PRELIMINARY OFFICIAL STATEMENT DATED MAY 18, 2020

NEW ISSUE -- FULL BOOK-ENTRY

RATING: S&P: "AA"
See "RATING" 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 Series A 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."

$17,000,000*
MENDOCINO UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds
Election of 2020, Series A

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

Issuance. The Mendocino Unified School District General Obligation Bonds, Election of 2020, Series A (the "Series A Bonds"), in the aggregate principal amount of $17,000,000*, are being issued by the Mendocino Unified School District (the "District") pursuant to a resolution of the Board of Trustees of the District adopted on April 23, 2020 (the "Bond Resolution"). The Series A Bonds were authorized at an election of the registered voters of the District held on March 3, 2020, which authorized the issuance of $31,000,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities. The Series A Bonds are the first series of bonds to be issued under this authorization. See "THE SERIES A BONDS – Authority for Issuance" and "-Purpose of Issue."

Security. The Series A Bonds are general obligation bonds of the District payable solely from *ad valorem* taxes. The Board of Supervisors of the County has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Series A Bonds. See "SECURITY FOR THE SERIES A BONDS."

Redemption. The Series A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity under certain circumstances, as described herein. See "THE SERIES A BONDS – Optional Redemption" and "-Mandatory Sinking Fund Redemption."

Book-Entry Only. The Series A 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 Series A Bonds. See "THE SERIES A BONDS - Book-Entry-Only System."

Payments. The Series A Bonds are dated the date of delivery set forth above and accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity, commencing August 1, 2020. Payments of principal of and interest on the Series A Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as 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 Series A Bonds. See "THE SERIES A BONDS."

MATURITY SCHEDULE
(see inside front cover)

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

The Series A 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 District, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the District. Kutak Rock LLP, Denver, Colorado, is serving as Underwriter's Counsel. It is anticipated that the Series A Bonds, in book-entry form, will be available for delivery through the facilities of DTC, on or about June 4, 2020.

STIFEL

The date of this Official Statement is _______, 2020.

*Preliminary; subject to change.

MATURITY SCHEDULE*

MENDOCINO UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds
Election of 2020, Series A

Base CUSIP†: _______

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

**Preliminary; subject to change.*

†CUSIP Global Services, and a registered trademark of American Bankers Association. 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 District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

MENDOCINO UNIFIED SCHOOL DISTRICT
COUNTY OF MENDOCINO
STATE OF CALIFORNIA

DISTRICT ADMINISTRATION

Jason Morse, *Superintendent*
Jason Fruth, *Business Manager*

BOND COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

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

PAYING AGENT, TRANSFER AGENT, AND BOND REGISTRAR

The Bank of New York Mellon Trust Company, N.A.
Dallas, Texas

UNDERWRITER'S COUNSEL

Kutak Rock LLP
Denver, Colorado

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Series A 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 Series A Bond owner and the District or the Underwriter.

Rule 15c2-12. For purposes of compliance with Rule 15c2-12(b)(5) of the United States Securities Exchange Commission Rule, as amended (the "Rule"), this Preliminary Official Statement constitutes an "Official Statement" of the District with respect to the Series A Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted to be omitted by the Rule.

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

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

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

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

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

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

No Securities Laws Registration. The Series A Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Series A 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 Series A Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the County, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

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

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

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OFFICIAL STATEMENT

$17,000,000*
MENDOCINO UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds
Election of 2020, Series A

This Official Statement, which includes the cover page, inside cover page, and appendices hereto, provides information in connection with the sale and delivery by the Mendocino Unified School District (the "**District**") of its Mendocino Unified School District (Mendocino County, California) General Obligation Bonds, Election of 2020, Series A, in the aggregate principal amount of $17,000,000 (the "**Series A Bonds**").

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, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series A Bonds to potential investors is made only by means of the entire Official Statement.

The District

General. The District was established in 1964. The District provides educational services in transitional kindergarten through twelfth grade to residents of an area encompassing approximately 450 square miles in Mendocino County (the **"County"**), on the north coast of the State of California (the **"State"**), approximately 165 miles north of San Francisco with a population of approximately 5,600 residents. The District's territory includes the unincorporated communities of Mendocino, Albion, Caspar, Comptche and Elk. The District currently operates one pre-school, three elementary schools, one middle school, three high schools, and a comprehensive independent study program. The economy of the region consists primarily of wine production, tourism and recreation, agriculture and food production, and retail and services. Recent decades have witnessed a shift to these economic activities from the area's traditional timber-related and commercial fishing industries. The District's enrollment for fiscal year 2019-20 is 525 students. The total assessed value in the District for fiscal year 2019-20 is $1,577,504,906.

Education Funding Formula: Basic Aid Status. For purposes of education funding in the State, the District is a "**Basic Aid District**" (also referred to as a "**Community Supported District**"), meaning that the District's share of local property taxes exceeds the amount of its entitlement grant under the State's education funding formula. As such, in lieu of an entitlement grant from the State, the District is entitled to keep its full share of local property taxes that exceed what the District would have received under the State's funding formula. The District receives some funding from the State including special education funding and certain minimum guaranteed amounts of State apportionments. The District has been in Basic Aid status since approximately 2006, and currently expects that it will continue to be so in the coming years.

**Preliminary; subject to change.*

More Information. For more information regarding the District, and the District's finances, see Appendix A attached hereto. See also Appendix C hereto for demographic and other statistical information regarding the County.

COVID-19 Statement

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

Purpose of Issue

The net proceeds of the Series A Bonds will be used to finance construction and improvements to the District's school facilities, and to pay related costs of issuance. See "THE SERIES A BONDS - Purpose of Issue" and "SOURCES AND USES OF FUNDS" herein.

Authority for Issuance of the Series A Bonds

Issuance of the Series A Bonds was approved by approximately 70% of the voters of the District voting at an election held on March 3, 2020 (the **"Bond Election"**) and 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 District on April 23, 2020 (the **"Bond Resolution"**). See "THE SERIES A BONDS - Authority for Issuance" herein.

Sources of Payment for the Series A Bonds

The Series A Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County has the power and is obligated to annually levy *ad valorem* taxes for the payment of the Series A Bonds and the interest thereon upon all property within the District subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY FOR THE SERIES A BONDS" herein.

