000	12/20/2019	100.0	91589A AG0
2027	140,000	12/20/2019	100.0	91589A AH8
2028	140,000	12/20/2019	100.0	91589A AJ4
2029	145,000	12/20/2019	100.0	91589A AK1
2030	150,000	12/20/2019	100.0	91589A AL9
2031	155,000	12/20/2019	100.0	91589A AM7
2032	160,000	12/20/2019	100.0	91589A AN5
2033	165,000	12/20/2019	100.0	91589A AP0
2034	170,000	12/20/2019	100.0	91589A AQ8
2035	175,000	12/20/2019	100.0	91589A AR6
2036	180,000	12/20/2019	100.0	91589A AS4
2037	185,000	12/20/2019	100.0	91589A AT2
2038	190,000	12/20/2019	100.0	91589A AU9

**Preliminary; subject to change.*
† CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter is responsible for the accuracy of such data.

SOURCES AND USES OF FUNDS

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

Sources of Funds	
Principal Amount of Bonds	
Net Original Issue Premium/(Discount)	
Total Sources	
Uses of Funds	
Building Fund	
Escrow Fund	
Debt Service Fund	
Costs of Issuance[1]	
Total Uses	

(1) Funds for prepayment of 2018 Certificates of Participation.

(2) All estimated costs of issuance including, but not limited to, Underwriter's discount, printing costs, and fees of Bond Counsel, Disclosure Counsel, the financial advisor, the Paying Agent, bond insurance premium, and the rating agency.

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APPLICATION OF PROCEEDS OF BONDS

Building Fund

The proceeds from the sale of the Bonds, to the extent of the principal amount thereof, will be paid to the County to the credit of a fund created and established pursuant to the Resolution and known as the "Election of 2018, Series B Upper Lake USD (SFID 1) Building Fund" (the "**Building Fund**"), which will be accounted for as separate and distinct from all other School District and County funds. The proceeds will be used solely for the purposes for the projects presented to voters pursuant to the 2018 Authorization, and for payment of permissible costs of issuance. Any excess proceeds of the Bonds not needed for the applicable authorized purposes for which the Bonds are being issued will be transferred to the Debt Service Fund (defined below) and applied to the payment of principal of and interest on the Bonds. If, after payment in full of the Bonds, there remains excess proceeds in the Building Fund, any such excess amounts shall be transferred to the general fund of the School District. Interest earnings on the investment of monies held in the Building Fund will be retained in the Building Fund.

An initial charge against the Building Fund is deemed to occur upon the delivery of the Bonds, due to proceeds deposited in the Escrow Fund to be used to prepay 2018 Certificates. See "THE FINANCING PLAN."

Debt Service Fund

The accrued interest and any premium, if any, received by the County from the sale of the Bonds will be deposited in a fund created and established in the Bond Resolution and known as the "Election of 2018, Series B Upper Lake USD (SFID 1) General Obligation Bond Debt Service Fund" (the "**Debt Service Fund**") which, together with the collections of *ad valorem* taxes, will be used only for payment of principal of and interest on the Bonds. Interest earnings on the investment of monies held in the Debt Service Fund will be retained in the Debt Service Fund and used by the County to pay the principal of and interest on the Bonds when due. Interest earnings on the investment of monies held in the Debt Service Fund will be retained in the Debt Service Fund and used by the County to pay the principal of and interest on the Bonds when due.

Investment of Proceeds of Bonds

Under California law, the School District is generally required to pay all monies received from any source into the County Treasury to be held on behalf of the School District. The proceeds of the Bonds to be deposited in the respective Building Funds and the Debt Service Funds initially will be deposited in the Treasury of the County which is administered by the Treasurer-Tax Collector (the **"County Treasurer"**). All moneys held in any of the accounts established with the County shall be invested in accordance with the investment policies of the County, as such policies exist at the time of investment. Obligations purchased as an investment of moneys in any fund or account will be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder will be deposited in the fund or account from which such investment was made, and will be expended for the purposes thereof.

For a description of the County's investment policy, see "APPENDIX G – LAKE COUNTY INVESTMENT POLICY." Money on deposit in the Building Funds and the Debt

Service Funds will be accounted for separately from other moneys held by the County Treasurer.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the 2018 Authorization and the Bond Resolution.

General Description of the Bonds

Form of Bonds. The Bonds are being issued as Current Interest Bonds and Capital Appreciation Bonds, both as described below. The Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Bonds. See "– Book-Entry Only System" below and "APPENDIX F – DTC and the Book-Entry System."

Current Interest Bonds

The Current Interest Bonds shall be issued in the denominations of $5,000 principal amount each or any integral multiple thereof. Interest on the Current Interest Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2020 (each, an **"Interest Payment Date"**). Each Current Interest Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15^{th}) day of the month preceding the Interest Payment Date (each, a **"Record Date"**), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to January 15, 2020, in which event it will bear interest from the date of delivery of the Bonds identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Current Interest Bond is in default at the time of authentication thereof, such Current Interest Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Current Interest Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Current Interest Bonds.

Capital Appreciation Bonds

The following terms used herein are defined in the Bond Resolution to have the following meanings with respect to the Capital Appreciation Bonds:

> **"Accreted Value"** means, with respect to any Capital Appreciation Bond, the total amount of principal thereof and interest payable thereon as of any Compounding Date determined solely by reference to the Table of Accreted Values set forth on such Capital Appreciation Bond, which is attached to this Official Statement as Appendix H. The Accreted Value of any Capital Appreciation Bond as of any date other than a Compounding Date will be the

sum of (a) the Accreted Value as of the Compounding Date immediately preceding the date as of which the calculation is being made plus (b) interest on the Accreted Value determined under the preceding clause (a), computed to the date as of which the calculation is being made at the Accretion Rate set forth on such Capital Appreciation Bond (computed on the basis of a 360-day year of twelve 30-day months).

"Accretion Rate" means the rate which, when applied to the principal amount of any Capital Appreciation Bond and compounded semiannually on each Compounding Date, produces the Maturity Value of such Capital Appreciation Bond on the maturity date thereof.

"Capital Appreciation Bonds" means bonds the interest on which is compounded semiannually on each Compounding Date and is payable in full at maturity as shown in the table of Accreted Value for the Capital Appreciation Bonds and attached to this Official Statement as Appendix H.

"Closing Date" means the date upon which there is a delivery of the Bonds in exchange for the amount representing the purchase price of the Bonds by the Underwriter (as defined herein).

"Compounding Date" means, with respect to any Capital Appreciation Bond, each February 1 and August 1, commencing February 1, 2020, to and including the date of maturity or redemption of such Capital Appreciation Bond.

"Denominational Amount" means, with respect to any Capital Appreciation Bond, the original amount of such Capital Appreciation Bond as of the Closing Date.

"Maturity Value" means, with respect to any Capital Appreciation Bond, the Accreted Value of such Capital Appreciation Bond to be paid at maturity.

As provided in the Bond Resolution, references therein and in this Official Statement to the payment of the principal of and interest on the Bonds includes payment of the Accreted Value and Maturity Value of the Capital Appreciation Bonds, unless otherwise required by the context or by the express provisions of such reference. Further, whenever in the Bond Resolution or in this Official Statement, any reference is made to the rights of the owners of the Bonds as measured by the principal amount of such Bonds, the principal amount of the Capital Appreciation Bonds is deemed to be the Accreted Value thereof as of the date of exercise of such rights.

The Capital Appreciation Bonds are dated the date of delivery, and accrete interest from such date. The Denominational Amount of each maturity of the Capital Appreciation Bonds shall be as shown on the inside cover page hereof. The Capital Appreciation Bonds are issued in denominations such that the Maturity Value thereof shall equal $5,000 or an integral multiple thereof. The Capital Appreciation Bonds are payable only at maturity or upon earlier redemption, in the years and amounts set forth on the inside cover page hereof.

Interest on the Capital Appreciation Bonds is compounded on each Compounding Date. Each Capital Appreciation Bond accretes in value daily over the term to its maturity, from its Denominational Amount on the Closing Date to its Accreted Value on its maturity date. The

Accreted Value payable on any date shall be determined solely by reference to the Table of Accreted Values attached to such Capital Appreciation Bond. See “APPENDIX H– Table of Accreted Values.”

The interest portion of the Accreted Value of any Capital Appreciation Bond that is payable on the date of maturity shall represent interest accreted and coming due on such date. The Accreted Value of any Capital Appreciation Bond at maturity shall be payable by check or draft mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Bond at the Office of the Paying Agent. See “APPENDIX F- DTC and the Book-Entry System.”

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 20__ are not subject to redemption prior to their respective maturity dates. The Bonds maturing on or after August 1, 20__, shall be subject to redemption at the option of the School District on any date prior to their respective maturity dates as a whole or in part, in a manner designated by the School District and, absent any such designation, pro rata among maturities and by lot within a maturity, from moneys provided by the School District, in each case on and after August 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 20___ (the **“Term Bonds”**) are subject to mandatory sinking fund redemption on August 1, 20___ and each August 1 thereafter in accordance with the schedule set forth below. The Term Bonds so called for mandatory sinking fund redemption shall be redeemed in the sinking fund payments amounts and on the dates set forth below, without premium, together with interest accrued thereon to the redemption date. If any Term Bonds are redeemed under the foregoing optional redemption provisions, the total amount of all future sinking fund payments with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of $5,000.

Term Bonds Maturing
August 1, 20___

Redemption Date (August 1)	Sinking Fund Redemption

Selection of Bonds for Redemption. Whenever less than all of the Bonds of any one maturity are designated for redemption, the Paying Agent will select the outstanding Bonds of such maturity to be redeemed by lot in any manner which the Paying Agent in its sole discretion deems appropriate. For purposes of such selection, each Bond will be deemed to consist of individual Bonds of $5,000 denominations each, which may be separately redeemed.

Notice of Redemption. The Paying Agent shall cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books. Such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds.

Such notice shall (i) state the redemption date and the redemption price, (ii) if less than all of the then outstanding Bonds are to be called for redemption, designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, (iii) require that such Bonds be then surrendered at the designated corporate trust office of the Paying Agent (the "**Principal Office**") for redemption at the said redemption price, and (iv) state that further interest on such Bonds will not accrue from and after the redemption date.

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

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

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

Registration, Transfer and Exchange of Bonds

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

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

Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the

Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

Whenever any Bond or Bonds are surrendered for transfer, the School District will execute and the Paying Agent will authenticate and deliver a new Bond or Bonds, for like aggregate principal amount. No transfers will be required to be made (a) 15 days prior to a date established for selection of Bonds for redemption and (b) with respect to a Bond that has been selected for redemption.

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

Defeasance and Discharge

Any or all of the Bonds may be paid by the School District in any one or more of the following ways:

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

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

(c) by delivering such Bonds to the Paying Agent for cancellation by it.

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

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

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

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

As used in the foregoing provisions, the term **"Federal Securities"** means United States Treasury notes, bonds, bills or certificates of indebtedness, or any other obligations the timely payment of which is directly or indirectly guaranteed by the faith and credit of the United States of America.

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DEBT SERVICE SCHEDULES

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

UPPER LAKE UNIFIED SCHOOL DISTRICT
SFID No. 1 (K-8)
Annual Debt Service Schedule
Series B Bonds

	Current Interest Bonds		Capital Appreciation Bonds		
Date (August 1)	**Principal**	**Interest**	**Denominational Amount**	**Accreted Interest**	**Total**
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					
2048					
2049					
Total					

Combined Debt Service Schedules. The following table shows the combined annual debt service schedules with respect to all of the District's outstanding general obligation bonds, including the Bonds, assuming no optional redemptions. See Appendix B under the heading "DISTRICT FINANCIAL INFORMATION – Long-Term Debt" for additional information.

UPPER LAKE UNIFIED SCHOOL DISTRICT
Combined General Obligation Bonds Debt Service Schedule

Bond Year Ending August 1	SFID. No. 1 Election of 2018, Series A Bonds*	Pre-Unification District GO Bonds	District Election of 2018 Series A Bonds	SFID. No. 1 Election of 2018, Series B Bonds*	Total Debt Service
2020	$281,950.00	$330,000.00	$334,826.67		
2021	300,750.00	330,000.00	254,800.00		
2022	308,750.00	330,000.00	202,800.00		
2023	246,350.00	330,000.00	202,800.00		
2024	246,350.00	330,000.00	202,800.00		
2025	246,350.00	--	282,800.00		
2026	246,350.00	--	292,800.00		
2027	246,350.00	--	302,800.00		
2028	246,350.00	--	312,800.00		
2029	246,350.00	--	322,800.00		
2030	246,350.00	--	332,800.00		
2031	246,350.00	--	342,800.00		
2032	256,350.00	--	352,800.00		
2033	265,825.00	--	367,800.00		
2034	274,775.00	--	377,800.00		
2035	283,200.00	--	392,800.00		
2036	291,100.00	--	407,800.00		
2037	303,475.00	--	417,800.00		
2038	310,062.50	--	432,800.00		
2039	321,125.00	--	442,800.00		
2040	331,400.00	--	457,800.00		
2041	345,887.50	--	472,800.00		
2042	354,325.00	--	487,800.00		
2043	366,975.00	--	507,800.00		
2044	378,575.00	--	522,800.00		
2045	389,125.00	--	542,800.00		
2046	403,625.00	--	559,200.00		
2047	416,250.00	--	579,400.00		
2048	427,500.00	--	598,200.00		
2049	442,375.00	--	620,600.00		
2050	460,600.00	--	641,400.00		
2051	472,000.00	--	660,600.00		
2052	487,400.00	--	683,200.00		
2053	501,600.00	--	704,000.00		
2054	519,600.00	--	728,000.00		
2055	536,200.00	--	--		
2056	556,400.00	--	--		
Total	$12,804,350.00	$1,650,000.00	$15,346,426.67		

**Debt service payable from ad valorem property taxes levied and collected only within SFID No. 1, which represents the territory of the elementary school district, prior to unification.*

SECURITY FOR THE BONDS

Ad Valorem Taxes

Bonds Payable from Ad Valorem Property Taxes. The Bonds are general obligations of the School District, payable solely from *ad valorem* property taxes levied on taxable property within the Improvement District and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the Improvement District subject to taxation by the School District, without limitation of rate or amount (except certain personal property which is taxable at limited rates). There are other series of general obligation bonds outstanding of the Improvement District. See "THE BONDS - Authority for Issuance," "- Other General Obligation Bond Indebtedness" and "PROPERTY TAXATION - Direct and Overlapping Debt Obligations."

Other Debt Payable from Ad Valorem Property Taxes. There is other debt issued by entities which includes the jurisdiction in the Improvement District, which is payable from *ad valorem* taxes levied on parcels in the Improvement District. See "PROPERTY TAXATION – Tax Rates" and "- Direct and Overlapping Debt Obligations" below.

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

Ad valorem property taxes securing repayment of the Bonds are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

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

Economic and other factors beyond the School District's control, such as economic recession, deflation of property values, a relocation out of the Improvement District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by manmade or natural disasters, including but not limited to earthquake, flood, fire, drought, mudslide or other natural disaster, could cause a reduction in the assessed value within the Improvement District and necessitate a corresponding increase in the annual tax rate.

Not a County Obligation

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

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing (1) state assessed public utilities' property and (2) property the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

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

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

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

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

Historic Assessed Valuations in Improvement District

The assessed valuation of property in the Improvement District is established by the respective Assessors of the Counties, except for public utility property which is assessed by the State Board of Equalization, as described above. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIIIA of the California Constitution. For a discussion of how properties currently are assessed, see Appendix B under the heading "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

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The following table sets forth a history of the assessed value in the Improvement District since fiscal year 2008-09.

SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
Assessed Valuations
Fiscal Years 2008-09 through 2019-20

Fiscal Year	Local Secured	Utility	Unsecured	Total
2008-09	$436,723,304	$1,152,600	$11,048,684	$448,924,588
2009-10	450,784,453	1,152,600	10,044,784	461,981,837
2010-11	450,321,317	1,152,600	10,449,067	461,922,984
2011-12	449,315,596	1,152,600	10,631,117	461,099,313
2012-13	456,798,015	710,600	10,439,314	467,947,929
2013-14	459,687,894	710,600	10,652,920	471,051,414
2014-15	456,627,441	710,600	11,529,043	468,867,084
2015-16	463,407,704	710,600	11,066,884	475,185,188
2016-17	473,411,017	710,600	10,662,426	484,784,043
2017-18	485,793,260	116,600	11,781,189	497,691,049
2018-19	503,364,645	116,600	12,698,414	516,179,659
2019-20	522,664,534	116,600	13,038,934	535,820,068

*District consists of approximately 60.4% of School District-wide assessed value of $886,597,475.
Source: California Municipal Statistics, Inc.

Factors Relating to Increases/Decreases in Assessed Value. As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases in assessed valuation result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, and natural disasters such as earthquakes, fires, floods and droughts. Notable natural disasters in recent years include drought conditions throughout the State, which ended in 2017 due to record-level precipitation in late 2016 and early 2017, wildfires that have occurred in different regions of the State, including in the vicinity of the District which is located in a mountainous, forested region of the State, and related flooding and mudslides. The District cannot predict or make any representations regarding the effects that wildfires, flooding, mudslides or any other type of natural or manmade disaster and related conditions have or may have on the value of taxable property within the Improvement District, or to what extent the effects said disasters might have had on economic activity in the Improvement District or throughout the State.

Wildfire Activity in Lake County. Lake County has experienced numerous wildfires in recent years. In 2015, the Rocky fire burned 69,000 acres and destroyed 43 homes and 53 outbuildings east of Clear Lake, the Jerusalem burned 25,000 acres and destroyed six homes and 21 outbuildings northeast of Middletown, and the Valley fire burned 76,000 acres and destroyed 1,300 homes, 27 multifamily buildings, 66 businesses and 581 outbuildings. All of these fires primarily impacted the eastern and southeastern areas of the County. More recently, the Mendocino Complex Fire, being a complex of two wildfires known as the River Fire and the Ranch Fire, burned in Mendocino, Lake, Colusa and Glenn Counties, and was the largest recorded fire in California history. The fire was first reported on July 27, 2018, and burned a combined total of nearly 460,000 acres before it was contained on September 18, 2018. The fire burned a total of 280 structures and caused the evacuation of numerous communities in Lake County, including the City of Lakeport and the communities of Kelseyville, Lucerne, Upper Lake and several smaller communities. Although the Mendocino Complex Fire damaged areas primarily within an undeveloped portion of the School District, and evacuations caused several days of school closures, only a few structures within the boundaries of the School District were damaged or destroyed by said fire. As shown in the historical assessed valuation table above, notwithstanding the fires, assessed values have increased each year since fiscal year 2014-15.

Assessed Valuation by Jurisdiction

The following table shows a breakdown of assessed valuation by jurisdiction for fiscal year 2019-20

SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
Assessed Value by Jurisdiction
Fiscal Year 2019-20

Jurisdiction:	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
Unincorporated Lake County	$535,820,068	100.00%	$6,101,643,461	8.78%
Total District	$535,820,068	100.00%		
Lake County	$535,820,068	100.00%	$7,438,184,917	7.20%

Source: California Municipal Statistics, Inc.

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Parcels by Land Use

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

SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
Local Secured Property Assessed Valuation and Parcels by Land Use
Fiscal Year 2019-20

Non-Residential:	**2019-20 Assessed Valuation (1)**	**% of Total**	**No. of Parcels**	**% of Total**
Agricultural/Rural	$ 62,037,400	11.87%	587	8.95%
Commercial	58,526,168	11.20	120	1.83
Vacant Commercial	2,491,448	0.48	34	0.52
Industrial	197,676	0.04	1	0.02
Recreational	434,732	0.08	4	0.06
Government/Social/Institutional	2,643,188	0.51	38	0.58
Subtotal Non-Residential	$126,330,612	24.17%	784	11.95%
Residential:				
Single Family Residence	$224,754,519	43.00%	1,263	19.25%
Mobile Home	79,222,519	15.16	913	13.92
Mobile Home Park	9,856,226	1.89	17	0.26
2+ Residential Units/Apartments	4,074,031	0.78	16	0.24
Miscellaneous Residential	8,066,529	1.54	112	1.71
Vacant Residential	70,360,125	13.46	3,455	52.67
Subtotal Residential	$396,333,922	75.83%	5,776	88.05%
Total	$522,664,534	100.00%	6,560	100.00%

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

Per Parcel Assessed Valuation of Single-Family Homes

The following table sets forth the per parcel assessed valuation of single-family homes in the Improvement District for fiscal year 2019-20.

SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
Per Parcel Assessed Valuation of Single-Family Homes
Fiscal Year 2019-20

	No. of Parcels	2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	1,263	$224,754,492	$177,953	$140,197

2019-20 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	25	1.979%	1.979%	$ 476,113	0.212%	0.212%
$25,000 - $49,999	70	5.542	7.522	2,695,469	1.199	1.411
$50,000 - $74,999	115	9.105	16.627	7,322,041	3.258	4.669
$75,000 - $99,999	139	11.006	27.633	12,172,951	5.416	10.085
$100,000 - $124,999	166	13.143	40.776	18,737,059	8.337	18.422
$125,000 - $149,999	166	13.143	53.919	22,589,479	10.051	28.472
$150,000 - $174,999	98	7.759	61.679	15,836,510	7.046	35.519
$175,000 - $199,999	99	7.838	69.517	18,544,573	8.251	43.770
$200,000 - $224,999	71	5.622	75.139	14,935,038	6.645	50.415
$225,000 - $249,999	59	4.671	79.810	13,924,194	6.195	56.610
$250,000 - $274,999	49	3.880	83.690	12,775,639	5.684	62.294
$275,000 - $299,999	43	3.405	87.094	12,383304	5.510	67.804
$300,000 - $324,999	31	2.454	89.549	9,686,649	4.310	72.114
$325,000 - $349,999	20	1.584	91.132	6,740,320	2.999	75.113
$350,000 - $374,999	13	1.029	92.162	4,710,668	2.096	77.209
$375,000 - $399,999	18	1.425	93.587	7,012,309	3.120	80.329
$400,000 - $424,999	16	1.267	94.854	6,642,213	2.955	83.284
$425,000 - $449,999	12	0.950	95.804	5,253,216	2.337	85.621
$450,000 - $474,999	6	0.475	96.279	2,777,162	1.236	86.857
$475,000 - $499,999	8	0.633	96.912	3,877,067	1.725	88.582
$500,000 and greater	39	3.088	100.000	25,662,518	11.418	100.000
Total	1,263	100.000%		$224,754,492	100.000%	

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

Appeals and Adjustments of Assessed Value

There are two types of appeals of assessed values that could adversely impact property tax revenues within the Improvement District.