The impact that the current COVID-19 outbreak might have on the assessed valuation of property located in the District is uncertain at this time. See "PROPERTY TAXATION – Assessed Valuations" and "SECURITY FOR THE SERIES A BONDS --Disclosure Regarding COVID-19."

Description of the Series A Bonds

Form of Bonds. The Series A Bonds are being issued as bonds which bear current interest. The Series A Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Series A 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 Series A Bonds. See "THE SERIES A BONDS – Description of the Series A Bonds," "Book-Entry Only System" below and "APPENDIX F – DTC and the Book-Entry Only System."

Redemption. The Series A Bonds are subject to redemption prior to maturity as described in "THE SERIES A BONDS - Optional Redemption" and "- Mandatory Sinking Fund Redemption" herein.

Legal Matters

Issuance of the Series A Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, as bond counsel (**"Bond Counsel"**), to be delivered in substantially the form attached hereto as Appendix D. Jones Hall, A Professional Law Corporation, San Francisco, California, will also serve as Disclosure Counsel to the District (**"Disclosure Counsel"**). Kutak Rock LLP, Denver, Colorado, is serving as counsel to the Underwriter (**"Underwriter's Counsel"**). Payment of the fees of Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent upon issuance of the Series A Bonds. See "APPENDIX D – Form of Opinion of Bond Counsel."

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 Series A Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also, in the opinion of Bond Counsel, interest on the Series A Bonds will be exempt from the State personal income taxes. Such section provides an exception to the prohibition against the ability of a "financial institution" (as defined in the Internal Revenue Code of 1986) to deduct its interest expense allocable to interest payable on the Series A Bonds. See "TAX MATTERS" herein.

Offering and Delivery of the Series A Bonds

The Series A Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to the legality by Bond Counsel. It is anticipated that the Series A Bonds will be available for delivery through the facilities of DTC on or about June 4, 2020.

Continuing Disclosure

The District has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed in connection with the Series A Bonds. The form of the Continuing Disclosure Certificate is included in Appendix E hereto. See "CERTAIN LEGAL MATTERS - Continuing Disclosure" herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Series A Bonds are available from the Superintendent of the District, Mendocino Unified School District, 44141 Little Lake Road #1154, Mendocino, California 95460, Telephone: (707) 937-5868. The District may impose a charge for copying, mailing and handling. The District also maintains a website at www.mendocinousd.org. The information available on the web site is not incorporated herein by reference.

This Official Statement is not to be construed as a contract with the purchasers of the Series A 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 Series A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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THE SERIES A BONDS

Authority for Issuance

The Series A Bonds will be issued pursuant to the Bond Law and the Bond Resolution. The District received authorization at the Bond Election, by more than the requisite fifty-five percent vote of the qualified electors to issue general obligation bonds in a principal amount of $31,000,000 (the **"2020 Authorization"**) pursuant to a measure known as **"Measure H"**. The Series A Bonds are the first series of general obligation bonds issued pursuant to the 2020 Authorization.

Purpose of Issue

The proceeds of bonds issued pursuant to the 2020 Authorization will be used for the purposes specified in the ballot measure presented to voters for Measure H. The abbreviated summary of Measure H (limited to up to 75 words) as was set forth on the ballot label is as follows:

> *"To improve the quality of Mendocino High; repair/replace leaky roofs and deteriorating plumbing and sewer systems; and modernize/construct classrooms, restrooms and school facilities; shall Mendocino Unified School District's measure be adopted authorizing $31,000,000 of bonds at legal interest rates, generating on average $1,700,000 annually while bonds are outstanding with levies of approximately 6 cents per $100 assessed value, with annual audits, citizens' oversight, no money for salaries and all money for local schools?"*

In addition to the abbreviated statement of the ballot measure, as part of the sample ballot materials, in accordance with the requirements of State law, District voters were presented with the full text of Measure H, which, among other items, included a project list (the **"Project List"**), identifying to District voters the specific projects eligible for funding from proceeds of bonds approved at the Bond Election, including from the proceeds of the Series A Bonds. The District makes no representation as to the specific application of the proceeds of the Series A Bonds, the completion of any projects of the types listed on the Project List, or whether bonds authorized by Measure H will provide sufficient funds to complete any particular project listed in the Project List.

See "DEBT SERVICE SCHEDULES" herein for the combined debt service due with respect to general obligation bonds and refunding general obligation bonds of the District, including the Series A Bonds.

Description of the Series A Bonds

The Series A Bonds are being issued as bonds which bear current interest. The Series A Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Series A 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 Series A Bonds. See "Book-Entry Only System" below and "APPENDIX F – DTC and the Book-Entry Only System."

The Series A Bonds shall be issued in denominations of $5,000 principal amount each or any integral multiple thereof. Interest on the Series A Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2020 (each, an **"Interest Payment**

Date"). Each Series A 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 (15th) 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 July 15, 2020, in which event it will bear interest from the Closing Date identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Series A Bond is in default at the time of authentication thereof, such Series A 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 Series A 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 Series A Bonds.

Paying Agent

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, will act as the registrar, transfer agent, and paying agent for the Series A Bonds (the **"Paying Agent"**). As long as DTC is the registered owner of the Series A Bonds and DTC's book-entry method is used for the Series A Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Series A Bonds called for redemption or of any other action covered by such notice.

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

Optional Redemption*

The Series A Bonds maturing on or before August 1, 20__ are not subject to optional redemption prior to maturity. The Series A Bonds maturing on or after August 1, 20__ are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on August 1, 20__, or on any date thereafter, at a price equal to 100% of the principal amount thereof, without premium, together with accrued interest thereon to the redemption date.

For the purpose of selection for optional redemption, the Series A Bonds will be deemed to consist of $5,000 portions (principal amount), and any such portion may be separately redeemed.

**Preliminary; subject to change.*

Mandatory Sinking Fund Redemption*

The Series A Bonds maturing on August 1, 20__ and August 1, 20__ (the **"Term Bonds"**), are subject to mandatory sinking fund redemption on August 1 of each years in accordance with the respective schedule set forth below for such Term Bonds. 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. If any Term Bonds are redeemed under the foregoing optional redemption provisions, the total amount of all future sinking 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

Term Bonds Maturing August 1, 20__

Redemption Date (August 1)	Sinking Fund Redemption

Notice of Redemption

The Paying Agent is required to give notice of the redemption of the Series A Bonds, at the expense of the District, 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 Series A Bonds designated for redemption, at their addresses appearing on the Registration Books. Notice of any redemption of Series A Bonds shall specify: (a) the Series A Bonds or designated portions thereof (in the case of redemption of the Series A Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Series A Bonds to be redeemed, (f) the Bond numbers of the Series A Bonds to be redeemed in whole or in part and, in the case of any Series A Bond to be redeemed in part only, the Principal Amount of such Series A Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such notice may be conditional and subject to rescission as described below. Such notice shall further state that on the specified date there shall become due and payable upon each Series A Bond or portion thereof being redeemed the redemption price thereof, and that from and after such date, interest thereon shall cease to accrue.