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

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the County board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value.

Proposition 8 reductions may also be unilaterally applied by the County Assessor. While County Assessors typically attempt to consider declines in value and to assess all property at the lesser of market value or factored base year each year for every parcel, when there is widespread decline in property value, the County Assessor may elect to reduce assessed values without assessing individual properties, a practice known as “blanket” Proposition 8 reductions.

Such reductions in the assessment ultimately granted pursuant to Proposition 8 applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” in Appendix B.

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

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

Teeter Plan; Property Tax Collections

For the School District’s share of the 1% general fund apportionment, the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “**Teeter Plan**”) as provided for in the State Revenue and Taxation Code, which requires the County to pay 100% of such secured property taxes due to local agencies in the fiscal year such taxes are due. Pursuant to these provisions, each county operating under the Teeter Plan establishes a delinquency reserve and assumes responsibility for all secured delinquencies, assuming that certain conditions are met. The County does <u>not</u> participate in the Teeter Plan with respect to tax levies for debt service such as debt service on general obligation bonds, including the Bonds described herein.

Because of this method of tax collection, the K-12 districts located in counties operating under the Teeter Plan and participating in the Teeter Plan, including the School District, are assured of 100% collection of their secured tax levies for the 1% general fund apportionment if the conditions established under the applicable county’s Teeter Plan are met. However, such districts do not share in any penalties arising to delinquent payments. This method of tax collection and distribution is subject to future discontinuance at the County’s option or if demanded by the participating taxing agencies.

Because the County does not participate in the Teeter Plan with respect to tax levies for debt service, including for the Bonds described herein, secured property taxes actually collected for such purpose are allocated to political subdivisions for which the County acts as tax-levying or tax-collecting agency, including the School District, when such secured property taxes are actually collected.

Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 68-008 (a typical tax rate area in the Improvement District) for fiscal years 2015-16 through 2019-20.

SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 68-008)
Fiscal Years 2015-16 through 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20
General	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000
Upper Lake Unified	-	-	-	-	.01917
Upper Lake USD (Former High Sch Bonds)	.03858	.04099	.03206	.03720	.03359
Upper Lake USD School Facilities District No. 1	--	--	--	--	.07177
Mendocino Lake Community College District	.02500	.02200	.02100	.02100	.02200
Total All Property	$1.06358	$1.06299	$1.05306	$1.05820	$1.14653

Source: California Municipal Statistics Inc.

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Top 20 Property Owners

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

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

SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
Top 20 Secured Property Taxpayers
Fiscal Year 2019-20

	Property Owner	Primary Land Use	2019-20 Assessed Valuation	% of Total (1)
1.	Worldmark the Club	Hotel/Resort	$19,828,615	3.79%
2.	Mohammed Abid & Shanz Hussain	Service Station	4,863,251	0.93
3.	Larry H. & Frances M. Montgomery	Commercial	3,869,992	0.74
4.	Nice DG LLC	Commercial	2,701,834	0.52
5.	Joe D. Santos, Trustee	Residential	2,489,294	0.48
6.	Curtis Holding Inc.	Commercial	2,475,642	0.47
7.	James R. & Natasha V. Stillman, Trustee	Commercial	2,207,521	0.42
8.	Noble Family LLC	Mobile Home Park	2,082,203	0.40
9.	Larry G. & Nicole Miller, Trustee	Residential	1,874,878	0.36
10.	Mandy Hofer, Trustee	Agricultural	1,869,264	0.36
11.	Edward E. Seely Trust	Agricultural	1,848,505	0.35
12.	Lawrence A. Rogers	Agricultural	1,787,559	0.34
13.	River Maid Land Company	Agricultural	1,705,348	0.33
14.	Saratoga Springs Community LLC	Retreat Center	1,699,509	0.33
15.	Ray Hoffman Properties	Commercial	1,663,051	0.32
16.	Super 8 Upperlake	Motel	1,630,450	0.31
17.	Nestle Waters North America Inc.	Resort	1,570,626	0.30
18.	Audrey G. Han	Mobile Home Park	1,532,658	0.29
19.	Elaine Moitozo Sylvia	Agricultural	1,515,355	0.29
20.	Glenn R. Benjamin, Trustee	Agricultural	1,429,836	0.27
			$60,645,391	11.60%

(1) 2019-20 local secured assessed valuation: $522,664,534.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt Obligations

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and dated as of November 1, 2019. The Debt Report is included for general information purposes only. The School District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Improvement District in whole or in part. Such long-term obligations generally are not payable from revenues of the Improvement District (except as indicated) nor are they necessarily obligations secured by land within the Improvement 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.

SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
Statement of Direct and Overlapping Bonded Debt
Dated As of November 1, 2019

2019-20 Assessed Valuation: $535,820,068

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	**% Applicable**	**Debt 11/1/19**
Mendocino-Lake Community College District	4.707%	$ 2,939,824
Upper Lake Unified School District and former High School District Bonds	60.436	4,802,755
Upper Lake USD School Facilities Improvement District No. 1	**100.000**	**5,440,000**(1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$13,182,579
OVERLAPPING GENERAL FUND DEBT:		
Upper Lake Unified School District General Fund Obligations	60.436%	$2,938,290
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,938,290
COMBINED TOTAL DEBT		$16,120,869(2)

Ratios to 2019-20 Assessed Valuation:
Direct Debt ($5,440,000) 1.02%
Total Direct and Overlapping Tax and Assessment Debt....2.46%
Combined Total Debt..3.01%

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

BOND INSURANCE

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

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (**"AGM"**) will issue its Municipal Bond Insurance Policy for the Bonds (the **"Policy"**). The Policy guarantees the scheduled payment of principal of (or, in the case of Capital Appreciation Bonds, accreted value) and interest on the Bonds when due as set forth in the form of the Policy included as Appendix I 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.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (**"AGL"**), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (**"S&P"**), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. (**"KBRA"**) and "A2" (stable outlook) by Moody's Investors Service, Inc. (**"Moody's"**). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 7, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Capitalization of AGM

At September 30, 2019:

- The policyholders' surplus of AGM was approximately $2,473 million.

- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (**"MAC"**) (as described below) were approximately $1,100 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.

- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately $1,829 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the **"SEC"**) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019);

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019); and

(iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 (filed by AGL with the SEC on November 8, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the **"AGM Information"**) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE".

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

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

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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

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

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

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

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

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX D.

CERTAIN LEGAL MATTERS

Absence of Litigation

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

The School District may be or may become a party to lawsuits and claims which are unrelated to the Bonds or actions taken with respect to the Bonds and which have arisen in the normal course of operating the School District. The School District maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. There currently are no claims or actions pending which could have a material adverse affect on the financial position or operations of the School District. The School District cannot predict what types of claims may arise in the future.

Compensation of Certain Professionals

Payment of the fees and expenses of Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel to the School District, Caldwell, Flores, Winters, Inc., Emeryville, California as financial advisor to the School District, and Kutak Rock LLP, Irvine, California, as Underwriter's Counsel, is contingent upon issuance of the Bonds.

CONTINUING DISCLOSURE

The School District has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than nine (9) months following the end of the School District's fiscal year (which currently would be by March 31 each year based upon the June 30 end of the District's fiscal year), commencing March 31, 2020 with the report for the 2018-19 Fiscal Year (the **"Annual Report"**), and to provide notices of the occurrence of certain enumerated events. The Annual Report and any event notices will be filed by the School District with the Municipal Securities Rulemaking Board (the **"MSRB"**). The specific nature of the information to be contained in an Annual Report or other notices is set forth below under the caption "APPENDIX E – Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the **"Rule"**).

The School District has made prior undertakings pursuant to the Rule. During the previous five years, specific instances of non-compliance with such undertakings are with respect to the High School District's 1999 General Obligation Bonds, Series A (originally MBIA-Insured) and consist of (i) the failure to timely file audited financial statements and budgets for the years ending June 30, 2014 through 2016; (ii) the failure to timely file financial and operating data for fiscal years ending June 30, 2015 and June 30, 2016; and (iii) notices of failure to file or late filings with respect to the foregoing were not filed. Remedial filings have been made to address instances of non-compliance.

The School District serves as its own dissemination agent for its undertakings, but has engaged its financial advisor, Caldwell Flores Winters Inc., to assist it with its undertakings, including the undertaking in connection with the Bonds.

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

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**"), is expected to assign its rating of "AA" to the Bonds, based on the understanding that the Bond Insurer will deliver its Bond Insurance Policy with respect to the Bonds upon delivery. See "BOND INSURANCE." Additionally, S&P has assigned an underlying rating of "A+" to the Bonds. The School District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement). Such ratings reflect only the view of S&P and an explanation of the significance of such ratings and outlooks may be obtained only from S&P. There is no assurance that any credit ratings given to the Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by Raymond James & Associates, Inc. (the "**Underwriter**"). The Underwriter has agreed to purchase the Bonds at a price of $________ which is equal to the initial principal amount of the Bonds of $________, plus original issue premium of $________ less an Underwriter's discount of $________.

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

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

ADDITIONAL INFORMATION

The discussions herein about the Bond Resolution and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the Underwriter and following delivery of the Bonds will be on file at the offices of the Paying Agent in Dallas, Texas.

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

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

EXECUTION

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

UPPER LAKE UNIFIED SCHOOL DISTRICT

By: ______________________________________
Superintendent

APPENDIX A

UPPER LAKE UNIFIED SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2017-18

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Upper Lake Unified School District

County of Lake
Upper Lake, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2018

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ISOM

Upper Lake Unified School District
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June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

The District's 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.

Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the 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.

Other Matters

Required Supplementary Information Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedule and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information on pages 72 to 77 and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 74 to 78 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS' REPORT
(Continued)

The local educational agency organization structure and the 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 February 11, 2019, 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 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 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.

KCoe Isom, LLP

February 11, 2019
Chico, California

FINANCIAL SECTION

Required Supplementary Information

INTRODUCTION

An overview of the Upper Lake Unified School District's (the District) financial activities for the fiscal year ended June 30, 2018, is provided in this management's discussion and analysis of the District's financial performance.

As discussed in note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, as amended by GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. The summarized comparative information presented in this management's discussion and analysis for the year ended June 30, 2017, has not been restated to reflect OPEB expense accounting as required by GASB Statement No. 75, as amended by GASB Statement No. 85. Information was not available for such restatement. Therefore, certain accounts fluctuate significantly between fiscal years 2016-17 and 2017-18 due to information for the two years not being comparable.

This management's discussion and analysis (MD&A) should be read in conjunction with the District's financial statements (including notes and supplementary information).

USING THIS ANNUAL REPORT

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Combined, these three parts provide a comprehensive overview of the District. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The District maintains governmental funds and fiduciary funds as follows:

    - *Governmental Funds*: Statements provide information on how basic services like regular and special education were financed in the short term as well as what remains for future spending.

    - *Fiduciary Funds*: Statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL HIGHLIGHTS

Overall revenues were $10,553,669 for the year ended June 30, 2018. Expenses were exceeded by revenues by $1,482,508.

Total net position in governmental funds was $2,188,732. The General Fund reported a total fund balance of $4,985,312.

Enrollment in the District was 838 students during 2017-18.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets owned less the liabilities owed. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The two statements report the District's net position and how it has changed.

Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The statement of net position and the statement of activities divide the District into two kinds of activities:

Governmental Activities: Represent the basic services provided by the District, such as regular and special education, administration, and transportation.

Business-Type Activities: Represent services for which the District charges fees to help cover the cost of certain services beyond the scope of normal district operations. The District does not have any of these types of activities at this time.

Fund Financial Statements

More detailed information about the District's most significant funds – not the District as a whole – is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by bond covenants and by state law.
- Other funds are established by the District to control and manage money for particular purposes (such as repaying its long-term debts). Other funds may also show proper usage of certain revenues (such as federal grants).

The District has two types 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).
- The balances left at year end that are available for spending.

A detailed short-term view is provided by the governmental 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 provided at the bottom of the governmental fund statements that explains the differences (or relationships) between them.

Fiduciary Funds

For assets that belong to others, such as the student activities funds, the District acts as the trustee, or fiduciary. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. A separate statement of fiduciary net position reports the District's fiduciary activities. These activities are excluded from the government-wide financial statements, as the assets cannot be used by the District to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

As shown in the following table, the District's net position as of June 30, 2018, was $2,188,732. Of this amount, a negative $7,935,119 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the Board of Trustees' ability to use the net position for day-to-day operations. All District net position is the result of governmental activities.

June 30	Governmental Activities 2017		Governmental Activities 2018	Percentage Change 2017-18
ASSETS				
Cash and investments	$ 3,975,918		$ 3,758,288	-5.5%
Receivables	458,914		427,251	-6.9%
Other assets	13,447	*	28,429	111.4%
Restricted cash and investments	-		2,888,740	N/A
Capital assets - net	9,542,168		10,336,614	8.3%
TOTAL ASSETS	13,990,447	*	17,439,322	24.7%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources for pensions	1,704,120		2,606,190	52.9%
LIABILITIES				
Accounts payable and other liabilities	409,152		797,661	95.0%
Advances from grantors	141,310		246,138	74.2%
Long-term debt	11,264,930	*	16,492,653	46.4%
TOTAL LIABILITIES	11,815,392	*	17,536,452	48.4%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources for pensions	207,935		309,570	48.9%
Deferred inflows of resources for OPEB	-		10,758	N/A
TOTAL DEFERRED INFLOWS OF RESOURCES	207,935		320,328	54.1%
NET POSITION				
Net investment in capital assets	12,901,346		5,897,719	-54.3%
Restricted	1,443,187		4,226,132	192.8%
Unrestricted	(10,673,293)	*	(7,935,119)	25.7%
TOTAL NET POSITION	$ 3,671,240	*	$ 2,188,732	-40.4%

** As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.*

Change in Net Position

The following table summarizes the change in net position for the District.

Total revenues were $10,553,669. Property taxes and state aid funding accounted for most of the District's income, representing 79.7% of total revenues. Another 18.6% came from federal and state aid for specific programs, and the remaining 1.7% came from fees charged for services and miscellaneous sources.

The total cost of all programs and services was $12,036,177. Expenses exceeded the District's revenues for the year by $1,482,508. The District's expenses are primarily related to educating and caring for students (74.3%). Administrative activities of the District account for 9.5% of the total costs and plant maintenance activities account for another 10.6%.

	Governmental Activities		Percentage Change
Years Ended June 30	**2017**	**2018**	**2017-18**
REVENUES			
Program Revenues			
Charges for services	$ 50,395	$ 34,994	-30.6%
Federal and state categorical programs	1,697,893	1,962,609	15.6%
General Revenues			
Property taxes	2,576,099	2,547,674	-1.1%
State formula aid	5,904,180	5,862,275	-0.7%
Other	486,466	146,117	-70.0%
TOTAL REVENUES	10,715,033	10,553,669	-1.5%
EXPENSES			
Instruction-related services	6,441,224	7,066,978	9.7%
Student support services	1,703,722	1,875,473	10.1%
Ancillary	211,424	212,914	0.7%
Plant services	1,370,126	1,277,704	-6.7%
Administration	950,448	1,145,300	20.5%
Other	178,673	457,808	156.2%
TOTAL EXPENSES	10,855,617	12,036,177	10.9%
Change in Net Position	$ (140,584)	$ (1,482,508)	-954.5%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of $6,093,318. Following is a summary of the District's fund balances.

June 30	Fund Balance 2017	Fund Balance 2018	Increase (Decrease)
General	$ 2,693,817	$ 4,985,312	$ 2,291,495
Cafeteria Special Revenue	31,345	9,037	(22,308)
Building	990	998	8
Capital Facilities	590,763	548,974	(41,789)
State School Building Lease-Purchase	105	106	1
County School Facilities	4,210	4,311	101
Special Reserve Capital Projects	191,138	192,704	1,566
Bond Interest and Redemption	385,449	351,876	(33,573)
Total	$ 3,897,817	$ 6,093,318	$ 2,195,501

The increase in the General Fund is due to the issuance of Qualified Zone Academy Bonds (QZAB) notes payable for solar panel construction and energy efficient improvements and the issuance of $2,855,000 of certificates of participation.

The decrease in the Capital Facilities Fund is due to expenditures for the gym floors at Upper Lake Middle School and Upper Lake High School exceeding interest earnings and developer fee collections.

The decrease in the Bond Interest and Redemption Fund is due to interest and principal payments on the general obligations bonds exceeding property tax collections.

General Fund Budgetary Highlights

During the course of the year, the District revises its budget as information is available that results in changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with the amounts actually paid and received for the General Fund is provided in the budgetary comparison schedule for the General Fund.

Budgeted revenues increased by $544,968 and budgeted expenditures increased by $2,022,848 during 2017-18.

The District budgeted General Fund revenues and other financing sources to exceed expenditures and other financing uses by $2,442,188. However, actual results for the year reflected an increase of $2,291,495. This was due to decreased revenues and increased expenditures related to employee benefits.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The District has invested $16,071,779 in capital assets including land, construction in progress, site improvements, buildings, and equipment. During 2017-18, the District replaced roofing district-wide, installed three HVACs, and completed various other improvement projects. Construction in progress consists primarily of solar and energy upgrades.

June 30	Governmental Activities 2017	Governmental Activities 2018	Percentage Change 2017-18
Land	$ 210,000	$ 210,000	0.0%
Construction in progress	-	930,565	N/A
Buildings and improvements	12,916,082	13,205,728	2.2%
Equipment and vehicles	1,698,217	1,725,486	1.6%
Total	$ 14,824,299	$ 16,071,779	8.4%

Long-Term Debt

At year end, the District had $16,492,653 in outstanding long-term debt. The District made regularly scheduled payments on its general obligation bonds, capital leases, and note payable. In addition, the District issued an additional QZAB note payable and certificates of participation to fund the solar and energy upgrades that are in progress. On December 20, 2018, the District issued an additional $5.5 million in general obligation bonds at a premium of $227,583, to be used for capital projects.

June 30	Governmental Activities 2017	Governmental Activities 2018	Percentage Change 2017-18
General obligation bonds	$ 794,302	$ 672,806	-15.3%
Capitalized interest	1,378,773	1,279,351	-7.2%
Capital leases	224,564	205,757	-8.4%
Compensated absences	21,622	42,052	94.5%
Notes payable	960,549	2,146,622	123.5%
Certificates of participation	-	2,803,677	N/A
Early retirement incentives	-	217,138	N/A
Total OPEB liability	346,252 *	363,193	4.9%
Net pension liability	7,538,868	8,762,057	16.2%
Total	$ 11,264,930 *	$ 16,492,653	46.4%

** As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.*

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has begun the process of improving its physical plant, and is using QZAB funds to complete an extension of the solar field to generate more energy savings in conjunction with its Proposition 39 funding. The District is also using the certificates of participation proceeds to finance capital projects.