Neither failure to receive or failure to send any notice of redemption nor any defect in any such redemption notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Series A Bonds.

**Preliminary; subject to change.*

Partial Redemption of Series A Bonds

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

Right to Rescind Notice of Redemption

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

Book-Entry Only System

The Series A Bonds will be registered initially in the name of "Cede & Co.," as nominee of The Depository Trust Company (**"DTC"**), which has been appointed as securities depository for the Series A Bonds, and registered ownership may not be transferred thereafter except as provided in the Bond Resolution. Purchasers will not receive certificates representing their interests in the Series A Bonds. Principal of the Series A Bonds will be paid by the Paying Agent to DTC, which in turn is obligated to remit such principal to its participants for subsequent disbursement to beneficial owners of the Series A Bonds as described herein. See "APPENDIX F – DTC and the Book-Entry Only System."

Registration, Transfer and Exchange of Series A Bonds

If the book entry system is discontinued, the District shall cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the Series A Bonds.

If the book entry system is discontinued, the person in whose name a Series A Bond is registered on the Bond Register shall be regarded as the absolute owner of that Series A Bond. Payment of the principal of and interest on any Series A Bond shall be made only to or upon the order of that person; neither the District, the County nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided the Bond Resolution.

Series A Bonds may be exchanged at the principal corporate trust office of the Paying Agent in Dallas, Texas for a like aggregate principal amount of Series A Bonds of authorized denominations and of the same maturity. Any Series A Bond may, in accordance with its terms, but only if (i) the District determines to no longer maintain the book entry only status of the Series A Bonds, (ii) DTC determines to discontinue providing such services and no successor securities depository is named or (iii) DTC requests the District to deliver Bond certificates to particular DTC Participants, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Resolution, by the person in whose name it is registered, in person or by their duly authorized attorney, upon surrender of such Bond for cancellation at the office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

No exchanges of Series A Bonds shall be required to be made (a) fifteen days prior to an Bond Payment Date or the date established by the Paying Agent for selection of Series A Bonds for redemption until the close of business on the Bond Payment Date or day on which the applicable notice of redemption is given or (b) with respect to a Series A Bond after such Series A Bond has been selected or called for redemption in whole or in part.

Defeasance

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

(a) by paying or causing to be paid the principal or redemption price of and interest on such Series A 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 Series A Bonds; or

(c) by delivering such Series A 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 Series A 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 Series A Bonds and all unpaid interest thereon to maturity, except that, in the case of Series A 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 Series A 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 County and the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Series A Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Series A Bonds which are to be redeemed prior to the maturity thereof, 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.

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

As used in the foregoing defeasance provision, the term **"Federal Securities"** means non-callable 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 A Bonds Debt Service. The following table shows the annual debt service schedule with respect to the Series A Bonds (assuming no optional redemptions).

MENDOCINO UNIFIED SCHOOL DISTRICT
Annual Debt Service Schedule
General Obligation Bonds
Election of 2020, Series A

Period Ending August 1	Series A Bonds Principal	Series A Bonds Interest	Series A Bonds 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. The following table shows the combined debt service schedule with respect to the District's outstanding general obligation bonds and the Series A Bonds, each assuming no optional redemptions. See Appendix A under the heading "DISTRICT FINANCIAL INFORMATION – General Obligation Bonds" for additional information.

MENDOCINO UNIFIED SCHOOL DISTRICT
Combined Debt Service Schedule
All Outstanding General Obligation Bonds

Period Ending August 1	Other Bonds Debt Service	2020 Series A Bonds Debt Service	Aggregate Annual Debt Service
2020	$1,423,700.00		
2021	1,500,210.00		
2022	1,584,410.00		
2023	1,676,080.00		
2024	1,410,000.00		
2025	1,480,000.00		
2026	1,555,000.00		
2027	1,635,000.00		
2028	1,715,000.00		
2029	1,800,000.00		
2030	1,890,000.00		
2031	1,985,000.00		
2032	--		
2033	--		
2034	--		
2035	--		
2036	--		
2037	--		
2038	--		
2039	--		
2040	--		
2041	--		
2042	--		
2043	--		
2044	--		
2045	--		
2046	--		
2047	--		
2048	--		
2049	--		
2050	--		
TOTAL	$19,654,400.00		

SOURCES AND USES OF FUNDS

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

MENDOCINO UNIFIED SCHOOL DISTRICT
Sources and Uses
General Obligation Bonds
Election of 2020, Series A

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

(1) 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, and the rating agency.

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APPLICATION OF PROCEEDS OF SERIES A BONDS

Building Fund

The proceeds from the sale of the Series A Bonds, to the extent of the principal amount thereof, will be paid to the County to the credit of the fund created and established in the Bond Resolution and known as the "Mendocino Unified School District General Obligation Bond, Election of 2020, Series A Building Fund" (the "**Building Fund**"), which will be accounted for as separate and distinct from all other District and County funds. The proceeds will be used solely for the purposes for which the Series A Bonds are being issued and for payment of permissible costs of issuance. Interest earnings on the investment of monies held in the Building Fund will be retained in the Building Fund.

Debt Service Fund

As described herein under the heading "SECURITY FOR THE SERIES A BONDS - Debt Service Fund," the County will establish a debt service fund for the Series A Bonds to be designated the "Election of 2020, Series A General Obligation Bonds Debt Service Fund" (the **"Debt Service Fund"**). Accrued interest and premium, if any, received by the County from the sale of the Series A Bonds will be deposited in 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 Series A Bonds. Interest earnings on the investment of monies held in the Debt Service Fund will be retained in the Debt Service Fund and used to pay the principal of and interest on the Series A Bonds when due. Any moneys remaining in the Debt Service Fund after the Series A Bonds and the interest thereon have been paid, will be transferred to any other interest and sinking fund for general obligation bond indebtedness of the District, and in the event there is no such debt outstanding, will be transferred to the District's general fund upon the order of the County Auditor, as provided in Section 15234 of the Education Code.