On December 20, 2018, the District issued $5.5 million in general obligation bonds at a premium of $227,583, to be used toward capital projects at the elementary and middle schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, please contact:

Michael Kauble, Chief Business Official
Upper Lake Unified School District
675 Clover Valley Road
Upper Lake, CA 95485

Basic Financial Statements

Upper Lake Unified School District
STATEMENT OF NET POSITION

June 30, 2018		Governmental Activities
ASSETS		
Cash and investments	$	3,758,288
Accounts receivable		44,392
Due from other governments		382,859
Inventories		4,683
Prepaid expenses		23,746
Restricted cash and investments		2,888,740
Nondepreciated capital assets		1,140,565
Depreciated capital assets		14,931,214
Accumulated depreciation		(5,735,165)
TOTAL ASSETS		17,439,322
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources for pensions		2,606,190
LIABILITIES		
Accounts payable and other current liabilities		592,289
Due to other governments		205,372
Advances from grantors		246,138
Long-term obligations:		
Due within one year		435,105
Due beyond one year		16,057,548
TOTAL LIABILITIES		17,536,452
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources for pensions		309,570
Deferred inflows of resources for OPEB		10,758
TOTAL DEFERRED INFLOWS OF RESOURCES		320,328
NET POSITION		
Net investment in capital assets		5,897,719
Restricted for capital projects		3,222,709
Restricted for debt service		351,876
Restricted for educational programs		647,423
Restricted for other purposes		4,124
Unrestricted		(7,935,119)
TOTAL NET POSITION	$	2,188,732

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

Upper Lake Unified School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position - Governmental Activities
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities:				
Instruction	$ 6,103,903	$ 23,805	$ 947,181	$ (5,132,917)
Instruction-related services	963,075	1,628	78,985	(882,462)
Pupil services	1,875,473	7,432	507,730	(1,360,311)
Ancillary services	212,914	-	4,171	(208,743)
General administration	1,145,300	1,070	101,003	(1,043,227)
Plant services	1,277,704	-	233,347	(1,044,357)
Other outgo	286,233	1,059	90,192	(194,982)
Interest on long-term debt	171,575	-	-	(171,575)
Total Governmental Activities	$ 12,036,177	$ 34,994	$ 1,962,609	(10,038,574)
GENERAL REVENUES				
Property taxes - levied for general purposes				2,202,519
Property taxes - levied for debt service				295,253
Property taxes - levied for other specific purposes				49,902
Federal and state aid not restricted to specific purposes				5,862,275
Unrestricted investment earnings				29,412
Interagency revenues				16,908
Miscellaneous				99,797
Total General Revenues				8,556,066
Change in Net Position				(1,482,508)
Net Position - as Previously Reported				4,049,143
Cumulative effect of changes in accounting principles				(377,903)
Net Position - as Restated				3,671,240
Net Position - End of Year				$ 2,188,732

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

Upper Lake Unified School District

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	$ 2,595,256	$ 1,163,032	$ 3,758,288
Accounts receivable	44,392	-	44,392
Due from other governments	382,859	-	382,859
Due from other funds	32,588	-	32,588
Inventories - supplies and materials	-	4,683	4,683
Prepaid expenditures	23,746	-	23,746
Restricted cash and investments	2,888,740	-	2,888,740
TOTAL ASSETS	$ 5,967,581	$ 1,167,715	$ 7,135,296
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and other current liabilities	$ 557,759	$ 121	$ 557,880
Due to other governments	205,372	-	205,372
Due to other funds	-	32,588	32,588
Advances from grantors	219,138	27,000	246,138
Total Liabilities	982,269	59,709	1,041,978
Fund Balances			
Nonspendable	25,746	4,913	30,659
Restricted	3,315,743	910,389	4,226,132
Assigned	724,259	192,704	916,963
Unassigned	919,564	-	919,564
Total Fund Balances	4,985,312	1,108,006	6,093,318
TOTAL LIABILITIES AND FUND BALANCES	$ 5,967,581	$ 1,167,715	$ 7,135,296

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

Upper Lake Unified School District

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION

June 30, 2018

Total Fund Balances - Governmental Funds		$ 6,093,318
Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.		
Capital assets at historical cost	$ 16,071,779	
Accumulated depreciation	(5,735,165)	
Total Capital Assets - Net		10,336,614
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(34,409)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
General obligation bonds	1,952,157	
Certificates of participation	2,803,677	
Total OPEB liability	363,193	
Net pension liability	8,762,057	
Compensated absences	42,052	
Capital leases	205,757	
Notes payable	2,146,622	
Early retirement incentives	217,138	
Total Long-Term Liabilities		(16,492,653)
Balance Forward		$ (97,130)

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

June 30, 2018		
Balance Brought Forward	$	(97,130)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported:		
Deferred outflows of resources relating to pensions		2,606,190
Deferred inflows of resources relating to pensions		(309,570)
Deferred outflows and inflows of resources relating to other postemployment benefits (OPEB): In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported:		
Deferred inflows of resources relating to OPEB		(10,758)
Total Net Position - Governmental Activities	$	2,188,732

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

Upper Lake Unified School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2018	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	$ 2,202,519	$ 295,253	$ 2,497,772
Local control funding formula sources	5,549,657	-	5,549,657
Other state revenue	1,104,236	26,281	1,130,517
Federal revenue	617,045	372,992	990,037
Other local revenue	536,203	33,334	569,537
Total Revenues	10,009,660	727,860	10,737,520
Expenditures			
Current:			
Instruction	5,715,399	-	5,715,399
Instruction-related services	927,913	-	927,913
Pupil services	1,048,599	597,753	1,646,352
Ancillary services	195,587	-	195,587
General administration	1,009,898	-	1,009,898
Plant services	1,153,285	-	1,153,285
Transfers between agencies	20,305	-	20,305
Debt service:			
Principal	79,734	121,496	201,230
Interest and other charges	26,579	208,504	235,083
Issuance costs	318,756	-	318,756
Capital outlay	1,151,858	68,353	1,220,211
Total Expenditures	11,647,913	996,106	12,644,019
Excess (Deficiency) of Revenues Over Expenditures	(1,638,253)	(268,246)	(1,906,499)
Other Financing Sources (Uses)			
Interfund transfers in	-	172,252	172,252
Interfund transfers out	(172,252)	-	(172,252)
Other sources	1,247,000	-	1,247,000
Proceeds from certificates of participation	2,855,000	-	2,855,000
Total Other Financing Sources (Uses)	3,929,748	172,252	4,102,000
Net Change in Fund Balances	2,291,495	(95,994)	2,195,501
Fund Balances - Beginning of Year	2,693,817	1,204,000	3,897,817
Fund Balances - End of Year	$ 4,985,312	$ 1,108,006	$ 6,093,318

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

Upper Lake Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION

Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds		$ 2,195,501
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay	$ 1,257,480	
Depreciation expense	(463,034)	
Net Capital Outlay		794,446
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principle portion of long-term debt were:		201,230
Debt proceeds: In governmental funds, proceeds from long-term debt are recognized as other financing sources. In the government-wide statements, proceeds from long-term debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from long-term debt, net of issue premium or discount, were:		(4,049,172)
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owed at the end of the period, less matured interest paid during the period but owed from the prior period, was:		65,013
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(20,430)
Balance Forward		$ (813,412)

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

Upper Lake Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION (Continued)

Year Ended June 30, 2018

Balance Brought Forward	$	(813,412)
Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:		(422,754)
Other postemployment benefits (OPEB): In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:		(27,699)
Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absenses and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:		(217,138)
Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Amortization of premium or discount, or deferred gain or loss from debt refunding, for the period is:		(1,505)
Change in Net Position of Governmental Activities	$	(1,482,508)

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

Upper Lake Unified School District

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

June 30, 2018	Foundation Private-Purpose Trust	Agency
ASSETS		
Cash and investments	$ 5	$ 467,707
Accounts receivable	-	1,853
TOTAL ASSETS	5	$ 469,560
LIABILITIES		
Accounts payable	-	$ 280,989
Due to student groups	-	188,571
TOTAL LIABILITIES	-	$ 469,560
NET POSITION		
Held in trust for scholarships	$ 5	

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

1. SIGNIFICANT ACCOUNTING POLICIES

The District is governed by an elected five-member board. The District operates one elementary school, one middle school, one high school, one community day school, one continuation high school, and an adult education program in Upper Lake, California.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's, *California School Accounting Manual*. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP, and used by the District, are discussed below.

Implementation of New Accounting Standards

Governmental Accounting Standards Board, Statement No. 75 The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, for the fiscal year ended June 30, 2018. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Governmental Accounting Standards Board, Statement No. 85 The District adopted the provisions of GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. It addresses the timing of the measurement of pension or OPEB liabilities and expenditures recognized, recognizing on-behalf payments for pensions or OPEB, presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, and accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

As a result of the adoption of GASB Statement No. 75 and 85, net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75 and 85:

Net Position - as Previously Reported	$	4,049,143
Cumulative Effect of Change in Accounting Principles		
Total OPEB liability		(377,903)
Net Position - as Restated	$	3,671,240

Basis of Presentation

Government-Wide Financial Statements The statement of net position and statement of activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Program revenues include: (a) fees, fines, and charges paid by recipients of goods or services offered by the major programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and unrestricted grants and contributions, are presented as general revenues.

Fund Financial Statements Fund financial statements are organized by funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues, and expenditures/ expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the District are described below.

Governmental Funds

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

Special Revenue Funds Funds that are established to account for the proceeds from specific resources that are restricted to the financing of particular activities.

1. Cafeteria Special Revenue Fund is used to account separately for federal, state, and local resources received to operate the District's food service program (*California Education Code*, Sections 38091 and 38100).

Capital Projects Funds Funds that are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code,* Section 15146).

2. Capital Facilities Fund is used primarily to account for funds received from fees levied on developers or others as a condition for approving development (*California Education Code,* Sections 17620-17626).

3. State School Building Lease-Purchase Fund is used primarily to account separately for state apportionments as provided by *California Education Code,* Sections 17000-17039.

4. County School Facilities Fund is used to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*California Education Code,* Section 17070.10).

5. Special Reserve Fund is used to account for resources designated for capital outlay projects (*California Education Code*, Section 42840).

Debt Service Funds Funds that are established to account for the accumulation of resources for the payment of the principal and interest on long-term debt.

1. Bond Interest and Redemption Fund is used to account for the repayment of bonds (*California Education Code,* Sections 15125-15262).

Fiduciary Funds

Private-Purpose Trust Funds Funds that are used to account for assets held by the District as trustee pursuant to formal agreements with donors and under which neither principal nor income may be used for purposes that support the District's own programs. The Foundation Private-Purpose Trust Fund is used to account separately for gifts or bequests that provide scholarships to students of the District.

Agency Funds Funds that are used to account for assets of others for whom the District acts as an agent.

1. Warrant/Pass-Through Fund is used to account for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions.

2. Student Body Fund is used to account for the transactions of the associated student body in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*California Education Code,* Sections 48930-48938).

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Major Governmental Funds:
General Fund

Nonmajor Governmental Funds:
Cafeteria Special Revenue Fund
Building Fund
Capital Facilities Fund
State School Building Lease-Purchase Fund
County School Facilities Fund
Special Reserve Capital Projects Fund
Bond Interest and Redemption Fund

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

In the fund financial statements, governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within one year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Budgets and Budgetary Accounting

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

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

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

Estimates

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

Cash, Cash Equivalents, and Investments

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 and cash equivalents are combined with investments and displayed as cash and investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Lake County Treasury (the County) as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601, to invest in 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. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2018, the fair value of the County pool was 100.09% of the carrying value and is deemed to not represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The change in the fair value of investments was insignificant during the year ended June 30, 2018, and there was no significant unrealized gain or loss on investments held at June 30, 2018.

Restricted Cash, Cash Equivalents, and Investments

Certain restricted cash, cash equivalents, and investments are held by a fiscal agency in trust for certain capital projects. Restricted cash and cash equivalents are combined with investments and displayed as restricted cash and investments.

Accounts Receivable and Due From Other Governments

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed, but not received, as of June 30, 2018. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated, but has not received, as of June 30, 2018. At June 30, 2018, no allowance for doubtful accounts was deemed necessary.

Balances Due To/From Other Funds

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Balances due to/from other funds between funds within governmental activities are eliminated in the statement of net position.

Inventories and Prepaid Expenses

Inventories consist of supplies and materials. Expenses are recorded as the supplies and materials are consumed. Inventories are valued on the average cost method for purchased supplies and materials. Donated commodities inventory is valued at its fair value at the time of donation. Prepaid expenses consist of operating expenses for which payment is due in advance and are expensed when the benefit is received.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. All fixed assets are valued at historical cost, or estimated historical cost if the actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives in years by type of asset is as follows:

School buildings	7-50
Portable classrooms	20
Site improvements	7-20
Equipment	5-20
Vehicles	5-20

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Advances From Grantors

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Advances from grantors are recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures.

Compensated Absences

The liability for earned but unused vacation leave is recorded as long-term debt for compensated absences in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), which will only be recognized as an outflow of resources (expense/expenditures) in the future. District contributions subsequent to the measurement date related to pension plans, are reported as deferred outflows of resources in the government-wide statement of net position. District contributions subsequent to the measurement date will be amortized during the next fiscal year.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time.

Changes in proportion and differences between the District's contributions and proportionate share of pension contributions, the District's proportionate share of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and the differences between the District's expected and actual experience, are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over the estimated service lives of the pension plan participants.

Differences between projected and actual earnings on OPEB plan investments, changes in assumptions, and the differences between the District's expected and actual experience, are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan.

Equity Classifications

Government-Wide Statements Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets: Consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements Governmental fund equity is classified as fund balance. Fund balance is further classified and displayed in five components:

Nonspendable Fund Balance: Consists of amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Fund Balance: Consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

Committed Fund Balance: Consists of amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District's Board of Trustees.

Assigned Fund Balance: Consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District's Board of Trustees or a designee of the District's Board of Trustees.

Unassigned Fund Balance: Consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than 4% of total General Fund's expenditures and other financing uses.

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

Local Control Funding Formula Grant and Property Tax

The District's local control funding formula (LCFF) grant is received from a combination of local property taxes and state apportionments.

Lake County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. Secured property taxes attach as an enforceable lien on property as of January 1. Property taxes on the secured roll are due on December 10 and April 10 and become delinquent after December 10 and April 10, respectively.

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

Property taxes are recorded as LCFF sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state's General Fund and is referred to as the state apportionment. The District's LCFF provides a base grant per average daily attendance (ADA), which varies by grade span, plus supplemental and concentration grants that reflect student demographic factors and categorical programs.

Revenue – Nonexchange Transactions

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Expenditures and Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by character:
- Current (further classified by function)
- Debt service
- Capital outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Pensions

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

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments:

June 30, 2018	**Maturities**	**Fair Value**
Deposits (1)		$ 190,691
Investments That Are Not Securities (2)		
County treasurer's investment pool	4.4 months average	4,034,222
Open-end mutual fund		1,087
Subtotal		4,035,309
Total Cash and Investments		4,226,000
Less: Trust fund cash and investments		5
Less: Agency fund cash and investments		467,707
Total Cash and Investments Per Government-Wide Statement of Net Position		$ 3,758,288

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

(2) ***Investments That Are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

3. RESTRICTED CASH AND INVESTMENTS

The following is a summary of restricted cash and investments with fiscal agents:

June 30, 2018	**Maturities**	**Fair Value**
Deposits (1)		$ 2,888,740

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

Credit Risk – Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the County investment pool is unrated.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

- County treasurer's investment pool of $4,034,222 is valued using quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

- Open-end mutual fund of $1,087 is valued using quoted market prices (level 1 inputs).

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the County investment pool:

> No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

California Government Code, Section 53601, places the following concentration limits on the District's investments:

> No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

June 30, 2018		**General Fund**
Other	$	44,392

5. DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following:

June 30, 2018		**General Fund**
Due From		
Federal government	$	222,002
State government		109,319
Local governments		51,538
Total	$	382,859

6. INTERFUND TRANSFERS AND BALANCES DUE TO/FROM OTHER FUNDS

Balances Due To/From Other Funds

Balances due to/from other funds in the fund financial statements are as follows:

Due From Other Funds	Due to Other Funds		
General	Cafeteria Special Revenue	$	32,588

The specific purposes of the balances due to/from other funds are as follows:

General Fund interfund receivable from the Cafeteria Special Revenue Fund to reimburse the General Fund for expenditures incurred by the Cafeteria Special Revenue Fund and disbursed from the General Fund.

Interfund Transfers

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

Interfund transfers are as follows:

Interfund Transfer Out	Interfund Transfer In		
General	Cafeteria Special Revenue	$	172,252

Transfers are used for the following:

To move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and

To use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There were no transfers that were not routine or inconsistent with the activities of the funds making the transfer.

7. CAPITAL ASSETS

Capital assets activity is as follows:

Year Ended June 30, 2018	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Nondepreciated Capital Assets				
Land	$ 210,000	$ -	$ -	$ 210,000
Construction in progress	-	930,565	-	930,565
Total Nondepreciated Capital Assets	210,000	930,565	-	1,140,565
Depreciated Capital Assets				
Buildings and improvements	11,991,650	289,646	-	12,281,296
Site improvements	924,432	-	-	924,432
Equipment and vehicles	1,698,217	37,269	10,000	1,725,486
Total Depreciated Capital Assets	14,614,299	326,915	10,000	14,931,214
Totals at Historical Cost	14,824,299	1,257,480	10,000	16,071,779
Less: Accumulated Depreciation				
Buildings and improvements	4,011,715	318,685	-	4,330,400
Site improvements	201,051	46,187	-	247,238
Equipment and vehicles	1,069,365	98,162	10,000	1,157,527
Total Accumulated Depreciation	5,282,131	463,034	10,000	5,735,165
Total Depreciated Capital Assets - Net	9,332,168	(136,119)	-	9,196,049
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	$ 9,542,168	$ 794,446	$ -	$ 10,336,614

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2018	
Governmental Activities	
Instruction	$ 355,516
Pupil services	75,461
Ancillary services	17,413
General administration	1,636
Plant services	13,008
Total Depreciation Expense - Governmental Activities	$ 463,034

8. ACCOUNTS PAYABLE

Accounts payable consisted of the following:

June 30, 2018	General Fund	Other Governmental Funds
Vendors	$ 424,201	$ -
Salaries and benefits	117,104	-
Other	16,454	121
Total	$ 557,759	$ 121

9. DUE TO OTHER GOVERNMENTS

Amounts due to other governments consisted of the following:

June 30, 2018	General Fund
Due To	
State government	$ 205,372

10. BONDED DEBT

The outstanding general obligation bonded debt is as follows:

Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2017	Redeemed Current Year	Outstanding June 30, 2018
1999	4.60-5.75%	2025	$ 4,136,347	$ 794,302	$ 121,496	$ 672,806

The amount of interest cost incurred during the year ended June 30, 2018, was $109,082, all of which was charged to expenses.

The annual requirements to amortize the general obligation bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ 113,623	$ 216,908	$ 330,531
2020	107,482	223,322	330,804
2021	101,340	228,660	330,000
2022	95,172	234,828	330,000
2023	89,928	240,072	330,000
2024-2025	165,261	494,739	660,000
Total	$ 672,806	$ 1,638,529	$ 2,311,335

11. CAPITAL LEASES

The District leases energy retrofit and lighting retrofit projects under agreements which provide for titles to pass upon expiration of the lease periods. The cost of the energy retrofit and lighting retrofit projects are included in buildings and improvements on the statement of net position as depreciated capital assets and totaled $366,985 at June 30, 2018. Accumulated depreciation of the leased buildings and improvements at June 30, 2018, was $112,010. Depreciation of the asset under capital lease is included in depreciation expense and amounted to $15,821 for the year ended June 30, 2018. The amount of interest cost incurred during the year ended June 30, 2018, was $12,512, all of which was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30		**Lease Payments**
2019	$	31,319
2020		31,319
2021		31,319
2022		31,319
2023		31,319
2024-2027		102,001
Total		258,596
Less: Amount representing interest		52,839
Present Value of Net Minimum Lease Payments	$	205,757

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

12. OPERATING LEASES

The District has entered into various operating leases for copiers with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days' written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments are as follows:

Year Ending June 30		**Lease Payments**
2019	$	29,052
2020		27,876
2021		27,876
2022		17,431
Total	$	102,235

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment. Rent expenditures were $29,640 for the year ended June 30, 2018.

13. NOTES PAYABLE

In September 2013, the District was selected to receive a loan under the provisions of *California Education Code,* Section 17456, totaling $1,065,000 to be used toward solar panel construction. The loan bears interest at 1.5%. As of June 30, 2018, the principal balance outstanding was $899,622.

In December 2018, the District was selected to receive a loan under *California Education* Code, Section 17456, totaling $1,247,000 to be used toward solar panel construction and energy efficient improvements. The loan bears interest at 0.5%. The provisions of the loan require the District to deposit $68,585 annually for 20 years beginning December 14, 2018, into a sinking fund, to repay the loan due December 14, 2037. As of June 30, 2018, the principal balance outstanding was $1,247,000.

The amount of interest cost incurred during the year ended June 30, 2018, was $17,444, all of which was charged to expenses.

The notes payable mature through December 2037 as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ 61,846	$ 19,383	$ 81,229
2020	62,779	18,450	81,229
2021	63,726	17,503	81,229
2022	64,687	16,541	81,228
2023	65,663	15,566	81,229
2024-2028	343,473	62,668	406,141
2029-2033	237,448	37,456	274,904
2034-2038	1,247,000	31,175	1,278,175
Total	$ 2,146,622	$ 218,742	$ 2,365,364

14. CERTIFICATES OF PARTICIPATION

In February 2018, the District issued certificates of participation (COP) in the amount of $2,855,000, at a discount of $52,528, with interest rates ranging from 2.00% to 3.25%. As of June 30, 2018, the principal balance outstanding was $2,855,000. The amount of interest cost incurred during the year ended June 30, 2018, was $31,032, all of which was charged to expenses.

The certificates mature through 2039 as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ -	$ 75,760	$ 75,760
2020	-	77,044	77,044
2021	120,000	75,844	195,844
2022	125,000	73,394	198,394
2023	125,000	70,894	195,894
2024-2028	670,000	314,363	984,363
2029-2033	750,000	225,700	975,700
2034-2038	875,000	102,522	977,522
2039	190,000	3,086	193,086
Total	$ 2,855,000	$ 1,018,607	$ 3,873,607

15. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt:

Year Ended June 30, 2018	Beginning Balance - as Previously Reported	Cumulative Effect of Change in Accounting Principles	Beginning Balance - as Restated	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities							
Compensated absences	$ 21,622	$ -	$ 21,622	$ 20,430	$ -	$ 42,052	$ -
General obligation bonds	794,302	-	794,302	-	121,496	672,806	113,623
Capitalized interest	1,378,773	-	1,378,773	109,082	208,504	1,279,351	216,908
Capital leases	224,564	-	224,564	-	18,807	205,757	20,309
Notes payable	960,549	-	960,549	1,247,000	60,927	2,146,622	61,846
Certificates of participation	-	-	-	2,855,000	-	2,855,000	-
COP issue discount	-	-	-	(52,828)	(1,505)	(51,323)	(3,612)
Early retirement incentives	-	-	-	217,138	-	217,138	26,031
Total OPEB liability (asset)	(31,651)	377,903	346,252	16,941	-	363,193	-
Net pension liability	7,538,868	-	7,538,868	1,223,189	-	8,762,057	-
Total	$ 10,887,027	$ 377,903	$ 11,264,930	$ 5,635,952	$ 408,229	$ 16,492,653	$ 435,105

16. FUND BALANCES COMPONENTS

Fund balances are composed of the following:

June 30, 2018	General Fund	Other Governmental Funds
Nonspendable		
Reserved for:		
Revolving cash	$ 2,000	$ 230
Inventories	-	4,683
Prepaid expenditures	23,746	-
Total Nonspendable	$ 25,746	$ 4,913
Restricted		
Restricted for:		
Capital projects	$ 2,668,320	$ 554,389
Debt service	-	351,876
Federal and state categoricals	647,423	4,124
Total Restricted	$ 3,315,743	$ 910,389
Assigned		
Assigned for:		
Disaster services	$ 50,472	$ -
Mandated costs	337,302	-
Donations	14,259	-
Deferred maintenance	150,850	-
Forest reserve	65,454	-
Utilities	20,922	-
CalSTRS Golden Handshakes	85,000	-
Capital projects	-	192,704
Total Assigned	$ 724,259	$ 192,704
Unassigned		
Designated for economic uncertainties	$ 919,564	$ -

17. JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Northern California Regional Liability Excess Fund (ReLiEF), Schools Excess Liability Fund (SELF), Schools Insurance Group, Northern Alliance (SIGNAL); School Insurance Group, Northern Alliance II (SIGNAL II); and Self-Insured Schools of California Health and Welfare Benefits Program (SISC III). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

18. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

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

Construction Project Commitment

Construction project commitments are as follows:

June 30, 2018		Remaining Construction Commitment
Shade structures	$	19,100
Classroom foundation repairs		7,942
Cafeteria repairs		24,000
Energy upgrades		226,729
Total	$	277,771

On November 13, 2018, the District entered into an agreement totaling $275,000 for improvements to the library and staff lounge.