Investment of Proceeds of Series A Bonds

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

SECURITY FOR THE SERIES A BONDS

Ad Valorem Taxes

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

Other Debt Payable from Ad Valorem Property Taxes. In addition to the District's general obligation bonds, there is other debt issued by entities within the jurisdiction of the District, which is payable from *ad valorem* taxes levied on parcels in the District. See "PROPERTY TAXATION – Typical Tax Rates" and "– Direct and Overlapping Debt" below.

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

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

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

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

Economic and other factors beyond the District's control, such as economic recession, deflation of property values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire or other natural disaster, and other economic conditions caused by epidemics or pandemics, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate. See "PROPERTY TAXATION – Assessed Valuations – Factors Relating to Increases/Decreases in Assessed Value." See also below under the heading "--Disclosure Relating to the COVID-19."

Debt Service Fund

As described herein, the County will establish the Debt Service Fund for the Series A Bonds. See "APPLICATION OF PROCEEDS OF SERIES A BONDS - Debt Service Fund." All taxes levied by the County for the payment of the principal of and interest and premium (if any) on the Series A Bonds will be deposited in the Debt Service Fund by the County promptly upon receipt. The Debt Service Fund has been pledged for the payment of the principal of and interest and premium (if any) on the Series A Bonds when and as the same become due. The County will transfer amounts in the Debt Service Fund to the Paying Agent to the extent necessary to pay the principal of and interest and premium (if any) on the Series A Bonds as the same becomes due and payable. The collections deposited in the Debt Service Fund are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service the applicable Bonds.

Not a County Obligation

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

Disclosure Relating to COVID-19

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

The President's declaration of a National Emergency on March 13, 2020 made available more than $50 billion in federal resources to combat the spread of the virus. A multibillion-dollar Coronavirus relief package was signed into law by the President on March 18, 2020 providing for Medicaid expansion, unemployment benefits and paid emergency leave during the crisis. In an effort to calm the markets, the Federal Reserve lowered its benchmark interest rate to nearly zero, introduced a large bond-buying program and established emergency lending programs to banks and money market mutual funds. Further, on March 27, 2020, the United State Congress passed a third $2 trillion relief package responding to the Coronavirus emergency, which has been signed by the President, referred to as the Coronavirus Aid, Relief, and Economic Security Act (the **"CARES Act"**). The package includes direct payments to taxpayers, jobless benefits, assistance to hospitals and healthcare systems, $367 billion for loans to small businesses, a $500 billion fund to assist distressed large businesses, including approximately $30 billion to The Education Stabilization Fund to provide Emergency Relief Grants to educational institutions and local educational agencies in their respective responses to COVID-19. This funding allocation includes approximately $13.5 billion in formula funding to the Elementary and Secondary School Emergency Fund to make grants available to each state educational agency to facilitate K-12 schools' responses to COVID-19, of which the State will receive $1.65 billion.

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

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

At the State level, on March 15, 2020, the Governor ordered the closing of California bars and nightclubs, the cancellation of gatherings of more than 250 and confirmed continued funding for school districts that close under certain conditions. On March 16, 2020, the State legislature passed $1.1 billion in general purpose spending authority for emergency funds to respond to the Coronavirus crisis. On March 19, 2020, Governor Newsom issued Executive Order N-33-20, a blanket shelter-in-place order, ordering all California residents to stay home except for certain necessities and other essential purposes, which is in effect until further notice. Pursuant to the Governor's Order N-60-20 of May 4, 2020, on May 7, 2020, the State's Public Health Officer released an order supporting the gradual movement of the State from Stage 1 to Stage 2 of "California's Pandemic Resilience Roadmap." Effective as of May 8, 2020, the order allows for the return of certain kinds of retail, manufacturing and other "low risk" businesses if physical distancing measures are implemented, and identifies criteria and procedures for reducing restrictions by local officers that might be less restrictive than statewide measures.

Local jurisdictions within the State have also issued their own shelter-in-place orders. Local orders can impose greater restrictions than are contained in the State order. The County's shelter-in-place order has been extended as of May 8, 2020 until June 8, 2020, unless sooner modified by the County's Health Officer. The order reduces some restrictions on certain essential business, lower risk outdoor businesses, and lower risk businesses to resume operating. There are certain factors that will be monitored which could result in modifying the order.

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, the economic impacts and actions that may be taken by governmental authorities to contain the outbreak or to treat its impacts are uncertain and cannot be predicted. Additional information with respect to events surround the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to: the Governor's office (http://www.gov.ca.gov) and the California Department of Public Health (https://covid19.ca.gov/). *The District has not incorporated by reference the information on such websites, and the District does not assume any responsibility for the accuracy of the information on such website*s.

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

The State's revenue sources are anticipated to be materially impacted by the COVID-19 pandemic, including with respect to reductions in personal income tax receipts and capital gains tax receipts. Economic uncertainty caused by the outbreak will significantly affect California's near-term fiscal outlook, with a likely recession due to pullback in activity across wide swaths of the economy. The State released its May Revise to the proposed fiscal year 2020-21 State Budget on May 14, 2020, which projects significant declines in State revenues in both the current and budgeted fiscal years. For more detail regarding the State's current and proposed budgets, the May Revise, and related reports and outlooks, see Appendix A under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."

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

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

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

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

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

PROPERTY TAXATION

Property Tax Collection Procedures

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

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

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

Disclaimer Regarding Property Tax Collection Procedures. The property tax collection procedures described above are subject to amendment based on legislation or executive order, including Order N-61-20 described above, which may be enacted by the State legislature or declared by the Governor from time to time. The District cannot predict changes in law or orders of State officials that might occur in the future, particularly with regard to actions that might be taken in an attempt to mitigate the impacts of the COVID-19 pandemic.

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 of the State 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.

Assessed Valuations

Assessed Valuation History. The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIIIA of the California Constitution. The full value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area, or to reflect declines in property value caused by substantial damage, destruction or other factors, including assessment appeals filed by property owners. For a discussion of how properties currently are assessed, see Appendix A 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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Shown in the following table are recent assessed valuations in the District.