19. RISK MANAGEMENT

The District is exposed to various risks, including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint powers agreements for property, liability, workers' compensation, health care, and excess liability coverage.

20. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of CalSTRS, and classified employees are members of CalPERS.

Summary

Net pension liability, deferred outflows or resources, deferred inflows of resources, and pension expense are reported as follows:

June 30, 2018	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS State Teachers' Retirement Plan	$ 5,548,800	$ 1,556,487	$ 244,594	$ 583,081
CalPERS School Employer Pool	3,213,257	1,049,703	64,976	620,326
Total	$ 8,762,057	$ 2,606,190	$ 309,570	$ 1,203,407

Net pension liability, deferred outflows of resources, and deferred inflows of resources are reported in the accompanying statement of net position; pension expense is reported in the accompanying statement of activities.

California State Teachers' Retirement System

Plan Description Certificated employees of the District participate in STRP, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available financial reports that can be obtained at www.calstrs.com.

Benefits Provided STRP provides retirement, disability, and survivor benefits to beneficiaries. The defined benefit program provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. The program has two benefit formulas:

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

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

Contributions Required member, employer, and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Active plan members of the CalSTRS 2% at 60 formula are required to contribute 10.25% of their salary. Active plan members of the CalSTRS 2% at 62 formula are required to contribute 9.205% of their salary. The required employer contribution rate for fiscal year 2017-18 was 14.43% of annual payroll. State Teachers' Retirement Law also requires the state to contribute 9.328% of the members' creditable earnings from the fiscal year ending in the prior calendar year. The District's contributions to CalSTRS for the fiscal year ended June 30, 2018, were $495,726.

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 net pension 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:

June 30, 2018		
District's proportionate share of the net pension liability	$	5,548,800
State's proportionate share of the net pension liability associated with the District		2,062,489
Total	$	7,611,289

The District's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the state, actuarially determined. At June 30, 2018, the District's proportion was 0.006%.

For the year ended June 30, 2018, the District recognized pension expense of $59,279 and revenue of $59,279 for support provided by the state. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 20,520	$ 96,800
Net difference between projected and actual earnings on pension plan investments	-	147,794
Change in assumptions	1,027,954	-
Changes in proportion and differences between District contributions and proportionate share of contributions	12,287	-
District contributions subsequent to the measurement date	495,726	-
Total	$ 1,556,487	$ 244,594

The $495,726 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	$ 32,728
2020	248,548
2021	169,003
2022	24,302
2023	166,841
Thereafter	174,745
Total	$ 816,167

Actuarial Assumptions The total pension liability in the June 30, 2015, actuarial valuation for CalSTRS was determined using the following actuarial assumptions and applied to all periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.10%
Interest on accounts	4.50%
Wage growth	3.50%
Consumer price inflation	2.75%
Post-retirement benefit increases	2.00% simple

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS 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 our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS' consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute return/risk mitigating strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%
Total	100%	

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

June 30, 2018	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	$ 8,147,400	$ 5,548,800	$ 3,439,860

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalSTRS' separately issued *Comprehensive Annual Financial Report* (CAFR).

California Public Employees' Retirement System

Plan Description Classified employees of the District participate in the School Employer Pool (the Plan) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by state statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at www.calpers.ca.gov.

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

Contributions Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members that met the definition of a new member under the Public Employees' Pension Reform Act are required to contribute 6.50% of their salary. Classic employees are required to contribute 7.00% of their salary. The required employer contribution rate for the 2017-18 fiscal year was 15.531%. The District's contributions to CalPERS for the fiscal year ended June 30, 2018, were $284,926.

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 net pension liability of $3,213,257 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2018, the District's proportion was 0.01346%.

For the year ended June 30, 2018, the District recognized pension expense of $620,326. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 115,118	$ -
Net difference between projected and actual earnings on pension plan investments	105,773	-
Change in assumptions	469,347	37,832
Changes in proportion and differences between District contributions and proportionate share of contributions	74,539	27,144
District contributions subsequent to the measurement date	284,926	-
Total	$ 1,049,703	$ 64,976

The $284,926 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	$ 226,896
2020	322,453
2021	212,666
2022	(62,214)
Total	$ 699,801

Actuarial Assumptions The total pension liability in the June 30, 2015, actuarial valuation for CalPERS was determined using the following actuarial assumptions applied to all periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries, Scale BB.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 1997, through June 30, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. In determining the long-term expected rate of return, 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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the 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 tables below reflect long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

	Assumed Asset Allocation	Real Rate of Return Years 1 - 10	Real Rate of Return Years 11+
Asset Class			
Global equity	47%	4.90%	5.38%
Fixed income	19%	0.80%	2.27%
Inflation assets	6%	0.60%	1.39%
Private equity	12%	6.60%	6.63%
Real estate	11%	2.80%	5.21%
Infrastructure and forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
Total	100%		

Discount Rate The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods recently adopted by the CalPERS Board in 2013 were used. Projections of expected benefit payments and contributions were performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

June 30, 2018	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 4,727,731	$ 3,213,257	$ 1,956,874

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalPERS' separately issued CAFR.

21. EARLY RETIREMENT INCENTIVE PROGRAM

The District has adopted an early retirement incentive program, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the CalSTRS and retire during a period of not more than 120 days, or less than 60 days, from the date of the formal action taken by the District.

Retiree Information

Two employees retired in exchange for the additional two years of service credit.

Position		Service	Retired Employee		Replacement Employee	
Vacated	Age	Credit	Salary	Benefits	Salary	Benefits
Teacher	63	28	$ 77,613	$ 28,653	$ 43,484	$ 25,316
Teacher	57	30	$ 78,737	$ 29,120	$ 70,016	$ 30,945

Additional Costs

As a result of this early retirement incentive program, the District expects to incur $128,749 in additional costs. The breakdown in additional costs is presented below:

June 30, 2018	
Retirement costs	$ 98,169
Postemployment health care benefit costs	30,000
Administrative costs	580
Total	$ 128,749

22. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description and Benefits Provided

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit health care plan administered by the District. The District provides postemployment health care benefits to certificated employees after completing at least 20 consecutive years of full-time credentialed service in the District. Retirees are subject to a limit on district-paid premiums of $2,500 per year, and a total of $25,000 over a maximum benefit period of ten years. District-paid benefits end at age 65. A further provision offers District contributions of up to $12,500 per year for a maximum of ten years, but not beyond age 65, for certificated retirees who have at least 30 years of full-time credentialed service to the District and who accept such benefits in lieu of a CalSTRS Golden Handshake.

Employees Covered

Employees covered by the benefit terms of the plan consisted of:

June 30, 2018	
Inactive plan members or beneficiaries currently receiving benefit payments	-
Active plan members	51
Total	51

Contributions

The District's agreement with employees is for monthly contributions for members who meet the eligibility criteria of their collective bargaining agreement and who retire during the term of the contract. The contribution requirements of plan members and the District are established and may be amended by the District's Board of Trustees through the collective bargaining process. The members receiving benefits contributions vary depending on the level of coverage selected. It is the District's policy to fund the obligation on a pay-as-you-go basis. For the fiscal year ended June 30, 2018, the District did not have any retirees receiving benefits and no premium payments were made.

Total OPEB Liability

The District's total OPEB liability for the plan is measured as the total OPEB liability, less the plan's fiduciary net position. The total OPEB liability of the plan is measured as of June 30, 2018, using an annual actuarial valuation as of July 1, 2017, rolled forward to June 30, 2018, using standard update procedures. The June 30, 2018, total OPEB liability was based on the actuarial methods and assumptions as shown below.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2017
Actuarial cost method	Entry age, level percent of pay
Actuarial assumptions:	
Discount rate	3.90% (1)
Salary increases	3.00%
Consumer price inflation	2.25%
Healthcare cost trend rate	7.00% (2)

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

(2) For fiscal year 2018, decreasing 1.00% annually to an ultimate rate of 5.00% in fiscal year 2020.

Mortality rates were based on the RP-2014 Employee and Health Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.90%. The discount rate is based on the Bond Buyer 20-Bond General Obligation Index.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the plan are as follows:

Year Ended June 30, 2018		
Total OPEB Liability		
Service cost	$	15,883
Interest		13,011
Difference between expected and actual experience		(1,449)
Changes of assumptions		(10,504)
Net Change in Total OPEB Liability		16,941
Total OPEB Liability - Beginning of Year		346,252
Total OPEB Liability - End of Year	$	363,193
Covered-employee payroll	$	3,540,996
District's total OPEB liability as a percentage of covered-employee payroll		10.26%

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

The following presents the District's total OPEB liability calculated using the discount rate of 3.90%, as well as the District's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (2.90%) or one percentage point higher (4.90%) than the current rate:

June 30, 2018	**1% Decrease (2.90%)**	**Current Discount Rate (3.90%)**	**1% Increase (4.90%)**
Total OPEB liability	$ 399,380	$ 363,193	$ 330,332

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

The following presents the District's total OPEB liability calculated using the healthcare cost trend rate of 7.00%, as well as the District's total OPEB liability if it was calculated using a healthcare trend rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

June 30, 2018	**1% Decrease (6.00%)**	**Health Cost Trend Rates (7.00%)**	**1% Increase (8.00%)**
Total OPEB liability	$ 344,697	$ 363,193	$ 385,129

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $27,699. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,304
Change in assumptions	-	9,454
Total	$ -	$ 10,758

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

Year Ending June 30	
2019	$ 1,195
2020	1,195
2021	1,195
2022	1,195
2023	1,195
Thereafter	4,783
Total	$ 10,758

23. SUBSEQUENT EVENT

On December 20, 2018, the District issued the Election of 2018, Series A general obligation bonds totaling $5,500,000, at a premium of $227,583. The issuance consisted of serial and term current interest bonds with interest rates ranging from 1.81% to 4.16%. The bonds mature through August 1, 2056.

24. FUTURE GASB IMPLEMENTATION

In June 2017, GASB issued Statement No. 87, *Leases*. This statement improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2020, will have on the District's financial statements, if any.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings, and Direct Placements*. This statement improves the information disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2018, will have on the District's financial statements, if any.

Required Supplementary Information

Upper Lake Unified School District

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year Ended June 30, 2018	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
Revenues				
Property taxes	$ 2,129,412	$ 2,202,518	$ 2,202,519	$ 1
Local control funding formula sources	5,729,372	5,660,853	5,549,657	(111,196)
Other state revenue	394,160	1,043,206	1,104,236	61,030
Federal revenue	773,447	617,045	617,045	-
Other local revenue	488,465	536,202	536,203	1
Total Revenues	9,514,856	10,059,824	10,009,660	(50,164)
Expenditures				
Certificated salaries	3,500,228	3,619,521	3,622,213	(2,692)
Classified salaries	1,567,683	1,647,430	1,647,426	4
Employee benefits	2,545,699	2,800,468	2,898,424	(97,956)
Books and supplies	472,517	521,011	520,957	54
Services and other operating	1,262,222	1,793,377	1,793,317	60
Capital outlay	101,000	986,131	986,130	1
Other outgo	(31,126)	73,133	73,133	-
Debt service:				
Principal	80,165	79,734	79,734	-
Interest and other charges	26,148	26,579	26,579	-
Total Expenditures	9,524,536	11,547,384	11,647,913	(100,529)
Excess (Deficiency) of Revenues Over Expenditures	(9,680)	(1,487,560)	(1,638,253)	(150,693)
Other Financing Sources (Uses)				
Interfund transfers in				
Interfund transfers out	(253,995)	(172,252)	(172,252)	-
Other sources	-	1,247,000	1,247,000	-
Proceeds from certificates of participation	-	2,855,000	2,855,000	-
Total Other Financing Sources (Uses)	(253,995)	3,929,748	3,929,748	-
Net Change in Fund Balances	(263,675)	2,442,188	2,291,495	(150,693)
Fund Balances - Beginning of Year	2,693,817	2,693,817	2,693,817	-
Fund Balances - End of Year	$ 2,430,142	$ 5,136,005	$ 4,985,312	$ (150,693)

See the accompanying notes to this budgetary comparison schedule.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's Governing Board annually adopts a budget for the General Fund of the District. The budget is presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule of the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budget as amended. Unexpended appropriations on the annual budget lapse at the end of each fiscal year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations by the following amounts:

June 30, 2018		**General Fund**
Certificated salaries	$	2,692
Employee benefits	$	97,956

These excess expenditures were funded by beginning fund balance.

Upper Lake Unified School District

SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Year Ended June 30, 2018		
Total OPEB Liability		
Service cost	$	15,883
Interest		13,011
Difference between expected and actual experience		(1,449)
Changes of assumptions		(10,504)
Net Change In Total OPEB Liability		16,941
Total OPEB Liability - Beginning of Year		346,252
Total OPEB Liability - End of Year	$	363,193
Covered-employee payroll	$	3,540,996
District's total OPEB liability as a percentage of covered-employee payroll		10.26%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.006%	0.006%	0.006%	0.006%
District's proportionate share of the net pension liability (asset)	$ 5,548,800	$ 4,852,860	$ 4,039,440	$ 3,506,220
State's proportionate share of the net pension liability (asset) associated with the District	2,062,489	1,760,618	1,397,363	1,320,092
Total	$ 7,611,289	$ 6,613,478	$ 5,436,803	$ 4,826,312
District's covered-employee payroll	$ 3,347,957	$ 3,150,559	$ 2,870,585	$ 2,760,624
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	165.74%	154.03%	140.72%	127.01%
Plan fiduciary net position as a percentage of the total pension liability	69.00%	70.00%	74.00%	77.00%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2018	2017	2016	2015
Contractually required contribution	$ 495,726	$ 421,173	$ 338,056	$ 254,908
Contributions in relation to the contractually required contribution	(495,726)	(421,173)	(338,056)	(254,908)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 3,347,957	$ 3,150,559	$ 2,870,585	$ 2,760,624
Contributions as a percentage of covered-employee payroll	14.81%	13.37%	11.78%	9.23%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.01346%	0.01360%	0.01300%	0.01300%
District's proportionate share of the net pension liability (asset)	$ 3,213,257	$ 2,686,008	$ 1,930,953	$ 1,419,054
District's covered-employee payroll	$ 1,553,420	$ 1,531,400	$ 1,450,820	$ 1,320,675
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	206.85%	175.40%	133.09%	107.45%
Plan fiduciary net position as a percentage of the total pension liability	71.90%	73.90%	79.40%	83.50%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2018	2017	2016	2015
Contractually required contribution	$ 284,926	$ 215,739	$ 181,425	$ 170,776
Contributions in relation to the contractually required contribution	(284,926)	(215,739)	(181,425)	(170,776)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 1,553,420	$ 1,531,400	$ 1,450,820	$ 1,320,675
Contributions as a percentage of covered-employee payroll	18.34%	14.09%	12.50%	12.93%

See the accompanying notes to the required supplementary information.

1. SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Changes in Benefit Terms

There were no significant changes in benefit terms during the measurement period ended June 30, 2018.

Changes in Assumptions

During fiscal year 2017-18, the discount rate used was increased from 3.60% to 3.90%. The average expected remaining service lives used at June 30, 2017, was reduced from 10.5342 to 10.0000 for the measurement date of June 30, 2018.

2. CHANGES OF BENEFIT TERMS

California State Teachers' Retirement System

There were no significant changes of benefit terms during the measurement period ended June 30, 2017.

California Public Employees' Retirement System

There were no significant changes of benefit terms during the measurement period ended June 30, 2017.

3. CHANGES OF ASSUMPTIONS

California State Teachers' Retirement System

During fiscal year 2016-17, California State Teachers' Retirement System (CalSTRS) completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability (NPL) of the State Teachers' Retirement Plan changed, including the price inflation, wage growth, discount rate, and the mortality tables used in the actuarial valuation of the NPL. The change in assumptions were as follows:

June 30	**2017**	**2016**
Assumption		
Consumer price index	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

CalSTRS changed its mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. 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.

California Public Employees' Retirement System

During fiscal year 2016-17, the financial reporting discount rate for the Schools Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (PERF B) was lowered from 7.65% to 7.15%.

OTHER SUPPLEMENTARY INFORMATION SECTION

The Upper Lake Unified School District is located in Lake County and was established July 1, 2016. The new District was created from the merging of Upper Lake Union High School District and Upper Lake Union Elementary School District. There were no changes in the boundaries of the District during the current year. The District operates one elementary school, one middle school, one high school, one community day school, one continuation high school, and an adult education program.

GOVERNING BOARD

Name	Office	Term Expires
Diane Plante	President	2018
Mel O'Meara	Vice President	2018
Don Meri	Clerk	2018
Keith Austin	Member	2018
Claudine Pedroncelli	Member	2018

ADMINISTRATION

Giovanni Annous, Ed.D.
Superintendent

Sue Milhaupt
Business Manager

The District is not the sponsoring local educational agency for any charter schools.

See the accompanying note to the other supplementary information.

Upper Lake Unified School District

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2018

	Originally Reported		Final	
	Second Period Report	Annual Report	Second Period Report	Annual Report
ELEMENTARY				
Regular ADA*				
Transitional kindergarten/ kindergarten through grade 3	225	226	225	226
Grades 4 through 6	165	166	165	166
Grades 7 through 8	104	105	104	105
ELEMENTARY TOTALS	494	497	494	497
HIGH SCHOOL				
Regular ADA**				
Grades 9 through 12	267	261	256	254
Community Day School				
Grades 9 through 12	5	5	-	-
HIGH SCHOOL TOTALS	272	266	256	254
ADA Totals	766	763	750	751

** Includes opportunity classes, home and hospital, and special day class.*

*** Includes opportunity classes, home and hospital, special day class, and continuation education.*

See the accompanying note to the other supplementary information.

Upper Lake Unified School District

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2018

	Minutes Requirement	2017-18 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	57,060	180	N/A	Complied
Grade 1	50,400	54,360	180	N/A	Complied
Grade 2	50,400	54,360	180	N/A	Complied
Grade 3	50,400	54,360	180	N/A	Complied
Grade 4	54,000	54,360	180	N/A	Complied
Grade 5	54,000	54,360	180	N/A	Complied
Grade 6	54,000	58,140	180	N/A	Complied
Grade 7	54,000	58,140	180	N/A	Complied
Grade 8	54,000	58,140	180	N/A	Complied
Grade 9	64,800	65,475	180	N/A	Complied
Grade 10	64,800	65,475	180	N/A	Complied
Grade 11	64,800	65,475	180	N/A	Complied
Grade 12	64,800	65,475	180	N/A	Complied

See the accompanying note to the other supplementary information.

Upper Lake Unified School District

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

Years Ended June 30		(Budget) 2019		2018		2017	
General Fund							
Revenues and other financial sources	$	9,860,643	$	14,111,660	$	9,804,456	
Expenditures		10,822,386		11,647,913		9,681,925	
Other uses and transfers out		144,507		172,252		274,944	
Total Outgo		10,966,893		11,820,165		9,956,869	
Change in Fund Balance		(1,106,250)		2,291,495		(152,413)	
Ending Fund Balance	$	3,879,062	$	4,985,312	$	2,693,817	
Available reserves	$	432,895	$	919,564	$	895,319	
Designated for economic uncertainties	$	432,895	$	919,564	$	794,672	
Undesignated fund balance	$	-	$	-	$	100,647	
Available reserves as a percentage of total outgo		4%		8%		9%	
Total long-term debt	$	16,153,840	$	16,492,653	$	11,264,930	*
Average daily attendance at P-2		760		750		753	

** As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.*

The 2016-17 year was the District's first year of operations. On July 1, 2016, the District was established by the merger of Upper Lake Union High School District and Upper Lake Union Elementary School District. Due to lack of comparability, prior-year financial information for 2016 has not been presented.

The General Fund balance increased by $2,291,495 over the past two years. The fiscal year 2018-19 budget projects a decrease of $1,106,250 (23.2%). For a district this size, the state recommends available reserves of at least 4% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit in one of the past two years and anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term debt increased by $5,227,723 during 2017-18 to $16,275,515.

Average daily attendance decreased by three over the past year. Additional growth in ADA of ten is anticipated during fiscal year 2018-19.

See the accompanying note to the other supplementary information.

Upper Lake Unified School District
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2018

		General Fund
Annual Financial and Budget Report Fund Balance	$	5,133,646
Adjustments Increasing (Decreasing) the Fund Balance		
Understatement of accounts payable		(98,169)
Understatement of due from other governments		61,031
Understatement of due to other governments		(111,196)
Net Adjustments		(148,334)
Audited Financial Statements Fund Balance	$	4,985,312

See the accompanying notes to the other supplementary information.

Upper Lake Unified School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. Department of Education			
Passed Through California Department of Education			
NCLB - Title 1, Part A, Basic Grants	84.010	14329	$ 288,716
Vocational Programs - Vocational and Applied Secondary, Section 131	84.048	14894	5,476
NCLB - Title II, Part A, Improving Teacher Quality	84.367	14341	80,982
NCLB - Title VI, Part B, Rural and Low Income School	84.358	14356	11,504
Direct Program			
Impact Aid - Title VIII	84.041		14,708
Subtotal			401,386
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	161,686
Special Education - IDEA Preschool	84.173	13430	1,671
Special Education - IDEA Preschool Local Entitlement	84.027	13682	4,291
Total Special Education Cluster			167,648
Total U.S. Department of Education			569,034
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	96,638
National School Lunch	10.555	13391	227,429
Nonmonetary Assistance			
Food Donation	10.555		25,288
Total Child Nutrition Cluster			349,355
Child and Adult Care Food	10.558	13393	23,637
Passed Through Lake County Office of Education			
Schools and Roads - Grants to Counties	10.666	10044	4,904
Total U.S. Department of Agriculture			377,896
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 946,930

See the accompanying note to the other supplementary information.

PURPOSE OF SCHEDULES

Schedule of Charter Schools

This schedule lists all charter schools sponsored by the District and indicates whether or not the charter school is included in the audit of the District.

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

The District received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District did not meet or exceed its local control funding formula target. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *California Education Code*, Sections 46201 through 46208.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of each fund, as reported in the annual financial and budget report, to the audited financial statements.

Schedule of Expenditures of Federal Awards

This schedule includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

Expenditures reported on this schedule are reported on the modified 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.

The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER REPORTS SECTION

INDEPENDENT AUDITORS' 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*

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, 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 of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Upper Lake 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 February 11, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (see items 2018-001, 2018-002, and 2018-003).

INDEPENDENT AUDITORS' 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*
(Continued)

Compliance and Other Matters

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

The District's Response to Findings

The District's response to the findings 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KCoe Isom, LLP

February 11, 2019
Chico, California

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

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, California

Report on Compliance for Each Major Federal Program

We have audited Upper Lake 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 auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 of America; 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* (the 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 AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

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 as a basis for designing 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 in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

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.

KCoe Isom, LLP

February 11, 2019
Chico, California

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, California

Compliance

We have audited the Upper Lake Unified School District's (the District) compliance with the types of state 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 applicable state compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance with the state laws and regulations based on our audit.

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 and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

June 30, 2018	**Procedures Performed**
Attendance	Yes
Teacher certification and misassignments	Yes
Kindergarten continuance	Yes
Independent study	Yes
Continuation education	No
Instructional time	Yes
Instructional materials	Yes
Ratios of administrative employees to teachers	Yes
Classroom teacher salaries	Yes
Early retirement incentive	Yes
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	No
Educator effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before school education and safety program:	
After school	Yes
Before school	No
General requirements	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	No
Charter schools:	
Attendance	No
Mode of instruction	No
Nonclassroom-based instruction/independent study for charter schools	No
Determination of funding for nonclassroom-based instruction	No
Annual instructional minutes - classroom based	No
Charter school facility grant program	No

Testing was not performed for continuation education because the ADA for this program was below the level which requires testing.

Since the District did not participate in the following programs during 2017-18, all steps related to them were not performed:

Apprenticeship: Related and supplemental instruction
Before school education and safety program
Independent study-course based

Since the District did not sponsor any charter schools during 2017-18, all steps related to the following were not performed:

Attendance
Mode of instruction
Nonclassroom-based instruction/independent study for charter schools
Determination of funding for nonclassroom-based instruction
Annual instructional minutes - classroom based
Charter school facility grant program

Basis for Qualified Opinion on Classroom Teacher Salaries and Attendance

As described in the accompanying schedule of findings and questioned costs, the District did not comply with the requirements regarding classroom teacher salaries and attendance as described in items 2018-004 and 2018-006. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to classroom teacher salaries and attendance.

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

Qualified Opinion on Classroom Teacher Salaries and Attendance

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the District complied, in all material respects, with the state compliance requirements applicable to classroom teacher salaries and attendance.

Unmodified Opinion on Each of the Other State Programs

In our opinion, the District complied, in all material respects, with the other state compliance requirements referred to above that are applicable to the District for the year ended June 30, 2018.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the state compliance requirements referred to above that 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,* which are described in the accompanying schedule of findings and questioned costs as item 2018-005. Our opinion on state compliance is not modified with respect to these matters.

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

KCoe Isom, LLP

February 11, 2019
Chico, California

FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	Yes
Is any noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	
CFDA Nos. 10.553 and 10.555 Child Nutrition Cluster	
CFDA Nos. 84.027 and 84.173 Special Education Cluster (IDEA)	
Threshold for distinguishing types A and B programs:	$750,000
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Compliance over state programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	Yes
Type of auditors' report issued on compliance for state programs:	Qualified

SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT

INTERNAL CONTROL (Student Body)
30000 (2018-001)

Significant Deficiency

Condition During our testing of student body accounts, we noted the following:

1. One of 25 deposits tested was not made in a timely manner;
2. One of 25 deposits tested was deposited in the wrong student body account;
3. Supporting documentation for one of 25 disbursements could not be located;
4. Two of 25 disbursements was made out of the wrong student body account; and
5. One of 25 disbursements was for an unallowable expense. Student body funds were used to purchase adult meals.

Criteria Internal control procedures should be implemented to ensure that:

1. All deposits are made on a timely basis;
2. Funds are deposited into the appropriate student body account;
3. Supporting documentation for all disbursements is maintained;
4. Disbursements are made out of the appropriate student body account; and
5. Disbursements are made for allowable student body purposes. Student body funds should be expended to promote the students' general welfare, morale, and educational experiences.

Effect Without strengthening internal controls over cash receipts and cash disbursements, student body assets may not be properly safeguarded, may be susceptible to misappropriation, and may be expended on activities that are not valid.

Cause Unknown.

Recommendation Procedures should be implemented to strengthen internal controls over student body assets and accounting records.

Response The District's administration will implement procedures during 2018-19 to comply with the recommendation.

INTERNAL CONTROL (Bill Warrants)
30000 (2018-002)

Significant Deficiency

Condition During our test of internal controls over bill warrants, we noted the following:

1. Two of 40 disbursements tested were charged to an improper account distribution based on the type of expenditure.

2. One of 40 disbursements tested did not have an approved purchase order on file. Upon further investigation, we identified 140 reimbursements to this individual totaling $48,206 that were not accompanied by a purchase order.

3. Supporting documentation for one of 40 disbursements tested could not be located.

Criteria Internal control procedures should provide reasonable assurance that:

1. Bill warrants are charged to a proper account distribution in accordance with the *California School Accounting Manual* (CSAM).

2. Pursuant to the District's Board Policy 3300, all purchases shall be made by formal contract, purchase order (or blanket purchase order), or be accompanied by a receipt. Although the reimbursement tested was accompanied by a receipt and approved prior to disbursement, the type and volume of expenditures suggest that purchase orders are needed to ensure proper budgetary control. In addition, where possible, the District should pay expenditures directly to the vendor, rather than reimbursing an employee.

3. Supporting documentation for all disbursements is maintained.

Effect Without strengthening internal controls over bill warrants, expenses may be improperly classified for financial reporting, funds may not be properly safeguarded, and funds may not be subject to proper fiscal accountability.

Cause Unknown.

Recommendation In order to strengthen internal controls over bill warrants, we recommend that all invoices be reviewed by a supervisor for proper account distribution in accordance with the CSAM prior to processing and disbursing warrants. We also recommend that the District implement further detailed policies around purchase orders and expense reimbursements. All supporting documentation should be retained.

Response The District's administration will adopt procedures during the 2018-19 fiscal year to comply with the recommendation.

INTERNAL CONTROL (Revolving Cash)
30000 (2018-003)

Significant Deficiency

Condition Bank reconciliations were not prepared monthly for the revolving cash accounts of the District. In addition, we noted that as of June 30, 2018, there were six revolving cash accounts open. When the District unified in 2016-17, new unified accounts were opened for the general and cafeteria fund revolving cash, while the previous revolving accounts for the elementary and high school districts remained open.

Criteria Internal controls should be in place to provide reasonable assurance that all bank statements are properly reconciled on a monthly basis. Revolving accounts should only be in place for the unified District.

Effect Without strengthening internal controls over bank reconciliations, revolving cash may not be properly safeguarded.

Cause Unknown.

Recommendation Bank reconciliations should be properly prepared each month for all District bank accounts. In addition, the District should close out the elementary and high school district accounts and transfer these funds to the unified District's accounts, or the county treasury.

Response The District's administration will implement procedures during the 2018-19 fiscal year to comply with the recommendation.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

None.

SECTION IV FINDINGS
STATE AWARDS AUDIT

CLASSROOM TEACHER SALARIES
61000 (2018-004)

Significant Deficiency

Condition The District is not in compliance with the required minimum percentage for payment of classroom teachers' compensation under *California Education Code*, Section 41372(b). The District's percentage of current expense of education for classroom teachers' compensation was 51.37% for the fiscal year ended June 30, 2018.

Criteria *California Education Code*, Section 41732(b) requires the District to expend 55% or greater of the District's current expense of education for payment of classroom teachers' compensation.

Effect The current expense of education for the District was $9,640,955, and classroom teachers' compensation was $4,952,566, resulting in a deficiency of $349,959.

Cause The cause of the noncompliance is an increasing amount of expenditures from unrestricted funds under the local control funding formula, which makes meeting the required minimum percentage for payment of classroom teachers' compensation more difficult.

Recommendation The District should implement procedures to ensure that a minimum of 55% of the current expense of education is for classroom teachers' compensation. The District should deposit the deficiency of $349,959 with the County Superintendent of Schools. If no application for exemption is made, the District should add the deficiency of $349,959 to the amounts to be expended for compensation of classroom teachers during the next fiscal year.

Response The District’s administration applied for a waiver from the County Superintendent of Schools during the fiscal year 2018-19. The waiver was granted on December 20, 2018. As the waiver was approved, the District is not required to add the deficiency of $349,959 to the amounts to be expended for compensation of classroom teachers during the next fiscal year.

STATE COMPLIANCE (Ratio of Administrative Employees to Teachers)
40000 (2018-005)

State Compliance

Condition The District is not in compliance with the administrative employee-to-teacher ratio requirement under *California Education Code*, Section 41402. The District is one full-time equivalent (FTE) administrative employee over the administrative limit as calculated under *California Education Code*, Section 41401 and 41403.

Criteria *California Education Code*, Section 41402, limits the number of administrators per hundred teachers to not exceed 0.08 for unified districts.

Effect The current administrative employee-to-teacher ratio is .11, which is equivalent to one administrative FTE over the allowable limit. This results in a penalty of $67,260.

Cause The District utilizes a teacher that is paid through a grant which does not qualify to be included in the ratio of administration ratio calculation.

Recommendation The District should implement procedures to ensure that the administrative employee-to-teacher ratio is no greater than 0.08, as specified in *California Education Code*, Section 41404. We recommend that funding totaling $67,260 be returned to the California Department of Education.

Response The District's administration requested and received a waiver from the State Board of Education on September 21, 2017. Based on the waiver, the District is not required to return funding of $67,260 to the California Department of Education.

ATTENDANCE
10000 (2018-006)

Significant Deficiency

Condition During testing over attendance we noted the following:

1. Contemporaneous records of attendance were not retained for the continuation education or community day school programs.

2. The community day school students' scheduled instructional time was only three hours per school day.

3. In addition, various other minor amendments were needed to agree reported amounts to the attendance system, as well as to report an increase in apportionment days from an approved Form J-13A.

Average daily attendance (ADA) reported to the California Department of Education in the Second Period Report of School District Attendance was overstated by a net amount of 15.23 ADA. The ADA reported to the California Department of Education in the Annual Report of School District Attendance was overstated by a net amount of 11.51 ADA. The ADA, by grade span, is as follows:

Grade Span	TK/K-3	4-6	7-8	9-12	Totals
Second Period Report	0.41	0.30	0.12	(16.06)	(15.23)
Annual Report	0.34	0.25	(0.37)	(11.73)	(11.51)

Criteria Pursuant to *California Education Code*, Section 44809, and *California Code of Regulations*, Title 5, Section 400-401, schools must maintain records of pupil attendance. These written records should be prepared daily and signed weekly by the teacher who instructed the students. The attendance records should be used to support the ADA reported to the California Department of Education in the Report of School District Attendance.

In addition, pursuant to *California Education Code*, Section 48663(a), the minimum instructional day for community day school is 360 minutes.

Effect Due to the overstatement of 15.23 ADA in the Second Period Report of School District Attendance, the principal apportionment for 2017-18 is overstated by $111,196. We took the lower audited ADA figures and put them throught the District's LCFF target and transition entitlement calculations using the CDE's funding exhibits. The result of our calculation is $111,196 less than the amount shown on the CDE's funding exhibits originally-reported ADA totals. The District is required to return the funding totaling $111,196 from the principal apportionment to the California Department of Education.

Without strengthening internal controls over attendance reporting and instructional time requirements, average daily attendance may not be accurately reported to the California Department of Education.

Cause A change in personnel led to inconsistent procedures over attendance and scheduling.

Recommendation We recommend that both the Second Period and Annual Report of School District Attendance be amended for the errors noted above. We also recommend that funding totaling $111,196 be returned to the California Department of Education. The attendance worksheets, prepared to summarize the days of apportionment attendance, should be reviewed for accuracy prior to preparing the Report of School District Attendance. All contemporaneous records of attendance should be retained, and community day school should be held for a minimum of 360 minutes per school day.

Response The District has amended both the Second Period and Annual Report of School District Attendance. The District's administration will adopt procedures during the 2018-19 fiscal year to comply with the recommendation.

Not applicable: there are no current-year findings related to federal awards.

INTERNAL CONTROL (Student Body)
30000 (2017-001)

Significant Deficiency

Condition During our testing over student body accounts, we noted the following:

1. One of 25 deposits tested was not made in a timely manner;
2. One of 25 deposits tested was deposited in the wrong student body account;
3. Supporting documentation for two of 25 disbursements could not be located; and
4. One of 25 disbursements was made out of the wrong student body account.

Criteria Internal control procedures should be implemented to ensure that:

1. All deposits be made on a timely basis;
2. Funds are deposited into the appropriate student body account;
3. Supporting documentation for all disbursements is maintained; and
4. Disbursements are made out of the appropriate student body account.

Effect Without strengthening internal controls over cash receipts and cash disbursements, student body assets may not be properly safeguarded, may be susceptible to misappropriations, and may be expended on activities that are not valid.

Cause Unknown.

Recommendation Procedures should be implemented to strengthen internal controls over student body assets and accounting records.

Current Status See current-year finding in the schedule of findings and questioned costs (item 2018-001).

CLASSROOM TEACHER SALARIES
61000 (2017-002)

State Compliance

Condition The District is not in compliance with the required minimum percentage for payment of classroom teachers' compensation under *California Education Code*, Section 41372(b). The District's percentage of current expense of education for classroom teachers' compensation was 52.15% for the fiscal year ended June 30, 2017.

Criteria *California Education Code*, Section 41732(b) requires the District to expend 55% or greater of the District's current expense of education for payment of classroom teachers' compensation.

Effect The current expense of education for the District was $8,765,189, and classroom teachers' compensation was $4,570,716, resulting in a deficiency of $249,808.

Cause The cause of the noncompliance is an increasing amount of expenditures from unrestricted funds under the local control funding formula, which makes meeting the required minimum percentage for payment of classroom teachers' compensation more difficult.

Recommendation The District should implement procedures to ensure that a minimum of 55% of the current expense of education is for classroom teachers' compensation. The District should deposit the deficiency of $249,808 with the County Superintendent of Schools. If no application for exemption is made, the District should add the deficiency of $249,808 to the amounts to be expended for compensation of classroom teachers during the next fiscal year.

Current Status The District requested and received a waiver from the County Superintendent of Schools. The waiver was granted on April 20, 2018.

STATE COMPLIANCE (Ratio of Administrative Employees to Teachers)
40000 (2017-003)

State Compliance

Condition The District is not in compliance with the administrative employee-to-teacher ratio requirement under *California Education Code*, Section 41402. The District is two full time equivalent (FTE) administrative employees over the administrative limit as calculated under *California Education Code*, Section 41401 and 41403.

Criteria *California Education Code*, Section 41402, limits the number of administrators per hundred teachers to not exceed 0.08 for unified school districts.

Effect The current administrative employee-to-teacher ratio is .12, which is equivalent to two administrative FTEs over the allowable limit. This results in a penalty of $145,381.

Cause Unknown.

Recommendation The District should implement procedures to ensure that the administrative employee-to-teacher ratio is no greater than 0.08. As specified in *California Education Code*, Section 41404. We recommend that funding totaling $145,381 be returned to the California Department of Education.

Current Status The District requested and received a waiver from the State Board of Education on September 21, 2017.

ATTENDANCE
10000 (2017-004)

State Compliance

Condition Average daily attendance (ADA) reported to the California Department of Education in the Second Period Report of School District Attendance was overstated by 3.10 ADA. The ADA reported to the California Department of Education in the Annual Report of School District Attendance was overstated by 3.05 ADA. The ADA, by grade span, is as follows:

Grade Span	TK/K-3	4-6	7-8	9-12	Total
Second Period Report	-	-	-	3.10	3.10
Annual Report	-	-	-	3.05	3.05

Criteria Pursuant to *California Education Code*, Section 44809, and California Code of Regulations, Title 5, Section 400-401, schools must maintain records of pupil attendance. These written records should be prepared daily and signed weekly by the teacher who instructed the students. The attendance records should be used to support the ADA reported to the California Department of Education in the Report of School District Attendance.

Effect Due to the overstatement of 3.10 ADA in the Second Period Report of School District Attendance, the principal apportionment for 2016-17 is overstated by $113,581. We took the lower audited ADA figures and ran them through the District's LCFF target and transition entitlement calculations using the CDE's funding exhibits. The result of our calculation is $113,581 less than the amount shown on the CDE's funding exhibits originally-reported ADA totals. The District is required to return the funding totaling $113,581 from the principal apportionment to the California Department of Education.

Cause The District's parameters for attendance reporting in relation to continuation education were not set up correctly in the attendance accounting software, causing the attendance reports to be incorrect.

Recommendation We recommend that both the Second Period and Annual Report of School District Attendance be amended for the errors noted above. We also recommend that funding totaling $113,581 be returned to the California Department of Education. The attendance worksheets, prepared to summarize the days of apportionment attendance, should be reviewed for accuracy prior to preparing the Report of School District Attendance.

Current Status See current-year finding in the schedule of findings and questioned costs (item 2018-006).

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APPENDIX B

GENERAL AND FINANCIAL INFORMATION FOR THE UPPER LAKE UNIFIED SCHOOL DISTRICT

*The information in this section concerning the operations of the Upper Lake Unified School District (for purposes of this Appendix, the **"District"**), its operating budget and the District's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable solely from the proceeds of an* ad valorem *tax within School Facilities Improvement District No. 1 (K-8 Area) (the **"Improvement District"**) required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY FOR THE BONDS" in the main body of the Official Statement.*

General Information

The District. The District is located in an unincorporated community known as Upper Lake in the County of Lake. Located approximately 140 miles north of San Francisco, 120 miles northwest of Sacramento, and 8 miles north of the City of Lakeport, which borders the western shore of Clear Lake, Upper Lake is known as the Gateway to the Mendocino National Forest. The District serves students in kindergarten through grade twelve, and operates an elementary school, a middle school and a high school, as well as three alternative schools. Enrollment in the District is approximately 915 students in fiscal year 2019-20.

Recent Unification Proceedings. The District became a unified school district effective July 1, 2016, following unification proceedings (the **"Unification Proceedings"**) between the Upper Lake Union Elementary School District (the "**Elementary School District**") and the Upper Lake Union High School District (the "**High School District**"). The governing boards of both said school districts initiated the petition for unification. There is one elementary school district that feeds into the High School District, that did not participate in the unification proceedings, being Lucerne Elementary School District. As a result of the recent unification, the first audited financial statements prepared for the District are with respect to fiscal year 2016-17.

Administration

Board of Trustees. The governing board of the District is called the Board of Trustees (the **"Board"**). The Board includes five voting members elected by the voters of the District. Elections for positions to the Board are held every two years, alternating between three and four available positions. The current voting Board members are as follows:

Name	Position	Term Expires
Diane Plante	President	December 2022
Claudine Pedroncelli	Vice President	December 2020
Ana Santana	Clerk	December 2022
Franklin Gudmundson	Trustee	December 2020
Ronald L. Raetz	Trustee	December 2022

District Administration. The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators.

Superintendent. The District Superintendent is Dr. Giovanni Annous. Dr. Annous commenced his position with the District in July 2017. Dr. Annous has over 23 years of experience in the educational field. Prior to joining the District, he was Superintendent of the Rim of the World School District and Principal in the Fontana Unified School District. Dr. Annous earned an Ed.D. in Educational Leadership from the University of La Verne and is certified as a Chief Business Officer by the Association of California School Administrators.

Chief Business Official. Mr. Kauble was hired as the District's Chief Business Official in November 2018 and has worked in education for more than 20 years. Prior to working for the District, he worked as the Business and Operations Manager for the Howell Mountain Elementary School District in Napa Valley. Mr. Kauble holds a Master's Degree in education with a concentration in School Business Leadership from Wilkes University and is certified as a Chief Business Official by the California Association of School Business Officials.

Recent Enrollment and ADA Trends

As a result of the Unification Proceedings, the District became effective as a unified school district as of July 1, 2016. The following table shows recent enrollment and average daily attendance ("**ADA**") history for the District.

ANNUAL ENROLLMENT AND ADA*
Fiscal Years 2007-08 through 2019-20†
Upper Lake Unified School District

School Year	Enrollment	ADA
Combined ESD and HSD		
2007-08	970	916
2008-09	968	859
2009-10	933	820
2010-11	902	778
2011-12	886	786
2012-13	884	783
2013-14	833	753
2014-15	823	749
2015-16*	791	726
Unified School District		
2016-17	834	750
2017-18	838	763
2018-19†	856	775
2019-20†	915	775

*Prior to unification, figures represent the sums of Elementary School District and High School District enrollment and ADA.
† Estimates and Projections.
Source: Upper Lake Unified School District.

Employee Relations

The District has budgeted in fiscal year 2019-20, 48.0 full time equivalent ("**FTE**") certificated employees, 39.0 FTE classified employees and 10 management/Supervisor/Confidential FTE employees. Certificated and classified employees are represented by employee bargaining units as follows:

Name of Bargaining Unit	**Current Contract Expiration Date***
Upper Lake Educators Association (Certificated)	June 30, 2019
California School Employees Association (Classified)	June 30, 2019

*Parties operate pursuant to expired terms pending settlement.
Source: Upper Lake Unified School District.

Risk Management

The District participates in joint ventures under joint powers agreements with the following joint powers authorities ("**JPAs**"): Northern California Schools Insurance Group, Northern California Regional Liability Excess Fund, Schools Excess Liability Fund, Schools Insurance Group, Northern Alliance; School Insurance Group, Northern Alliance II; and Self-Insured Schools of California Health and Welfare Benefits Program. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property, liability, workers; compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. the boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

DISTRICT FINANCIAL INFORMATION

Education Funding Generally

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

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

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

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

- A 20% supplemental grant for English learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional concentration grant of up to 50% of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.

- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

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

Funding levels used in the LCFF "Target Entitlement" calculations for fiscal year 2019-20 are set forth in the following table.