MENDOCINO UNIFIED SCHOOL DISTRICT
Assessed Valuation
Fiscal Year 2009-10 through Fiscal Year 2019-20

Tax Year	Local Secured	Utility	Unsecured	Total	% Change
2009-10	$1,323,102,208	$0	$15,715,504	$1,338,817,712	--
2010-11	1,307,196,178	0	15,354,352	1,322,550,530	2.95
2011-12	1,290,094,762	0	15,623,482	1,305,718,244	(1.27)
2012-13	1,284,487,548	0	13,984,006	1,298,471,554	(0.55)
2013-14	1,300,406,586	0	16,771,596	1,317,178,182	1.44
2014-15	1,320,392,516	0	14,430,021	1,334,822,537	1.34
2015-16	1,362,564,705	0	13,290,808	1,375,855,513	3.08
2016-17	1,409,409,342	0	12,174,207	1,421,583,549	3.32
2017-18	1,457,543,308	0	12,474,237	1,470,017,545	3.41
2018-19	1,522,986,548	0	12,950,810	1,535,937,358	4.48
2019-20	1,563,781,461	0	13,723,445	1,577,504,906	2.71

Source: California Municipal Statistics, Inc.

Some 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, property reclassifications, and man-made or natural disasters such as earthquakes, fires, floods and droughts. The District is located in a seismically active region. 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, numerous wildfires in different regions of the State, including in the vicinity of the District, and flooding and mudslides. With respect to wildfires specifically, recent fires occurring in Northern California and in Mendocino County and Napa County in particular, did not burn within the boundaries of the District but were in the vicinity of the District, and caused the destruction of thousands of acres and destroyed thousands of homes and structures. The District is in an area that may also experience local flooding.

Currently the world is experiencing a global pandemic as a result of the outbreak of COVID-19 which may have a negative impact on local property values, but said impact is uncertain at this time. The COVID-19 emergency could result in an economic recession or depression that could cause general marked declines in property values. For disclosure relating to the COVID-19 emergency, see also "SECURITY FOR THE SERIES A BONDS – Disclosure Relating to COVID-19."

The District cannot predict or make any representations regarding the effects that any natural or manmade disasters, including the COVID-19 pandemic, and related conditions have or may have on the value of taxable property within the District, or to what extent the effects said disasters might have had on economic activity in the District or throughout the State.

Initiative for Split-Roll Approach to Property Taxation. A State constitutional amendment designated as the California Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative, has qualified by initiative for the November 3, 2020 ballot which, if approved by State voters by majority vote, would amend the Constitution to change to a split roll approach to determine property values for purposes of property taxation.

If approved, the Constitution will be amended to provide for the reassessment to fair market value of certain commercial and industrial real properties every three years, overriding the current two percent limitation on annual assessment increases until a property changes ownership. The resulting increases in property tax revenues would be allocated among local public agencies. The District cannot predict if such initiative will be successful or the impact it might have on assessed values in the District.

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

MENDOCINO UNIFIED SCHOOL DISTRICT
Local Secured Property Assessed Valuation and Parcels by Land Use
Fiscal Year 2019-20

	2019-20 Assessed Valuation(1)	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% Total
Non-Residential:						
Agricultural/Timber	$ 98,857,947	6.32%	1,464	26.80%	1,353	25.90%
Commercial	158,322,727	10.12	160	2.93	160	3.06
Vacant Commercial	8,240,600	0.53	22	0.40	20	0.38
Industrial	941,588	0.06	4	0.07	4	0.08
Government/Social/Institutional	1,625,101	0.10	51	0.93	29	0.56
Miscellaneous	2,598,631	0.17	140	2.56	99	1.90
Subtotal Non-Residential	$270,586,594	17.30%	1,841	33.71%	1,665	31.87%
Residential:						
Single Family Residence	$1,189,578,634	76.07%	2,837	51.94%	2,822	54.02%
Mobile Home	33,162,247	2.12	205	3.75	200	3.83
2 Residential Units	10,298,995	0.66	19	0.35	19	0.36
3+ Residential Units/Apartments	6,792,535	0.43	12	0.22	12	0.23
Vacant Residential	53,362,456	3.41	548	10.03	506	9.69
Subtotal Residential	$1,293,194,867	82.70%	3,621	66.29%	3,559	68.13%
Total	$1,563,781,461	100.00%	5,462	100.00%	5,224	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 fiscal year 2019-20 and the median and average assessed valuation for single family homes.

MENDOCINO UNIFIED SCHOOL DISTRICT
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	2,822	$1,189,578,634	$421,537	$330,050

2019-20 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	186	6.591%	6.591%	$ 5,204,309	0.437%	0.437%
$50,000 - $99,999	239	8.469%	15.060	18,228,445	1.532	1.970
$100,000 - $149,999	244	8.646%	23.707	30,475,410	2.562	4.532
$150,000 - $199,999	213	7.548%	31.254	37,133,089	3.122	7.653
$200,000 - $249,999	199	7.052%	38.306	44,550,276	3.745	11.398
$250,000 - $299,999	222	7.867%	46.173	61,023,434	5.130	16.528
$300,000 - $349,999	188	6.662%	52.835	61,121,412	5.138	21.666
$350,000 - $399,999	186	6.591%	59.426	69,502,964	5.843	27.509
$400,000 - $449,999	177	6.272%	65.698	74,976,142	6.303	33.812
$450,000 - $499,999	147	5.209%	70.907	70,060,360	5.890	39.701
$500,000 - $549,999	126	4.465%	75.372	66,252,698	5.569	45.271
$550,000 - $599,999	104	3.685%	79.057	59,417,811	4.995	50.265
$600,000 - $649,999	76	2.693%	81.751	47,555,468	3.998	54.263
$650,000 - $699,999	72	2.551%	84.302	48,502,724	4.077	58.340
$700,000 - $749,999	67	2.374%	86.676	48,637,926	4.089	62.429
$750,000 - $799,999	51	1.807%	88.483	39,386,577	3.311	65.740
$800,000 - $849,999	37	1.311%	89.794	30,674,070	2.579	68.319
$850,000 - $899,999	44	1.559%	91.354	38,363,840	3.225	71.544
$900,000 - $949,999	37	1.311%	92.665	34,092,489	2.866	74.409
$950,000 - $999,999	31	1.099%	93.763	30,333,045	2.550	76.959
$1,000,000 and greater	176	6.237%	100.000	274,086,145	23.041	100.000
	2,822	100.000%		$1,189,578,634	100.000%	

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

Appeals of Assessed Value

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

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article 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 A.