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

Grade Span	2018-19 Base Grant Per ADA	2019-20 COLA (3.26%)	Grade Span Adjustments (K-3: 10.4%; 9-12: 2.6%)	2019-20 Base Grant/Adjusted Base Grant Per ADA
K-3	$7,459	$243	$801	$8,503
4-6	7,571	247	n/a	7,818
7-8	7,796	254	n/a	8,050
9-12	9,043	295	243	9,572

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

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

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

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

District Accounting Practices

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

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

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

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

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies.

Separate Entities Prior to Unification. As described herein, prior to the effective date of the unification on July 1, 2016, the Elementary School District and the High School District were separate legal entities with separate operations including financial and accounting activity. As such, the following two tables summarize the separate historical General Fund Revenues, Expenditures and Changes in Fund Balances for the Elementary School District and the High School District. The subsequent table presents, on a unified basis, the unified District's first audited financial statement, being the statement for fiscal year 2016-17.

Auditors. Both the Elementary School District's and the High School District's June 30, 2016 Audited Financial Statements were prepared by K·Coe Isom, LLP, Chico, California. The District's June 30, 2018 Audited Financial Statements were also prepared by K·Coe Isom, LLP, Chico, California, and are attached hereto as Appendix A. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, Upper Lake Unified School District, 675 Clover Valley Road, Upper Lake, California 95485. The District has not requested, and the auditor has not provided, any review or update of such Financial Statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. This District may impose a charge for copying, mailing and handling.

General Fund Revenues, Expenditures and Changes in Fund Balance (Elementary School District). The following table shows the audited income and expense statements for the Elementary School District for the fiscal years 2013-14 through 2015-16.

UPPER LAKE UNION ELEMENTARY SCHOOL DISTRICT
General Fund - Revenues, Expenses and Changes in Fund Balance
Fiscal Years 2013-14 through 2015-16

	Audited 2013-14	**Audited 2014-15**	**Audited 2015-16**
REVENUES			
LCFF Sources(1)	$3,345,083	$3,877,032	$4,428,175
Federal Revenues	278,368	219,755	562,728
State Revenues	642,628	589,623	518,998
Local Revenues	327,046	435,953	375,211
Total Revenues	4,593,125	5,122,363	5,884,662
EXPENDITURES			
Certificated Salaries	1,843,328	1,902,181	2,107,222
Classified Salaries	521,435	678,622	752,914
Employee Benefits	1,308,785	1,164,475	1,305,853
Books & Supplies	169,872	268,591	259,386
Contract Services & Operating Exp.	555,844	730,226	762,359
Capital Outlay	35,787	209,132	128,304
Other Outgo	(15,964)	(18,560)	3,376
Debt Service - Principal	--	--	--
Debt Service - Interest	--	--	--
Total Expenditures	4,419,087	4,934,667	5,319,414
Excess (Deficiency) of Revenues Over (Under) Expenditures	174,038	187,696	565,248
OTHER FINANCING SOURCES (USES)			
Operating Transfers in	240,000	--	--
Operating Transfers out	--	(73,774)	(174,586)
Other Sources/Uses	--	--	--
Total Other Financing Sources (Uses)	240,000	(73,774)	(174,586)
Net Change in Fund Balances	414,038	113,922	390,662
Fund Balances - Beginning of Year	558,021	972,059	1,085,981
Fund Balance - End of Year	$972,059	$1,085,981	$1,476,643

(1) LCFF commenced in fiscal year 2013-14.
Source: Upper Lake Union Elementary School District - Audited Financial Statements.

General Fund Revenues, Expenditures and Changes in Fund Balance (High School District). The following table shows the audited income and expense statements for the High School District for the fiscal years 2013-14 through 2015-16.

UPPER LAKE UNION HIGH SCHOOL DISTRICT
General Fund - Revenues, Expenses and Changes in Fund Balance
Fiscal Years 2013-14 through 2015-16

	Audited 2013-14	Audited 2014-15	Audited 2015-16
SOURCES			
Property Taxes	$1,120,028	$1,130,520	$1,220,568
LCFF Sources(1)	1,448,934	1,435,031	1,628,177
Other State Revenue	324,031	223,995	593,243
Federal Revenue	290,217	301,077	293,875
Other Local Revenue	497,878	473,024	437,952
Total Sources	3,681,088	3,563,647	4,173,815
EXPENDITURES			
Current:			
Instruction	1,574,141	1,557,815	1,795,399
Instruction-related services	373,353	456,935	489,195
Pupil services	460,022	540,361	575,628
Ancillary services	154,198	145,132	212,536
General administration	248,175	253,471	327,316
Plant services	430,331	391,061	625,917
Transfers between agencies	--	7,615	2,251
Debt service:			
Principal	48,290	29,943	64,338
Interest and other charges	9,581	19,711	22,638
Issuance costs and discounts	50,622	--	--
Capital outlay	1,065,000	--	--
Total Expenditures	4,412,713	3,402,044	4,115,218
Excess (Deficiency) of Revenues Over (Under) Expenditures	(731,625)	161,603	58,597
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	--	--	--
Interfund transfers out	(58,275)	(79,000)	(93,000)
Other sources	1,065,000	--	--
Total Other Financing Sources (Uses)	1,006,725	(79,000)	(93,000)
Net Change in Fund Balances	275,100	82,603	(34,403)
Fund Balances - Beginning of Year	1,046,287	1,321,387	1,403,990
Fund Balance - End of Year	$1,321,387	$1,403,990	$1,369,587

(1) LCFF commenced in fiscal year 2013-14.
Source: Upper Lake Union High School District - Audited Financial Statements.

General Fund Revenues, Expenditures and Changes in Fund Balance (Unified School District). The following table shows the audited income and expense statements for the District for fiscal years 2016-17 and 2017-18. Fiscal year 2016-17 is the first audited financial statement prepared for the District as a unified school district.

UPPER LAKE UNIFIED SCHOOL DISTRICT
General Fund - Revenues, Expenses and Changes in Fund Balance
Fiscal Years 2016-17 and 2017-18

	Audited 2016-17	Audited 2017-18
SOURCES		
Property Taxes	$2,156,510	$2,202,519
LCFF Sources	5,416,717	5,549,657
Other State Revenue	917,046	1,104,236
Federal Revenue	793,111	617,045
Other Local Revenue	521,072	536,203
Total Sources	9,804,456	10,009,660
EXPENDITURES		
Current:		
Instruction	5,275,468	5,715,399
Instruction-related services	909,803	927,913
Pupil services	968,752	1,048,599
Ancillary services	194,646	195,587
General administration	918,128	1,009,898
Plant services	1,233,312	1,153,285
Transfers between agencies	30,816	20,305
Debt service:		
Principal	68,662	79,734
Interest and other charges	21,583	26,579
Issuance costs	--	318,756
Capital outlay	60,755	1,1551,858
Total Expenditures	9,681,925	11,647,913
Excess (Deficiency) of Revenues Over (Under) Expenditures	122,531	(1,638,253)
OTHER FINANCING SOURCES (USES)		
Interfund transfers in	--	--
Interfund transfers out[(1)]	(251,500)	(172,252)
Other sources	(23,444)	1,247,000
Proceeds from certificates of participation	--	2,855,000
Total Other Financing Sources (Uses)	(274,944)	3,929,748
Net Change in Fund Balances	(152,413)	2,291,495
Fund Balances - Beginning of Year	2,846,230	2,693,817
Fund Balance - End of Year	$2,693,817	$4,985,312

(1) Transfer out generally attributed to food services/cafeteria fund. District provides breakfast and lunch for all students.
Source: Upper Lake Unified School District - Audited Financial Statements.

District Budget and Interim Financial Reporting

Budgeting – Education Code Requirements*.* The District is required under the Education Code of the State to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("**AB 1200**"), which became State law on October 14, 1991. Portions of AB 1200 are summarized in "– Interim Certifications Regarding Ability to Meet Financial Obligations."

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. In 2014, Assembly Bill 2585 was enacted, which repealed provisions authorizing school districts to use a dual budget adoption option. Instead, all school districts must be on a single budget cycle. A budget is only readopted if it is disapproved by the county office of education, or as needed.

The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Trustees and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, will determine if the budget includes the expenditures necessary to implement the local control and accountability plan and determine if the budget includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

For a district whose budget has been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

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

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

District's Budget Approval/Disapproval and Certification History*.* In the past five years, each of the District's interim reports has been certified as positive, and each of its budgets has been approved by the County Superintendent.

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at Upper Lake Unified School District, 675 Clover Valley Road, Upper Lake, California 95485. The District may impose charges for copying, mailing and handling.

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General Fund 2018-19 (Unaudited Actuals) and Fiscal Year 2019-20 (Adopted Budget). The following table shows a summary of the District's General Fund for Fiscal Year 2019-20 (Unaudited Actuals) and Fiscal Year 2019-20 (Adopted Budget).

UPPER LAKE UNIFIED SCHOOL DISTRICT
General Fund - Revenues, Expenses and Changes in Fund Balance
Fiscal Year 2018-19 (Unaudited Actuals) and Fiscal Year 2019-20 (Adopted Budget)

Revenues	**2018-19 Unaudited Actuals**	**2019-20 Adopted Budget**
LCFF Sources	$8,507,359	$8,760,096
Federal Revenues	833,045	828,072
Other State Revenues	1,361,217	858,082
Other Local Revenues	798,703	397,163
Total Revenues	11,500,324	10,841,413
Expenditures		
Certificated Salaries	3,859,650	3,642,276
Classified Salaries	1,577,182	1,550,211
Employee Benefits	3,280,107	2,986,432
Books and Supplies	479,178	930,460
Contract Services & Operating Exp.	1,239,027	1,231,923
Capital Outlay	431,161	39,500
Other Outgo (excluding indirect costs)	186,320	234,394
Other Outgo – Transfers of Indirect Costs	--	--
Total Expenditures	11,052,624	10,615196,889
Excess of Revenues Over/(Under) Expenditures	447,700	226,217
Other Financing Sources (Uses)		
Operating transfers in	--	15,000
Operating transfers out(1)	(120,000)	(100,000)
Other sources/uses	--	--
Total Other Financing Sources (Uses)	(120,000)	(85,000)
Net change in fund balance	327,700	141,217
Fund Balance, July 1(2)	2,762,067	3,209,67
Fund Balance, June 30	$3,209,767	$3,350,984

(1) Transfers out generally attributed to food services/cafeteria fund. District provides breakfast/lunch for all students.
(2) Fund balance not directly comparable to audited financial statements because budgets and interim reports account for special reserves outside of the General Fund. Balances as set forth in the District's Adopted Budget.
Source: Upper Lake Unified School District.

District Reserves*.* The District's ending fund balance is the accumulation of surpluses from prior years. This fund balance is used to meet the State's minimum required reserve of 4% of expenditures, plus any other allocation or reserve which might be approved as an expenditure by the District in the future. The District maintains, and expects to continue to maintain, an unrestricted reserve which meets the State's minimum requirements.

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

Effective January 1, 2018, Senate Bill 751, which was signed by the Governor on October 11, 2017, amends Section 42127.01 of the Education Code to raise the reserve cap to no more than 10% of a school district's combined assigned or unassigned ending general fund balance. In addition, the amendment provides that the reserve cap will be effective only if there is a minimum balance of 3% in the Proposition 98 reserve referenced in the preceding paragraph. Basic Aid school districts and small districts with 2,500 or fewer ADA are exempted from the reserve cap contained in Education Code Section 42127.01.

The District cannot predict if or when the reserve cap enacted by SB 751 will be triggered, or when or how any additional changes to legal provisions governing the reserve cap would impact its reserves and future spending.

Attendance - Revenue Limit and LCFF Funding

Funding Trend per ADA. As previously described, prior to fiscal year 2013-14, school districts in the State derived most State funding based on a formula which considered a revenue limit per unit of ADA. With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following table sets forth total LCFF funding and ADA for the District for fiscal years 2013-14 through 2019-20 (Projected).

ADA AND LCFF FUNDING
Fiscal Years 2013-14 through 2019-20 (Projected)(1)
Upper Lake Unified School District

Fiscal Year	ADA	Total LCFF Funding
2013-14	752	$5,194,045
2014-15	749	6,442,583
2015-16	724	7,276,920
2016-17	750	7,508,911
2017-18	763	7,863,372
2018-19*	775	8,397,143
2019-20**	775	8,760,096

(1) Fiscal years 2013-14 through 2015-16 show combined ADA and Total LCFF Funding Figures for the Elementary School District and the High School District.
*Unaudited Actual.
**Projection.
Source: California Department of Education; Upper Lake Unified School District.

Unduplicated Pupil Count over 55%. The unduplicated pupil count for purposes of funding entitlement under LCFF for the District is approximately 83% for fiscal year 2019-20. Percentages over 55% entitle the applicable District to supplemental funding based on the District's percentage, as well as concentration grant funding under LCFF.

Revenue Sources

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

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

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

The principal component of local revenues is the school district's property tax revenues, i.e., the 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. Section 42238(h) of the Education Code of the State itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. Historically, the more local property taxes a district received, the less State equalization aid it is entitled to.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under No Child Left Behind, the Individuals With Disabilities Education Act, and specialized programs such as Drug Free Schools.

Other State Revenues*.* Other State Revenues consist primarily of apportionments for mandated costs reimbursements, special education master plan, and State lottery apportionments.

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

District Retirement Systems

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

Implementation of GASB Nos. 68 and 71. Commencing with fiscal year ended June 30, 2015, the District implemented the provisions of GASB Statement Nos. 68 and 71 which require certain new pension disclosures in the notes to its audited financial statements commencing with the financial statements for fiscal year 2014-15. Statement No. 68 generally requires the District to recognize its proportionate share of the unfunded pension obligation for STRS and PERS by recognizing a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. See "APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2018" for further information.

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

STRS Contributions
Upper Lake Unified School District
Fiscal Years 2015-16 through 2019-20 (Projected)

Fiscal Year	Amount
2015-16(1)	$338,055
2016-17	421,173
2017-18	495,726
2018-19(2)	1,106,302
2019-20(3)	889,625

(1) Fiscal year 2015-16 shows combined STRS figures for the Elementary School District and the High School District.
(2) Unaudited actual.
(3) Budgeted.
Source: Upper Lake Unified School District.

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the combination of investment earnings and statutory contributions were not sufficient to pay actuarially required amounts. As a result, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately $107.2 billion as of June 30, 2018 (the date of the last actuarial valuation). In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 (**"AB 1469"**), which represents a legislative effort to fund the unfunded actuarial obligation with respect to service credited members of the STRS Defined Benefit Program before July 1, 2014, within 32 years. AB 1469 addressed the funding gap by increasing contributions by employees, employers and the State. In particular, employer contribution rates are scheduled to increase through at least fiscal year 2020-21, from a contribution rate of 8.88% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

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

EMPLOYER CONTRIBUTION RATES (STRS)
Fiscal Years 2019-20 through 2022-23

Fiscal Year	Employer Contribution Rate(1)
2019-20(2)	17.10%
2020-21(2)	18.40
2021-22	18.60
2022-23	18.10

(1) Expressed as a percentage of covered payroll. Rates may change based on actual experience and other factors.
(2). Fiscal year 2019-20 and 2020-21 employer contribution rates have been reduced as of adoption of the fiscal year 2019-20 State Budget. See the following paragraph.
Source: AB 1469.

The State's fiscal year 2019-20 budget includes certain pension relief provisions in the form of contributions by the State to STRS and PERS to relieve and reduce the employer contribution rates in the next two years. The STRS employer contribution rate for fiscal year 2019-20 is expected to be 17.1% (reduced from 18.13%) and for fiscal year 2020-21 is expected to be 18.4% (reduced from 19.10%).

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

PERS Contributions
Upper Lake Unified School District
Fiscal Years 2015-16 through 2019-20 (Projected)

Fiscal Year	Amount
2015-16[(1)]	$181,425
2016-17	215,739
2017-18	284,926
2018-19[(2)]	449,046
2019-20[(3)]	364,886

(1) Fiscal year 2015-16 show combined PERS Figures for the Elementary School District and the High School District.
(2) Unaudited Actual.
(3) Budgeted.
Source: Upper Lake Unified School District.

Like the STRS program, the PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately $27.2 billion as of June 30, 2018 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. In November 2015, PERS adopted a funding risk mitigation policy intended to incrementally lower its discount rate (its assumed rate of investment return) in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. In December 2016, PERS voted to lower its discount rate from the current 7.5% to 7.0% over the next subsequent three years according to the following schedule.

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

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

Source: PERS.

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

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

EMPLOYER CONTRIBUTION RATES (PERS)
Fiscal Years 2019-20 through 2020-21(1)

Fiscal Year	Employer Contribution Rate(2)
2019-20	19.721%
2020-21	22.900

(1) The PERS board is expected to approve official employer contribution rates for each fiscal year shown during the immediately preceding fiscal year.
(2) Expressed as a percentage of covered payroll. Rates have been reduced following adoption of the fiscal year 2019-20 State Budget. See the following paragraph
Source: PERS

The State's fiscal year 2019-20 budget includes certain pension relief provisions in the form of contributions by the State to STRS and PERS to relieve and reduce the employer contribution rates in the next two years. As a result of the State contributions, the employer contribution rates are expected to be approximately 1% less than previously identified by PERS.

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

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

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

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

Additional Information*.* Additional information regarding the District's retirement programs is available in Note 20 of the District's audited financial statements attached hereto as APPENDIX B. In addition, both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; and (ii) PERS, 400 Q Street, Sacramento, California 95811. More information regarding STRS and PERS can also be obtained at their websites, www.calstrs.com and www.calpers.ca.gov, respectively. *The references to these Internet websites are shown for reference and convenience only and the information contained on such websites is not incorporated by reference into this Official Statement. The information contained on these websites may not be current and has not been reviewed by the District or the Underwriter for accuracy or completeness.*

Other Post-Employment Retirement Benefits

The Plan Generally. The District provides postemployment healthcare benefits to qualifying employees through a single-employer defined benefit healthcare plan administered by the District. The District provides postemployment healthcare benefits to certificated employees after completing at least 20 consecutive years of full-time credentialed service in the District. Retirees are subject to a limit on District-paid premiums of $2,500 per year, and a total of $25,000 over a maximum benefit period of ten years. District-paid benefits end at age 65. A further provision offers District contributions of up to $12,400 per year for a maximum of ten years, but not beyond age 65, for certificated retirees who have at least 30 years of full-time credentialed service to the District and who accept such benefits in lieu of a Golden Handshake. At June 30, 2018, no retiree met these eligibility requirements, and an estimated 51 participants will be eligible in future years.

Contribution Information. The District's agreement with employees is for monthly contributions for members who meet the eligibility criteria of their collective bargaining agreement and who retire during the term of the contract. The contribution requirements of plan members and the District are established and may be amended by the District's Board through the collective bargaining process. The members receiving benefits contributions vary depending on the level of coverage selected. It is the District's policy to fund the obligation on a pay-as-you-go basis. For the fiscal year ended June 30, 2018, the District did not have any retirees receiving benefits and no premium payments were made.

Actuarial Assumptions and Other Inputs. The District's total OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017, rolled forward to June 30, 2018, using standard update procedures, and using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified: consumer price inflation 2.25%, salary increases 3.00%, discount rate 3.90%, net of investment expenses, but gross of administrative expenses, and healthcare cost trend rate

7.00% for 2018, decreasing 1.00% annually to an ultimate rate of 5.00% in fiscal year 2020. The discount rate was based on the Bond Buyer 20-Bond General Obligation Index. Mortality rates were based on the RP-2014 Employee and Health Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

Changes in OPEB Liability of the District. The changes in OPEB liability of the District as of June 30, 2018, is shown in the following table:

CHANGES IN TOTAL OPEB LIABILITY
Upper Lake Unified School District

	Total OPEB Liability
Service Cost	$15,883
Interest	13,011
Difference between expected and actual experience	(1,449)
Changes of assumptions	(10,504)
Net changes	16,941
Balance at June 30, 2017	346,252
Balance at June 30, 2018	$363,193
Covered-employee payroll	$3,540,996
District's total OPEB liability as a percentage of covered-employee payroll	10.26%

Source: Upper Lake Unified School District Audit Report.

OPEB Expense. For the year ended June 30, 2018, the District recognized an OPEB expense of $27,699.

For more information regarding the District's OPEB and assumptions used in its most recent actuarial study, see Note 22 of Appendix A to the Official Statement.

Early Retirement Incentive Program

During fiscal year 2016-17, the District adopted an early retirement incentive program (pursuant to California Education Code, Sections 22714 and 44929) whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under STRS and retire during a period of not more than 120 days, or less than 60 days, from the date of the formal action taken by the District. Two employees retired in exchange for the additional two years of service credit. As a result of this early retirement incentive program, the District expects to incur $128,749 in additional costs as of June 30, 2018, representing retirement costs of $98,169, OPEB benefit costs and $580 in administrative costs.

Existing Debt Obligations

General. In addition to the District's ongoing obligations with respect to retirement plans and OPEB described above, the District has outstanding general obligation bond indebtedness, debt relating to a long-term lease and related certificates of participation, debt relating to long-term lease financings with respect to solar projects, and capital leases relating to energy and lighting retrofit projects, each as described more particularly below. The District has never defaulted on the payment of principal or interest on any of its long-term indebtedness.

General Obligation Bonds. The District has voter-approved general obligation bonds outstanding which have been issued pursuant to the authority obtained from voters at elections in past years, which are secured by *ad valorem* property taxes levied and collected in the District. The following table shows the outstanding general obligation bonded debt of the District

UPPER LAKE UNIFIED DISTRICT
Summary of Outstanding General Obligation Bonds

Name	Issue Date	Final Maturity	Original Issue Amount	Bonds Outstanding August 2, 2019
1999 GO Bonds (High School District)	06/08/1999	08/01/2024	$4,136,347.00	$ 451,700.70
2018 GO Bonds (SFID No. 1)	12/20/2018	08/01/2056	5,500,000.00	5,500,000.00
2018 GO Bonds (District-Wide)	10/03/2019	08/01/2054	7,495,143.95	7,495,143.95
Total			$17,131,490.95	$13,446,844.65

Certificates of Participation. On February 7, 2018 the District caused the execution and delivery of $2,855,000 principal amount of Certificates of Participation, Series 2018 (the **"2018 Certificates"**) for the purpose of making capital improvements to elementary and middle school facilities. The 2018 Certificates bear current interest ranging from 2.00% - 3.250% with principal maturities on August 1, 2020 through August 1, 2038. The 2018 Certificates are payable from lease payments payable from the District's general fund. It is expected that the 2018 Certificates will be prepaid in full with the proceeds of the Bonds described herein.

Debt service due with respect to the 2018 Certificates on a fiscal year basis is shown in the following table:

UPPER LAKE UNIFIED DISTRICT
Debt Service Relating to 2018 Certificates of Participation

Fiscal Year Ending June 30	Principal	Interest	Total
2019	--	$75,760	$75,760
2020	--	77,044	77,044
2021	$120,000	75,844	195,844
2022	125,000	73,394	198,394
2023	125,000	70,894	195,894
2024-2028	670,000	314,363	984,363
2029-2033	750,000	225,700	975,700
2034-2038	875,000	102,522	977,522
2039	190,000	3,086	193,086
Total	$2,855,000	$1,018,607	$3,873,607

Source: Upper Lake Unified School District Audit Report.

Lease Obligations - Qualified Zone Academy Bonds ("QZABs"). The District has two outstanding long-term lease obligations (the **"2013 QZAB"** and the **"2017 QZAB"**, respectively) which were undertaken in connection with the development and installation of a solar project at the Upper Lake High School site. Both leases were undertaken as "Qualified Zone Academy Bonds" which entitle the owner to a federal tax credit. Both financings were undertaken on a private placement basis, and are payable by lease payments budgeted and appropriated from the District's general fund.

The 2013 QZAB financed projects in the principal amount of $1,065,000, with a qualified tax credit bond rate of 5.37% and a supplemental interest coupon of 1.50%. The final lease payment is due on September 18, 2031.

The 2017 QZAB financed projects in the principal amount of $1,247,000, with a qualified tax credit bond rate of 4.07% and no supplemental interest coupon. The final lease payment is due on December 14, 2037.

Capital Leases. The District leases energy retrofit and lighting retrofit projects under agreements that provide for titles to pass upon expiration of the lease periods. The cost of the energy retrofit and lighting retrofit projects is included in buildings and improvements on the statement of net position as depreciated capital assets and totaled $366,985 at June 30, 2018. Accumulated depreciation of the leased buildings and improvements at June 30, 2018 was $112,010. Depreciation of the asset under capital lease is included in depreciation expense and amounted to $15,821 for the year ended June 30, 2018. The amount of interest cost incurred during the year ended June 30, 2018, was $12,512, all of which was charged to expenses. Future minimum lease payments are shown in the following table:

Fiscal Year Ending June 30	Lease Payments
2019	$31,319
2020	31,319
2021	31,319
2022	31,319
2023	31,319
2024-2027	102,001
Total	$258,596
Less: Amount Representing Interest	$52,839
Present Value of Net Minimum Lease Payments	$205,757

Source: Upper Lake Unified School District Audit Report.

The District receives no sublease rental revenues nor pays for any contingent rentals for this equipment.

Operating Leases. The District has entered into various operating leases for copiers with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days' written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.. Future minimum lease payments are shown in the following table:

Year Ending June 30	Lease Payments
2019	$29,052
2020	27,876
2021	27,876
2022	17,431
Total	$102,235

Source: Upper Lake Unified School District Audit Report.

The District receives no sublease rental revenues nor pays for any contingent rentals for this equipment. Rent expenditures were $29,640 for the year ended June 30,2018.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq*., the County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq*. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. For further information concerning County investments, access the County's website: www.sjgov.org/Treasurer. Investment information can be found under the link to the County Treasurer-Tax Collector. The information contained in such website has not been reviewed by the District or the Purchaser and is not incorporated in this Official Statement by reference. The County's currently adopted investment policy is attached here to as Appendix G. See "APPENDIX G - LAKE COUNTY INVESTMENT POLICY AND INVESTMENT REPORT."

Effect of State Budget on Revenues

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

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

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts are revenues under the LCFF, which are a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION - Education Funding Generally" above). State funds typically make up the majority of a district's LCFF allocation, although Basic Aid school districts derive most of their revenues from local property taxes. School districts also receive substantial funding from the State for various categorical programs.

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

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

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

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each house of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

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

Recent State Budgets

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

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Finance" and sub-heading "-Public Finance Division", (1) posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State, and (2) also posts various financial documents for the State under the "-Financial Information" link.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the headings "The Budget" and "State Budget Condition."

Prior Years' Budgeting Techniques. Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools until a later date in the fiscal year or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2018-19 State budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 30 at the November 2, 2012 statewide election and Proposition 55 at the November 8, 2016 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

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

2019-20 State Budget

On June 27, 2019, the Governor signed the 2019-20 State budget (the "**2019-20 State Budget**") into law. The 2019-20 State Budget calls for total spending of $214.8 billion, with $147.8 billion in general fund spending. The 2019-20 State Budget provides for $81.1 billion of funding through Proposition 98, the primary source of funding for K-12 school districts and community college districts, an increase of $2.7 billion, or 3.4%, from the 2018-19 State budget. Of that $81.1 billion, $62.9 billion will be distributed to K-12 school districts through the LCFF, which will be fully funded during fiscal year 2019-20, restoring every school district in the State to at least pre-recession funding levels.

The 2019-20 State Budget continues to build State reserves, with the rainy-day fund balance projected to grow to $16.5 billion by the end of the budget year. Additionally, revenues have been set aside in new savings funds, including a $900 million reserve for safety net programs. Other significant features of the 2019-20 State Budget include:

- $1.5 billion anticipated in Proposition 51 bond funds for school facilities and an additional $1.2 million of ongoing Proposition 51 bond funds;
- $5 million one-time funding for a long-term strategic plan to provide childcare and preschool for children from birth through age twelve;
- $300 million one-time funding to construct new or retrofit existing facilities to support full-day kindergarten programs;
- $645.3 million ongoing funding for special education, including $152.6 million to provide all Special Education Local Plan Areas with at least the statewide target rate for base special education funding.
- $147.4 million one-time and ongoing funding to address the shortage of teachers;
- $918 million in additional funding to identify and implement recommendations and solutions to reduce wildfire risk, bolster the state's emergency preparedness capacity and protect vulnerable communities;
- $518,000 one-time funding to reimburse cities, counties and special districts for 2018-2019 property tax losses and a corresponding $530,000 that will be used to backfill property tax revenue losses for K-14 schools in those cities, counties and districts;
- $460 million one-time general funding to increase the quality and availability of child care, including $263 million for child care and preschool facilities expansion and $195 million for childcare and preschool workforce development;
- one-time funding of $750 million to support local governments in increasing and accelerating housing production; and
- one-time funding of $650 million to support local governments in addressing homelessness, to be used for emergency shelters and navigation centers, rapid rehousing, permanent supportive housing, job programs and hotel/motel conversions.

Disclaimer Regarding State Budgets. The implementation of the foregoing 2019-20 State Budget and any future State budgets may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable. The District cannot predict the impact that the 2018-19 State Budget, or subsequent state budgets, will have on its own finances and operations. However, the Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the Improvement District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

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

Availability of State Budgets. The complete 2019-20 State Budget is available from the California Department of Finance website at www.ebudget.ca.gov. Impartial analyses of these documents are published by the Legislative Analyst Office, and can be accessed at www.lao.ca.gov/budget. The District can take no responsibility for the continued accuracy of internet addresses referenced herein or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon when making an investment decision with respect to the Bonds.

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

Legal Challenges to State Funding of Education

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

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CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

Constitutionally Required Funding of Education

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

Article XIIIA of the California Constitution

Basic Property Tax Levy. 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) (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness (which provided the authority for the issuance of the Refunded Bonds), and (iii) (as a result of an amendment to Article XIIIA approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. All of the District's outstanding general obligation bonds were authorized pursuant to clause (iii) above. Article 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.

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

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

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

Article XIIIB of the California Constitution

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

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

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

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

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

Unitary Property

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

Articles XIIIC and XIIID

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 (respectively, **"Article XIIIC"** and **"Article XIIID"**), 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.

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

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.

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

Proposition 98

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

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

Proposition 111

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

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

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

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

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

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

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

Proposition 39

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

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

Proposition 30 and Proposition 55

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

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

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

Proposition 1A and Proposition 22

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

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

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

California Senate Bill 222

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

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 98, 22, 26, 30 and 39 were each adopted as measures that qualified for the ballot under the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

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APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF LAKEPORT AND LAKE COUNTY

*The following information about the City of Lakeport (the "**City**") and Lake County (the "**County**") is included only for the purpose of supplying general information regarding the area of the School District. The Bonds are not a debt of the City, the County, the State of California (the "**State**") or any of its political subdivisions (other than the School District), and none of the City, the County, the State or any of its political subdivisions (other than the School District) is liable therefor.*

The City. The City of Lakeport is an incorporated city and the county seat of the County. Located on the west shore of Clear Lake, the City is about 125 miles northwest of Sacramento and has a total area of 3.2 square miles, and is approximately ten miles southeast of the Upper Lake, where the School District is located.

The County. Formed in 1861 from parts of Napa and Mendocino counties, the County is located in the north central portion of the State and takes its name from Clear Lake, the dominant geographic feature in the County and the largest natural lake wholly within the State. The County is considered to be part of California's Wine Country, which also includes Napa, Sonoma and Mendocino counties. The County has a total area of 1,329 square miles, of which 1,256 square miles is land and 73 square miles is water.

Population

The County's population at January 1, 2019, the most recent estimate, was 65,071 according to the State Department of Finance. The table below shows population estimates for the City, the County and the State of California, for the last five years.

LAKE COUNTY AND STATE OF CALIFORNIA
Population Estimates

	2015	2016	2017	2018	2019
City of Lakeport	5,097	5,151	5,125	4,784	4,806
Lake County	65,146	64,741	64,740	65,064	65,071
State of California	38,912,464	39,179,627	39,500,973	39,740,508	39,927,315

Source: State Department of Finance estimates.

Employment and Industry

The following table lists employment by industry group for the County for the years 2014 to 2018.

LAKE COUNTY
Annual Average Civilian Labor Force, Employment and Unemployment, Employment by Industry
(March 2018 Benchmark)

	2014	2015	2016	2017	2018
Civilian Labor Force (1)	29,280	29,030	29,090	29,370	29,110
Employment	26,670	26,820	27,130	27,680	27,590
Unemployment	2,620	2,200	1,950	1,690	1,520
Unemployment Rate	8.9%	7.6%	6.7%	5.8%	5.2%
Wage and Salary Employment: (2)					
Agriculture	1,070	1,060	1,080	1,040	900
Mining, Logging, and Construction	450	500	630	720	800
Manufacturing	310	330	340	330	360
Wholesale Trade	150	150	120	100	90
Retail Trade	2,140	2,190	2,230	2,240	2,180
Transportation, Warehousing, Utilities	560	530	510	550	540
Information	140	130	120	120	100
Financial Activities	390	380	380	390	380
Professional and Business Services	600	530	570	620	640
Educational and Health Services	4,260	4,350	4,400	4,690	4,690
Leisure and Hospitality	1,050	1,070	1,120	1,160	1,160
Other Services	550	530	520	550	550
Federal Government	140	150	150	160	150
State Government	190	200	200	200	200
Local Government	3,730	3,830	3,970	4,020	3,990
Total, All Industries (3)	15,710	15,910	16,330	16,760	16,660

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The following table lists the largest employers within the County as of November 2019.

LAKE COUNTY
Major Employers (Listed Alphabetically)
As of November 2019

Employer Name	Location	Industry
Adobe Creek Packing Co	Kelseyville	Fruits & Vegetables-Growers & Shippers
Adventist Health/St. Helena	Clearlake	Hospitals
Brunos Shop Smart	Lakeport	Grocers-Retail
Clearlake Family Health Ctr	Clearlake	Physicians & Surgeons
Evergreen Lakeport Healthcare	Lakeport	Nursing & Convalescent Homes
Hardester's Market & Hardware	Middletown	Grocers-Retail
Hidden Valley Lake Assn	Hidden Valley Lk	Membership Sports & Recreation Clubs
Hidden Valley Lake Golf	Hidden Valley Lk	Golf Courses
Kmart	Lakeport	Department Stores
Konocti Vista Casino Resrt	Lakeport	Casinos
Lake County Social Svc Dept	Lower Lake	Government Offices-County
Lake County Tribal Health	Lakeport	Physicians & Surgeons
Meadowood Nursing Ctr	Clearlake	Convalescent Homes
Middletown School District Ofc	Middletown	School Districts
People Services Inc	Lakeport	Social Service & Welfare Organizations
Rancheria Grille	Nice	Restaurants
Robinson Rancheria Resrt-Csn	Nice	Casinos
Rocky Point Care Ctr	Lakeport	Convalescent Homes
Running Creek Casino	Upper Lake	Casinos
Safeway	Clearlake	Grocers-Retail
Scully Packing Co	Finley	Fruits & Vegetables-Growers & Shippers
St Helena Hospital Clear Lake	Clearlake	Hospitals
Sutter Lakeside Hospital	Lakeport	Hospitals
Twin Pine Casino & Hotel	Middletown	Casinos
Walmart	Clearlake	Department Stores

Source: State of California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City of Lakeport, Lake County, the State of California and the United States for the years 2015 through 2019.

LAKE COUNTY
Effective Buying Income
2015 through 2019

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2015	City of Lakeport	$85,503	$33,660
	Lake County	1,103,588	32,481
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2016	City of Lakeport	$94,445	$34,921
	Lake County	1,252,733	35,350
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	City of Lakeport	$97,149	$36,578
	Lake County	1,158,280	33,195
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	City of Lakeport	$99,504	$44,419
	Lake County	1,291,132	37,241
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	City of Lakeport	$115,741	$47,079
	Lake County	1,470,566	41,201
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019.

Commerce

Total taxable sales during the first quarter of calendar year 2018 in the City were reported to be $27,893,886, a 7.42% increase over the total taxable sales of $25,967,288 reported during the first quarter of calendar year 2017. Annual figures are not yet available for 2018.

CITY OF LAKEPORT
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	222	$102,981	322	$113,881
2014	228	102,235	328	113,479
2015(1)	227	101,745	360	112,670
2016	231	104,010	367	111,904
2017	245	106,622	378	113,268

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.
Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Total taxable sales during the first quarter of calendar year 2018 in the County were reported to be $134,048,844 a 2.55% decrease over the total taxable sales of $137,557,048 reported during the first quarter of calendar year 2017. Annual figures are not yet available for 2018.

LAKE COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	1,237	$378,893	1,779	$551,043
2014	1,241	382,325	1,779	538,006
2015(1)	728	401,219	1,895	574,444
2016	1,194	444,512	1,929	592,727
2017	1,211	464,924	1,964	617,898

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.
Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the City.

CITY OF LAKEPORT
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2014	2015	2016	2017	2018
Permit Valuation					
New Single-family	$385.0	$0.0	$408.0	$262.3	$524.5
New Multi-family	0.0	0.0	0.0	0.0	4,269.0
Res. Alterations/Additions	1,173.9	324.9	595.3	567.0	199.3
Total Residential	1,558.9	324.9	1,003.3	829.3	4,992.8
New Commercial	0.0	0.0	20.9	442.2	4,679.0
New Industrial	954.1	0.0	0.0	0.0	0.0
New Other	35.2	598.3	283.4	104.0	134.9
Com. Alterations/Additions	205.3	216.4	204.4	2,523.6	460.5
Total Nonresidential	1,194.6	814.7	508.7	3,069.8	5,274.4
New Dwelling Units					
Single Family	1	0	2	1	2
Multiple Family	0	0	0	0	24
TOTAL	1	0	2	1	26

Source: Construction Industry Research Board, Building Permit Summary.

The following tables show a five-year summary of the valuation of building permits issued in the County.

LAKE COUNTY
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2014	2015	2016	2017	2018
Permit Valuation					
New Single-family	$7,847.4	$14,162.9	$56,836.5	$33,796.6	$20,566.0
New Multi-family	0.0	349.2	360.8	0.0	4,511.2
Res. Alterations/Additions	7,551.9	4,781.6	4,070.6	4,556.7	5,906.3
Total Residential	15,399.3	19,293.7	61,267.9	38,353.3	30,983.5
New Commercial	3,808.2	3,091.1	3,449.6	5,357.0	9,068.0
New Industrial	964.8	0.0	0.0	0.0	0.0
New Other	5,520.1	5,002.9	6,562.9	3,018.2	6,699.8
Com. Alterations/Additions	2,383.9	1,877.9	2,092.0	3,386.3	2,861.2
Total Nonresidential	12,677.0	9,971.9	12,104.5	11,761.5	18,599.0
New Dwelling Units					
Single Family	42	69	242	144	95
Multiple Family	0	2	2	0	26
TOTAL	42	71	244	144	121

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF JONES HALL]

December __, 2019

Board of Trustees
Upper Lake Unified School District
675 Clover Valley Road
Upper Lake, California 95485

OPINION: $_____________ General Obligation Bonds of
School Facilities Improvement District No. 1 of
Upper Lake Unified School District (K-8 Area)
(Lake County, California) Election of 2018, Series B

Members of the Board of Trustees:

We have acted as bond counsel in connection with the issuance by the Upper Lake Unified School District (the "District") with respect to its School Facilities Improvement District No. 1 of Upper Lake Unified School District (K-8 Area) (the "Improvement District") of $_________ principal amount of General Obligation Bonds of School Facilities Improvement District No. 1 of Upper Lake Unified School District (K-8 Area) (Lake County, California) Election of 2018, Series B (the "Bonds"), under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Act") and a resolution adopted by the Board of Trustees of the District (the "Board") on November 12, 2019 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Bond Resolution and in the certified proceedings and other certifications furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The District is duly created and validly existing as a unified school district with the power to cause the Board to issue the Bonds on its behalf with respect to the Improvement District and to perform its obligations under the Bond Resolution and the Bonds.

2. The Bond Resolution has been duly adopted by the Board and constitutes a valid and binding obligation of the Board enforceable against the Board in accordance with its terms.

3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District with respect to the Improvement District, and the County of Lake is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the Improvement District subject to taxation by the District, without limitation as to rate or amount.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in the preceding paragraph is subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$______
General Obligation Bonds of
SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1 OF
UPPER LAKE UNIFIED SCHOOL DISTRICT (K-8 AREA)
(Lake County, California)
Election of 2018, Series B

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "**Disclosure Certificate**") is executed and delivered by the Upper Lake Unified School District (the "**District**") in connection with the execution and delivery of the captioned bonds (the "**Bonds**"). The Bonds are being executed and delivered pursuant to a Paying Agent Agreement, dated the date hereof, by and between the District and U.S. Bank National Association, as paying agent (the "**Paying Agent**").

The District hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Annual Report Date*" means the date not later than nine months after the end of each fiscal year of the District (currently June 30th), or March 31.

"*Dissemination Agent*" means, initially, the District or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Paying Agent a written acceptance of such designation.

"Improvement District" means School Facilities Improvement District No. 1 of the Upper Lake Unified School District (K-8 Area).

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement executed by the District in connection with the issuance of the Bonds.

"*Paying Agent*" means U.S. Bank National Association, San Francisco, California, or any successor thereto.

"*Participating Underwriter*" means the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2020 with the report for the 2018-19 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in a timely manner, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Paying Agent.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District, as follows:

(i) assessed valuation of taxable properties in the Improvement District for the then-current fiscal year;

(ii) assessed valuation of properties in the Improvement District of the top twenty taxpayers for the then-current fiscal year;

(iii) property tax collection delinquencies for the Improvement District for the most recently available fiscal year, if the levy for the Bonds is not included in the County's Teeter Plan and if such data is available to the District from the County; and

(iv) the District's most recently adopted budget or approved interim report which is available at the time of filing the Annual Report; and

(v) such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the District.

(13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material.

(16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Bond Resolution.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that District determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(e) For purposes of Section 5(a)(15) and (16), "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District. Any Dissemination Agent may resign by providing 30 days' written notice to the District and the Paying Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: December __, 2019

UPPER LAKE UNIFIED SCHOOL DISTRICT

By: ______________________________
Name:
Title:

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Upper Lake Unified School District (the "District")
Name of Bond Issues:	$_________ General Obligation Bonds of School Facilities Improvement District No. 1 of Upper Lake Unified School District (K-8 Area) (Lake County, California), Election of 2018, Series B
Date of Issuance:	December __, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of December __, 2019. The District anticipates that the Annual Report will be filed by _____________.

Dated:__________________

DISSEMINATION AGENT:

By: ___________________________
Its: ___________________________

cc: Paying Agent and Participating Underwriter

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the District nor the Paying Agent take any responsibility for the information contained in this Section.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (in this Appendix, the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

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

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

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

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

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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APPENDIX G

LAKE COUNTY INVESTMENT POLICY

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COUNTY OF LAKE
STATEMENT INVESTMENT OF POLICY
[2017]

As designated by Board of Supervisors under the laws of the State of California, it is the responsibility of the County Treasurer, to secure and protect the public funds of the County, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are not immediately required for daily operations, in a manner anticipated to provide additional benefit to the people of the County of Lake. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County, rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments and other financial duties separately. This pooling of public funds not only eliminates duplication of expenses, but also smoothes out cash flow differences, permits cost savings through higher volume, and attracts more professional service providers. This document contains the policies, procedures, and legalities guiding the County Treasurer when investing the Pool's temporarily unemployed funds.

This Statement of Investment Policy is reviewed no less than annually and may be adjusted as needed to reflect any changes in the Government Code or investment practices. Upon request, this Policy will be provided to participants in the County Investment Pool; to securities dealers, banks and brokers currently approved for conducting investment transactions with the County Treasurer's office in the ongoing effort to manage the excess cash portfolio; to other involved persons or entities; and to any member of the electorate wishing to review this document. The Treasurer reserves the right to provide these documents on a cost basis.

SCOPE

This Statement of Investment Policy pertains to those temporarily surplus funds under the control of the Treasurer, designated for the daily ongoing operations of the County–Pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, delayed compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool. Percentage limitations noted within this Policy shall apply to all money considered to be within the County Investment Pool. Any investments existing outside the Pool shall be subject to the local agency's individual percentages.

PURPOSE OF POLICY STATEMENT

The purpose of this Statement of Investment Policy is to provide those entities participating in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed to not be required to meet immediate cash flow requirements.