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.

Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values 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 A hereto.

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

Typical Tax Rates

Below are historical typical tax rates in a tax rate area within the District.

MENDOCINO UNIFIED SCHOOL DISTRICT
Typical Tax Rates per $100 of Assessed Valuation
(TRA 104-004; Assessed Valuation: $584,274,526[1])
Fiscal Years 2014-15 through 2019-20

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
General Tax Rate	$1.0000	$1.0000	$1.0000	$1.0000	$1.0000	$1.0000
Redwoods Joint Community College District	.0600	.0100	.0080	.0110	.0110	.0110
Mendocino Coast Health Care District	.0130	.0150	.0100	.0150	.0130	.0130
Mendocino Unified School District	.0800	.0910	.0850	.0860	.0880	.0850
Total Tax Rate	$1.1530	$1.1160	$1.1030	$1.1120	$1.1120	$1.1090

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies - Teeter Plan

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

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

The District cannot provide any assurances that the County will continue to maintain the Teeter Plan described above, or will have sufficient funds available to distribute the full amount of the District's share of property tax collections to the District. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. Property tax delinquencies may be impacted by economic and other factors beyond the District's or the County's control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or depression could be caused by many factors outside the control of the District, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of the spread of COVID-19 or other outbreak of disease or natural or manmade disaster. See "SECURITY FOR THE SERIES A BONDS – Disclosure Relating to COVID-19."

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

Notwithstanding the operation of the Teeter plan in the current and in recent years with respect to property taxes on the secured roll, the following is a summary of secured tax charges and delinquencies in recent years.

MENDOCINO UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies
Fiscal Years 2014-15 through 2017-18

Year	Secured Tax Charge(1)	Amt. Del. June 30	% Del. June 30
2014-15	$1,044,055.96	$16,987.63	1.63%
2015-16	1,232,163.14	24,131.48	1.96
2016-17	1,192,965.98	21,404.17	1.79
2017-18	1,248,508.58	21,767.58	1.74

(1) District's general obligation bonds debt service levy. 2018-19 will be available at a later date
Source: California Municipal Statistics, Inc.

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Largest Property Owners

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2019-20. Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below. A large concentration of ownership in a single individual or entity results in a greater amount of tax collections which are dependent upon that property owner's ability or willingness to pay property taxes.

MENDOCINO UNIFIED SCHOOL DISTRICT
Largest 2019-20 Local Secured Taxpayers
Fiscal Year 2019-20

	Property Owner	Primary Land Use	2019-20 Assessed Valuation	% of Total (1)
1.	Mendocino Redwood Company LLC	Forest/Timber	$13,970,845	0.89%
2.	Heritage House LP	Hotel	11,107,739	0.71
3.	Van L. Phillips, Trustee	Residential	10,729,264	0.69
4.	Mendocino Hotels LLC	Hotel	7,748,110	0.50
5.	Judith L. Brown, Trustee	Hotel	7,611,714	0.49
6.	Stephen A. Ricks, Trustee	Residential	7,500,206	0.48
7.	Jedediah D. & Megan Ayres, Trustees	Hotel	6,970,377	0.45
8.	Little River LLC	Residential	6,528,000	0.42
9.	John Dixon, Trustee	Hotel	6,438,827	0.41
10.	Jeff & Joan Stanford, Trustees	Hotel	5,738,100	0.37
11.	Kenneth R. Grossman, Trustee	Residential	5,519,450	0.35
12.	Little River Inn Inc.	Hotel	5,474,732	0.35
13.	Robert J. & Sarah D. Forest	Residential	5,379,465	0.34
14.	Spring Pond Properties LLC	Commercial	4,670,176	0.30
15.	Andrew A. Hindman, Trustee	Hotel	4,560,681	0.29
16.	Edmund Jin	Hotel	4,093,398	0.26
17.	Gunderson Rock LLC	Hotel	3,757,029	0.24
18.	F. Gordon Uhlmann, Trustee	Residential	3,672,000	0.23
19.	Kila Schoolhouse LLC	Hotel	3,625,838	0.23
20.	Tomek Ulatowski	Residential	3,477,547	0.22
			$128,573,498	8.22%

(1) 2019-20 local secured assessed valuation: $1,563,781,461
Source: California Municipal Statistics, Inc.

Debt Obligations

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

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

MENDOCINO UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated as of April 1, 2020

2019-20 Assessed Valuation:$1,577,504,906

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/1/20
Redwoods Joint Community College District	8.032%	$ 2,047,758
Mendocino Unified School District	**100.000**	**11,024,522**(1)
Mendocino Coast District Hospital	44.795	1,908,559
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$14,980,839
OVERLAPPING GENERAL FUND DEBT:		
Mendocino County General Fund Obligations	12.922%	$2,213,539
Mendocino County Pension Obligation Bonds	12.922	5,827,176
TOTAL OVERLAPPING GENERAL FUND DEBT		$8,040,715
COMBINED TOTAL DEBT		$23,021,554(2)

Ratios to 2019-20 Assessed Valuation:
Direct Debt ($11,024,522) 0.70%
Total Direct and Overlapping Tax and Assessment Debt..........0.95%
Combined Total Debt...1.46%

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

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 Series A 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 Series A 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 Series A Bonds.

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

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series A 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 Series A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series A Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series A Bonds who purchase the Series A Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A 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 Series A Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series A Bond (said term being the shorter of the Series A Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Series A 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 Series A Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Series A 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 Series A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or cause the Series A Bonds to not be "qualified tax-exempt obligations," or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Series A 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 Series A Bonds, or as to the consequences of owning or receiving interest on the Series A Bonds, as of any future date. Prospective purchasers of the Series A 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 Series A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series A 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 Series A Bonds, the ownership, sale or disposition of the Series A Bonds, or the amount, accrual or receipt of interest on the Series A Bonds.

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

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and beneficial owners of the Series A 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 District's fiscal year (which currently would be by April 1 of each year based upon the June 30 end of the District's fiscal year), commencing April 1, 2021, with the report for the 2019-20 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 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 District has made prior undertakings pursuant to the Rule. A review of prior undertakings and filings made in the previous five years has been undertaken. Instances of non-compliance which have been identified are the late filings of the audited financial statements and other operating data for fiscal year 2018-19, which was filed on May 8, 2020, after the April 1, 2020 filing deadline.

The District serves as its own dissemination agent with respect to its undertakings, including for the Series A Bonds.

Neither the County nor any other entity other than the District shall have any obligation or incur any liability whatsoever with respect to the performance of the District's duties regarding continuing disclosure. The County has not reviewed nor is it responsible for the content of the Official Statement.

NO LITIGATION

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

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

RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**") has assigned a rating of "AA" to the Series A Bonds. The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement to the extent deemed not material for investment purposes). Such rating reflects only the view of S&P and an explanation of the significance of such rating and outlook may be obtained only from S&P. There is no assurance that any credit rating given to the Series A Bonds will be maintained for any period of time or that the rating 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 Series A Bonds.

UNDERWRITING

The Series A Bonds were sold to Stifel, Nicolaus & Company, Incorporated (the **"Underwriter"**), pursuant to a bond purchase agreement for the Series A Bonds. The Underwriter has agreed to purchase the Series A Bonds at a price of $__________, representing the principal amount of the Series A Bonds, plus net original issue premium of $_________ and less Underwriter's discount of $_________. The Underwriter may offer and sell Series A 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 reference herein to 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 said documents. Copies of the documents mentioned under this heading are available from the Underwriter and following delivery of the Series A 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 District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available from upon written request to the District.

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

EXECUTION

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

MENDOCINO UNIFIED SCHOOL DISTRICT

By: ______________________________________
Superintendent

APPENDIX A

DISTRICT GENERAL AND FINANCIAL INFORMATION

The information in this section concerning the operations of 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 Series A Bonds is payable from the general fund of the District. The Series A Bonds are payable solely from the proceeds of an ad valorem *tax required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY FOR THE SERIES A BONDS" herein.*

DISTRICT GENERAL INFORMATION

General Information

The District was established in 1964. The District provides educational services in transitional kindergarten through twelfth grade to residents of an area encompassing approximately 450 square miles in Mendocino County (the **"County"**), on the north coast of the State of California (the **"State"**), approximately 165 miles north of San Francisco, which has a population of approximately 5,600 residents. The District's territory includes the unincorporated communities of Mendocino, Albion, Caspar, Comptche and Elk. The economy of the region consists primarily of wine and sparkling wine production, tourism and recreation, agriculture and food production, and retail and services. Recent decades have witnessed a shift to these economic activities from the area's traditional timber-related and commercial fishing industries. The District's enrollment for fiscal year 2019-20 is 525 students. The total assessed value in the District for fiscal year 2019-29 is $1,577,504,906.

The following are the District's current school programs:

MENDOCINO UNIFIED SCHOOL DISTRICT
Schools and Programs

Greenwood Preschool	Albion Elementary School
Comptche Elementary School	K-8 School
Mendocino High School	Mendocino Community High
Mendocino Sunrise High School	Mendocino Alternative School (Independent Study)

Education Funding Formula: Basic Aid Status

For purposes of education funding in the State, the District is a "**Basic Aid District**" (also referred to as a "**Community Supported District**"), meaning that the District's share of local property taxes exceeds the amount of its entitlement grant under the State's education funding formula. As such, in lieu of an entitlement grant from the State, the District is entitled to keep its full share of local property taxes that exceed what the District would have received under the State's funding formula. The District receives some funding from the State including special education funding and certain minimum guaranteed amounts of State apportionments. The District has been in Basic Aid status since approximately 2006, and currently expects that it will continue to be so in the coming years. The District estimates that it receives approximately $3 million more in annual funding than it would receive under the State's LCFF funding formula.

Superintendent and Administrative Personnel

The District is governed by a five-member Board of Education, with each member elected to a four-year term in staggered years. The District is divided into five trustee areas, and trustees are nominated from each trustee area, with one trustee nominated from the District at large. Current members of the Board of Education, together with their office and the date their term expires, are listed below:

MENDOCINO UNIFIED SCHOOL DISTRICT
Board of Education

Name	Office	Term Expires
Jim Gay	President	November 2020
Windspirit Aum	Clerk	November 2022
Jessica Grinberg	Member	November 2022
Mark Morton	Member	November 2020
Michael Schaeffer	Member	November 2020

The day-to-day operations are managed by a board-appointed Superintendent of Schools. Jason Morse, Ed.D., is serving in this capacity. Jason Fruth is serving as the Business Manager.

Enrollment

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

MENDOCINO UNIFIED SCHOOL DISTRICT
Annual Enrollment
Fiscal Years 2014-15 through 2019-20

School Year	Enrollment	Percent Change
2014-15	536	--
2015-16	509	(5.0)%
2016-17	517	1.6
2017-18	509	(1.6)
2018-19	536	5.3
2019-20(1)	525	(2.1)

(1) Second Interim.
Source: Mendocino Unified School District.

District's Response to COVID-19 Emergency

On March 13, 2020, the District closed its school for two weeks through March 27, 2020 to reduce the potential for community transmission of COVID-19. Thereafter, modified learning was implemented, meaning site-based school was closed, which closure has been extended through the end of the school year. During modified schooling, breakfasts and lunches continue to be made available for pick up, mental health services for students and families continue, and the District has undertaken deep cleaning of schools and buses. The District's high school had previously implemented a 1:1 Chromebook initiative which facilitates distance learning. The District is formulating plans for re-opening its facilities for students and employees in accordance with recommendations of State and local health authorities, and with the guidance of the County Office of Education.

The District is expected to receive $28,957 (approximately $55 per student) in funding under the CARES Act by July 1, 2020 to address costs which may have resulted from the COVID-19 emergency. Because the District is a Basic Aid District, which derives most of its funding from local property tax collections, it does not currently anticipate that a decline in revenues at the State level will have a material impact on its finances, operations or programs. Notwithstanding the foregoing, the timing and potential impacts on local assessed values, if any, cannot be predicted at this time. If there is a material decline in assessed valuations, the District's share of local property tax revenues could also decline.