TREASURY OBJECTIVES

The prime and overriding objective of the Treasurer is to protect the safety of the principal of the Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

Safety: It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through either fraud, default, or adverse market conditions. Import is also accorded the protection of accrued interest earned on any investment instrument.

Liquidity: It is imperative that a vast majority of all investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

Availability: Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available, without risk of trading loss, to pay normal cash requirements. A vast majority of the moneys invested by the Treasurer should never require the realization of immoderate losses should an unforeseen cash demand require the sale of investments prior to maturity. A sufficient portion of all funds shall be invested in securities providing a high degree of availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

Yield: While it is considered desirable to obtain a yield commensurate to current conditions, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lesser importance than either safety, liquidity or availability.

The Treasurer places investments with the objective of obtaining a respectable rate of return, not attempting to maximize yield at the expense of either safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

PRUDENCE

The Treasurer is subject to the "Prudent Person Rule" whenever making a decision regarding the investment of the Pool's funds. This rule states, in principle:

> *"In investing property for the benefit of others, a trustee shall exercise the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence, would exercise in the management of their own affairs - not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable safety of, as well as the probable income from, their capital."*

The Treasurer, and those acting for the Treasurer, are considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

DELEGATION OF AUTHORITY

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day to day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the Pool, as of the date entered on this Policy, are listed below. This list is subject to change, and those parties newly involved in transactions with the Treasurer's department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

Authorized Personnel	***Title***
BARBARA C. RINGEN	TREASURER-TAX COLLECTOR
DANIEL JANAKES	ASSISTANT TREASURER-TAX COLLECTOR
ELIZABETH MACKILLOP	ACCOUNTING TECHNICIAN

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. Only the persons listed on a current *Trading Authorization & Agreement,* and the Treasurer, may initiate trading activity.

SECURITIES CUSTODY

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable, deliverable, securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements**.**

AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. Securities brokers dealing with the County Pool should possess a complete understanding of these Code sections.

An attached Addendum briefly describes the types of securities legal within the Government Code sections noted above and outlines the various limitations included in these sections. Except for the restrictions noted below in this section, all legality permitted investment options described in the Government Code are authorized at this time. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though these Government Code sections define the investment types and terms permissible to the Treasurer under this Policy, various temporary and more restrictive constraints may at times be deemed beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but may be obtained by requesting a current "Temporary Constraints and Restrictions on Investments" document, which will change on an "as needed" basis. These constraints or restrictions may only be ***more*** restrictive than those of the Policy, but may ***not*** be ***less*** restrictive. Securities Brokers and Dealers should be aware of these temporary conditions in order to save time and best serve the County Pool.

Though the Government Code sections define the investment types and terms permissible to the Treasurer, the Treasurer currently will not:

- ♦ Invest in any security or investment with a stated or potential final maturity longer than five years, unless the conditions of the security include terms that permit the purchaser to *unconditionally* "put", or sell back, to the *original issuer*, the security prior to five years from the purchase date; or the Board of Supervisors has pre-approved, as required by the Government Codes.
- ♦ Invest in any security or investment wherein, by the terms of the investment, interest might not be earned during any period the security or investment exists.
- ♦ Purchase any security wherein under terms inherent to the security, or the investment agreement under which the security is purchased, circumstances could result wherein the investment runs a risk of earning a rate of return substantially below other investments obtainable on a fixed rate basis at the time of purchase, or drastically different than the prevailing rate during any time prior to the maturity of the issue.
- ♦ Enter into a reverse repurchase agreement.
- ♦ Purchase any Collateralized Mortgage Obligation.
- ♦ Invest in futures or options.

AUTHORIZED DEALER LIST

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the Treasurer's efforts to best manage the cash portfolio, as well as fulfill certain other minimum requirements. To qualify for Authorized Dealer status, a brokerage firm or bank must:

1) Be a dealer operation properly licensed to deal with local agencies in California, **and;**
2) Have a minimum of $25mm in capital, or, be a Primary Dealer of the Federal Reserve Bank of New York and**;**
3) Be headquartered in the State of California, or, the City of New York, or be the direct issuer of a security type normally purchased by the Treasurer;

Or;

Be a department or subsidiary of an insured bank with minimum assets of $5billion or be one that the County has comprehensive banking relationships with;

Or;

Be an established broker operation in New York or its environs, with a history of profitability, that is properly licensed to deal with local agencies in California, that has capital of not less than $25mm, and does not position securities for their own portfolio, but brokers securities for their established clients consisting primarily of traders for Primary Dealers and/or other major institutional fixed income brokerage operations, issuers and investors.

If meeting the above requirements, a salesperson may apply to become an Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

1) Their reasons for believing they would add value to the present coverage; **and,**
2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; [**or,** a list of those dealers they are able to represent, and the securities they regularly position;] **and,**
3) A list of five references, at least three being California local agency treasurers, including telephone numbers that the Treasurer or his representative may contact.

The Treasurer will instigate an investigation of the applying salesperson and the firm through various sources, including the California Department of Corporations and FINRA, to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer and staff. The Treasurer will review all new requests at the end of each quarter, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, are prohibited from dealing with a salesman, broker, or account executive from any broker, dealer or bank investment department or bank subsidiary until the Acknowledgment form found on the last page of the Trading Authorization and Agreement is signed by all parties and received by the Treasurer. The Trading Authorization and Agreement is sent out to all approved dealers, and is an integral addition to this Policy Statement for Brokers/ Dealers, etc. doing investment business with the County Treasurer or Treasury staff.

Similar restrictions and forms may be required of those firms doing business with the County Pool through retained financial advisors or managers. Certain selected firms may be chosen or appointed by the Treasurer to render specific services the Treasurer determines they are uniquely qualified to provide, wherein some of the requirements of this section may be waived.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Code, additional limitations set forth by County ordinance, or internal requirements of the Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G 37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.

TREASURY OVERSIGHT

Oversight of treasury operations and pooled investments shall be achieved through the following measures:

1. A Report of Investment will be prepared by the Treasurer and distributed to the Board of Supervisors', the Chief Administrative Officer, and the County Auditor-Controller quarterly. The report will be available to pool participants and the public on request.
2. Pooled investments will be audited annually as to their compliance with government standards and investment regulations.
3. The Treasurer will present a report of investments to the public, pool participants and the Board of Supervisors annually.

TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is responsible for overseeing, are to be invested. The Treasurer must take into consideration the current financial condition of the sum total of the Pool's agencies, the conditions of the market place, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all others affected.

Any funds deposited in accounts that are consolidated into the County Investment Pool that are not immediately required to meet cash flows of the Pool will be invested by the Treasurer or the Treasurer's staff. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Pool. Funds will earn interest based on the average daily balance, paid on a quarterly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least two years, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not counter-productive to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time, without the specific permission of the Treasurer. Any such investments shall either be terminated and all funds returned to the Pool, or the securities so purchased shall be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL

By Government Code, the County Treasurer shall set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds.

Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participant in the Pool, shall be accepted under the terms existing in this Policy, along with any additional terms the Treasurer deems prudent, given the entity's particular situation. Voluntary money maybe withdrawn under conditions set forth in Sections 27133 and 27136 of the Government Codes and as previously specified in any agreements made with the Treasurer. Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

OVERDRAFTS AND BORROWING

The Government Codes set certain requirements for overdrafts. Participants may overdraw their accounts on a temporary basis, but only when such overdrafts are due to cash flow differences, and not the result of indeterminate budget shortfalls. **All overdrafts existing longer than one month must be repaid no later than the end of the fiscal year.**

APPORTIONING OF COSTS AND INTEREST

All costs related to investing, maintaining and accounting for the investments purchased for the Investment Pool, as authorized by Section 27013, shall be apportioned equally on the average daily balance method quarterly to all participants with funds in the Investment Pool, including those held in specific investments. Interest earning shall be apportioned on the same basis and also distributed quarterly.

REPORTING

The Treasurer generally makes adjustments to the County Pool Investment Policy near the beginning of the calendar year and makes the revised document available to those requesting it. Other reports on the holdings, status and earnings of the portfolio may also available during the year.

Addendum

Legal Pool Investments*

Investment Type	Max. % of Portfolio	Max. Maturity	Quality Requirements
a) Bonds issued by a local agency	None	None	None
b) Treasury obligations	None	None	None
c) State of California Obligations	None	None	None
d) Obligation of Calif. local agency	None	None	None
e) Obligations issued by Federal Agencies and U.S. Government Sponsored Enterprises	None	None	None
f) Bankers Acceptances	40%	180 days max.	None
g) Commercial Paper	40%	270 days max.	U.S. entity with credit enhancements resulting in paper rating A1/P1 or better; with $500MM in assets; A or higher long term rating if any; max. 10% of portfolio per issuer.
h) Negotiable C.D.s	30%	5 years	None
i) Repurchase Agreements	None	1 year	Collateral must be a legal investment
Reverse Repurchase Agreements	20% of base	92 days max., or to maturity	None
j) Medium Term Note	30%	5 years	U.S. Corporations, or Banks licensed within any State of the U.S., "A" or better rating by major rating service.
k) Mutual Funds	20%, 10% per fund	NA	A defined money market fund; or invest only in a-j, m, n, of this list, as restricted; Highest letter and number ranking of 2 of 3 rating services; or a SEC Registered Advisor with 5 Yrs. experience, managing assets of $500MM or more; No load.
l) Investments as permitted by provision in agreements of indebtedness	As per bond documentation	NA	Not contrary to 53601 & 35 and other pertinent law.
m) Asset secured indebtedness	None	None	As required by 53652
o) Collaterallized Mortgage obligations	20%	5 years	Issuer must be rated "A" minimum, security must be "AA" by national rating service.
p) Contracted Non-Neg. Time Deposits	None	None	None
635.8) Deposited Pooled small C.D.s	30%	None	Insured as to principle and interest

These tables are not meant to be a replacement for the Government Code. Involved parties should obtain a valid, updated copy of the pertinent Code sections to fully understand all the details included within these Codes.

***See Temporary Constraints & Restrictions document for conditions on these permitted investments in effect at the annual review of this Policy**

Temporary Constraints and Restrictions on Investments*

a. **Bonds issued by the County or County Agencies**. The Treasurer may purchase debt issued by the County or its agencies, but any such debt purchased will normally be obtained only directly from the issuing agency and not in the secondary market. The purchase of appropriate issues of local agencies existing within the County, maturing beyond five years, may also be purchased after consultation and the proper approval of the Board of Supervisors. Such issues, along with issues from 'c' and 'd' below, shall not exceed 10% of the total portfolio. LAIF investments shall not be included when calculating this percentage.

b. **U.S. Treasury obligations**. The Treasurer may purchase U.S. Treasury obligations for the liquidity and availability they provide when investing in issues beyond two years. However, the spread available on issues with less availability or quality may suggest that other issues be substituted. Treasury issues will not be limited in quantity, though the cash flow requirements of the Pool shall be considered when purchasing all longer term maturities.

c**. State of California Obligations**. The Treasurer does not currently invest in State obligations, though participation in the Local Agency Investment Fund is part of the overall investment strategy. The holding of interest bearing State issued warrants as an investment alternative is permissible under some occasions, though the purchase of such warrants will not be considered under normal circumstances. State issued obligations, along with issues from 'a' and 'd', shall not exceed 10% of the overall portfolio. LAIF investments shall not be included when calculating this percentage.

d. **Obligations of another California local agency**. The Treasurer does not currently purchase many of these securities when issued by individual agencies due to tax considerations, but may occasionally purchase taxable issues should the issues meet liquidity and safety requirements. The total of all such individual local agency issues, along with issues from 'a' and 'c' above, shall not exceed 10% of the overall portfolio. LAIF investments shall not be included when calculating this percentage, nor shall investments in joint power authorities that resemble money market mutual funds such as CAMP. Maximum investments in LAIF shall be governed by the maximum permitted by the State. Investments in joint powers authority investment funds shall not exceed 25% of the Pool's portfolio under normal conditions. Neither of these limits shall include specific investments or individual local agency's investments of bond proceeds not made through the Pool.

e. **Obligations of the various Federal agencies** and enterprises. The Treasurer currently does not invest in any long term pooled securities issued by GNMA, FHLMC, SBA, or any Federal Agency or Enterprise-with a maturity based on average life calculations**.** Due to the frequent concerns for the safety and liquidity levels many agency and enterprise obligations, the Treasurer monitors their debt and may restrict the purchase of any such securities at any time. Agency obligations are expected to yield a reasonable spread over Treasury issues of the same maturity. No single agency shall account for more that 15% of the portfolio at this time, nor will the total of all Federal agencies exceed 25% of the portfolio under normal circumstances..

f. **Bankers Acceptances**. The Treasurer is currently willing to purchases B.A.s from those banks with a proven record of dependability and market participation when offered at competitive rates relative to other types of securities. Foreign banks shall be headquartered in certain Western European countries, Canada, or Japan. For additional potential restrictions see section 'p' below.

g. **Commercial Paper.** Given the current state of the credit markets in general, purchases of Commercial Paper will remain very limited and be restricted to the financially strongest and most liquid issuers. Under normal market conditions, the Treasurer currently does not impose any additional restrictions on commercial paper, though as a rule will maintain an inverted ratio that results in the percentage of commercial paper in the portfolio decreasing as the weighted average maturity of the commercial paper within the portfolio increases. The percentage in commercial paper will not approach the maximum unless all maturities are under thirty days, nor will the percentage of commercial paper generally exceed 30% of the total portfolio unless the average weighted maturity of commercial paper investments is under 60 days. See section ‘p’ below for additional potential restrictions on particular Commercial Paper issues.

h. **Negotiable Certificates of Deposit**. The Treasurer currently purchases those types of Negotiable C.D.s permitted by the Government Codes from issuers with a proven record of dependability and market participation. The Treasurer monitors, and therefore may possibly eliminate those banks whose marketability and liquidity may be considered suspect due to their liquidity and pricing within the secondary markets. Negotiable S&L, credit union, and savings bank C.D.s are not currently purchased. Foreign banks shall be headquartered in certain Western European countries, Canada, or Japan and shall be further limited to the largest and most stable banks of any one country. The Treasurer does not purchasing any type of C.D. with a maturity beyond five years. Any C.D.s purchased with a maturity longer than thirteen months normally must pay interest no less frequently than semiannually, or yield accordingly. Please see section ‘p’ below for additional potential restrictions on C.D. purchases.

i. [a] **Repurchase Agreements**. Repurchase agreements (Repos) will only be entered into with Primary Dealers, and shall require additional collateral if the market value falls to a level of 100% of the cash value invested, when Treasury Notes and Bonds are the collateral, and at higher levels for other types of collateral. Treasury Notes and Bonds will be collateralized at a minimum of 102% of market at the start of the repo, for short term repos, and possibly at higher levels for longer term repos, (percentage determined by market conditions, etc.). Repo agreements with Treasury Bills or other discounted securities as collateral will be priced to market and collateralized at a minimum of 102% of market, (actual percentage to be determined by collateral type, conditions, etc.) Collateral with maturities beyond five years are not acceptable, (except in certain limited cases where unrestricted 'puts' are included with the issue), and all collateral must meet the same requirements as purchased securities. Repurchase Agreements will not be entered into for periods longer than 90 days. Repurchase Agreement contracts will be on file for any dealer with which the County does repos. See section ‘p’ below for other potential restrictions on Repo collateral.

[b] **Reverse Repurchase Agreements**. [The Treasurer currently does not invest in Reverse Repurchase Agreements.] or
[Reverses Repurchase agreements will be done only in one specific instance: When the Treasurer determines that due to an emergency or unanticipated cash need, it is more advantageous to reverse a security, rather than sell it, to raise needed cash. This type of Reverse Repo shall not exceed thirty days, and shall match a known cash inflow sufficient to cover principal and interest payments due on the Reverse. These types of Reverse Repos may not be extended, rolled or reinvested. Reverse Repurchase Agreements are expected to be entered into only in very rare circumstances..

The Treasurer will monitor the value of the collateral on all Reverse Repos as to current market value versus cash received, and request or make adjustments if appropriate. The percentage of the total portfolio engaged in Reverse Repo Agreements shall not exceed 5% of the base portion of the Investment Pool. Repurchase Agreement contracts will be on file for any dealer which the County does Reverse Repos. All Reverse Repos must be done directly with Primary Dealers, and will never be done as a means of financing the security involved, or as a means of financing the purchase of another security with a maturity longer than the term of the Reverse Repurchase Agreement.]

[c] **Securities Lending Agreements.** The Treasurer currently does not participate in securities lending.

j. **Medium Term Notes**. The Treasurer normally only purchases Medium Term Notes with a minimum rating of "A" or better for a maturity up to two years. Maturities beyond two years generally require a rating of "AA" or better by at least one of the rating agencies. However, given current market conditions, many other factors other than the rating will be included in any investment decision on an MTN. See section ‘p’ below for additional potential restrictions on Medium Term Notes.

k. **Mutual Funds**. The Treasurer currently imposes no additional restrictions on Mutual Fund purchases beyond those in the Codes.

l. **Investment of Bond indebtedness.** The Treasurer will consider GICs and other similar investments as bond documentation permits.

m. **Asset backed securities.** The Treasurer normally purchases only asset backed securities where the presence of asset backing is not a deciding factor for investing in the security.

n. **CMO investments**. Under the terms of the Investment Policy, the Treasurer does not currently purchase any CMO investments.

o. **1) Contracted Non-negotiable Time Deposits**. The Treasurer will enter into contracts for Time Deposits of amounts greater than $240,000, only with those banks that meet the requirements for investment in Negotiable C.D.s, or with those banks headquartered or with a branch within the County, that are rated "A-" or better by a recognized rating agency. Time Deposits for amounts of $240,000 or less shall be with California institutions rated "A" or better by a recognized rating agency, having assets of at least $25,000,000 and shall require at least quarterly interest payments. Issuers of all Time Deposits shall agree to early withdrawal, under a bona fide emergency circumstance, with penalties not exceeding an interest adjustment to the level of the yield available to the investor on the original settlement date, for the shorter time period actually held. The maximum maturity on any Time Deposit shall usually not exceed 1 year, nor shall the total of all Time Deposits exceed 5% of the total portfolio. Mandated deposits or investments specifically invested by pool participant's request are not included in this percentage restriction. See section 'p' below for additional potential restrictions.

2) Pooled CDs in Depository Custody as per 53635.8. The Treasurer does not invest in these instruments.

p. **Exposure Limits**. Presently the total exposure to any one issuer, when totaling all types of securities, shall not exceed {10% of the total portfolio on date of purchase. Possible exceptions to this rule shall include U.S. Treasury issues, Federal Agency issues**,** local agency issues, and funds in LAIF. Repurchase Agreement collateral shall not be excluded from this calculation unless the Repurchase Agreement is for 5 business days or less. Exposure to the overall credit of individual foreign countries shall be monitored and maintained at prudent levels.

q. **Futures and Options**. Under the terms of the Investment Policy the Treasurer does not currently invest in futures or options.

r. **Maturities over one year**. Any investment made with a maturity exceeding one year, not made by the Treasurer, shall require approval of the Treasurer.

s. **Permitted Percentages.** State law states that all required percentages included within investment related sections of the Government Codes are only binding on the day the investment is made, and that future changes in the size of the portfolio do not require the Treasurer to readjustment the total percentage of each security type within the portfolio to reflect the change in size. Neither is it necessary to sell an investment when changes occur such that the security no longer meets the minimum requirements of the Codes, or the Codes are changed such as to no longer include certain current holdings. The Treasurer shall weigh any Code changes to determine whether or not a security should be sold or retained within the Portfolio after a change in conditions or the Codes result in a particular security no longer meeting existing or new regulations.

*These are the constraints in place at the onset of the year – changes are possible on a regular and constant basis.

COUNTY OF LAKE
TREASURER INVESTMENTS
7/31/2019

	CUSIP NUMBER	TYPE	RATING	ACQ. DT.	RATE	MATURITY	AMORTIZED COST	PAR VALUE	MKT VALUE	%
TORONTO DOMINION FR	89114MLC9	Y.C.D.	AA-/A1-AA1/P1	11/9/2018	L1+33	8/9/2019	12,002,670.08	12,000,000.00	12,002,676.00	
(SUB)						12,002,670.08 -	12,002,670.08	12,000,000.00	12,002,676.00	4.28%
SVENSKA	86960BAN2	MTN	AA2/AA-	11/28/2018	1.500%	9/6/2019	9,920,366.67	10,000,000.00	9,990,800.00	
NAT AUST BANK FR	6325CODF5	MTN	AA-Aa3	8/10/2017	L3+50	7/12/2021	5,173,325.28	5,100,000.00	5,168,952.00	
(SUB)						15,093,691.95 -	15,093,691.95	15,100,000.00	15,159,752.00	5.39%
UBC MONEY MARKET	N/A	MNY MKT			FLTG		171,375,876.64	171,375,876.64	171,375,876.64	
CAMP	N/A	ST. POOL			FLTG		8,574.43	8,574.43	8,574.43	
LAIF	N/A	ST. POOL			FLTG		64,420,556.51	64,420,556.51	64,420,556.51	
LAKE CO RECLAMATION	N/A	REG. WTS.			8.000%		14,930.51	14,930.51	14,930.51	
STATE WARRANTS							-	-	-	
CASH - WAB							1,100,000.00	1,100,000.00	1,100,000.00	
CASH - WF							14,054,187.93	14,054,187.93	14,054,187.93	
CASH - VAULT							222,162.78	222,162.78	222,162.78	
DEPOSITS IN TRANSIT							2,027,988.88	2,027,988.88	2,027,988.88	90.34%
NSF CHECKS PENDING							80,088.47	80,088.47	80,088.47	
							(35.02)	ADJ PENDING		100.00%
							280,400,693.16	280,404,366.15	280,466,794.15	

Investments listed are in compliance with the County of Lake Investment policy
Sufficient funds are available to meet anticipated expenditures for the next six months
Market value provided by Union Bank of California for all corporate and agency securities
Market value for LAIF provided by their quarterly report.

TOTAL	280,400,693.16	TOTAL	198,538,304.64
DEF COMP	17,520,210.20		
OBRA	1,661,648.31		198,538,304.64
LEDGER	299,582,551.67		
	(71,732.56)		

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APPENDIX H

TABLE OF ACCRETED VALUES

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APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent 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 and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)