The District is incurring costs that were not anticipated at the time of the current year's budget as a result of COVID-19, such as the costs of mitigation measures and of implementing distance learning. However, funding under the CARES Act and other cost-saving impacts of not operating site-based learning, such as reductions in transportation costs, fuel and electricity costs, largely offset those expenses. With respect to its pension costs, the District cannot currently predict if the COVID-19 emergency will have a material impact on its required employer contributions which could arise if the unfunded actuarial accrued liabilities of PERS and STRS materially increase. The District maintains reserves for economic uncertainties, which exceed the State' required minimum reserve, and has a projected ending fund balance for fiscal year 2019-20 of 20.33% of expenditures. See "DISTRICT FINANCIAL INFORMATION – District Budget and Interim Financial Reporting - District Reserves."

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

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Employee Relations

During fiscal year 2019-20, the District employs 46.4 Certificated full-time equivalent ("**FTE**") employees, 44.2 Classified FTE employees, and 11.2 FTE management, confidential and special services employees FTE employees.

The certificated and classified employees of the District are represented by three bargaining units, as set forth in the following table. The District has historically had a good working relationship with each of its bargaining units and has experienced no work stoppages by represented personnel in the past ten years.

BARGAINING UNITS
Mendocino Unified School District

Employee Group	Representation	Contract Expiration Date*
Certificated	Mendocino Teachers Association ("MTA")	June 30, 2020
Classified	Classified Employees of Mendocino Unified Schools	June 30, 2020

*The District has settled negotiations with MTA, extending the contract through June 30, 2023, which is expected to be approved by the Board in late May, 2020. The contract with the bargaining unit for classified is currently under negotiation.
Source: Mendocino Unified School District.

Risk Management

The District participates in four joint ventures under joint powers authorities (the **"JPAs"**): Northern California School Insurance Group, Schools Insurance Group Northern Alliance, Schools Excess Liability Fund, and Mendocino County Youth Project. The JPAs are not component units of the District for accounting purposes.

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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. Notwithstanding the foregoing, school districts which are funded as Basic Aid Districts, such as the District, derive most of their operational funding from their share of local property taxes. See "-Basic Aid/Community Supported District" below.

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

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

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

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

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

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

The LCFF was implemented for fiscal year 2013-14 and was phased in over a period of five fiscal years. 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 had the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap. Full implementation occurred in fiscal year 2018-19 in connection with adoption of the State Budget for said fiscal year.

Funding levels used in the LCFF "Target Entitlement" calculations 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 LCFF includes a "hold harmless" provision which provides that a district or charter school will 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 2013-14 Budget created the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. Under the LCFF and related legislation, the State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

Basic Aid or Community Supported districts are school districts which have local property tax revenues which exceed such district's funding entitlement under LCFF. As such, in lieu of State funding under LCFF, Basic Aid districts are entitled to keep the full share of local property tax revenues, even the amount which exceeds its funding entitlement under LCFF. The District's funding formula is currently determined as a Basic Aid district.

Basic Aid/Community Supported District. The District has been a Basic Aid District for purposes of State general purpose education funding since 2006. As a Basic Aid District, the District does not receive a general purpose entitlement grant from the State but instead has been entitled to keep its share of local property taxes in excess of its State funding entitlement amount. With implementation of the LCFF commencing in fiscal year 2013-14, a school district, such as the District, which has property tax revenues that exceed its entitlement under the LCFF is entitled to keep its local property tax revenues which exceed its LCFF funding entitlement, essentially maintaining its status as Basic Aid, sometimes referred to as a "Community Supported District." The District currently expects to continue to have local property tax revenue in excess of its LCFF entitlement amount for the near and distant future. The District estimates that its Basic Aid status provides a funding benefit of over $3 million.

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 Audited Financial Statements for the fiscal year ending fiscal year 2018-19 were prepared by Christy White Associates, San Diego, California (the "**Auditor**"). Audited financial statements for the District for the fiscal year ended June 30, 2019 and prior fiscal years are on file with the District and available for public inspection at the Superintendent's Office. See Appendix B hereto for the 2018-19 Audited Financial Statements. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the District.

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General Fund Revenues, Expenditures and Changes in Fund Balance. The District's general fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. The following tables shows the audited income and expense statements for the District for the fiscal years 2015-16 through 2018-19.

GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Year 2015-16 and 2018-19 (Audited)
Mendocino Unified School District

Revenues	Audited 2015-16	Audited 2016-17	Audited 2017-18	Audited 2018-19
LCFF Sources	$6,811,750	$7,001,033	$7,038,692	$7,376,120
Federal Revenues	254,970	225,333	188,987	203,028
Other State Revenues	669,020	790,818	595,946	917,806
Other Local Revenues	749,856	677,518	687,839	647,781
Total Revenues	8,485,596	8,694,702	8,511,464	9,144,735
Expenditures				
Instruction	4,704,482	4,723,574	4,594,909	4,868,582
Instruction-Related Activities:				
Supervision of Instruction	134,511	131,312	134,861	150,957
Instructional Library, Media, Tech	279,823	250,435	187,753	229,013
School Site Administration	640,590	642,877	679,139	697,713
Pupil Services:				
Home-to-School Transport	399,618	424,058	478,928	577,539
Food Services	--	--	733	220
All Other Pupil Services	325,871	348,933	439,240	501,713
General Administration:				
Data Proc.	26,864	28,320	34,268	28,339
All Other General Administration	685,235	670,800	670,638	748,345
Plant Services	915,173	1,192,292	1,048,804	1,124,337
Ancillary Services	133,895	137,212	146,540	180,649
Transfers to Other Agencies	--	5,042	9,579	6,507
Debt Service: Principal	--	--	--	--
Debt Service: Interest	--	--	--	--
Total Expenditures	8,246,062	8,554,855	8,425,392	9,113,914
Excess of Revenues Over/(Under) Expenditures	239,534	139,847	86,072	30,821
Other Financing Sources (Uses)				
Operating Transfers in	95,752	40,000	40,000	40,000
Operating Transfers out(1)	(115,611)	(137,614)	(145,085)	(124,714)
Total Other Financing Sources (Uses)	(19,859)	(97,614)	(105,085)	(84,714)
Net Change in Fund Balance	219,675	42,233	(19,013)	(53,893)
Fund Balance, July 1	3,180,170	3,399,845	3,442,078	3,423,065
Fund Balance, June 30	$3,399,845	$3,442,078	$3,423,065	$3,369,172

(1) Transfers out represent transfers to Cafeteria Fund 13 and Pre-School Fund 12.
Source: Mendocino Unified School District Audit Reports.

District Budget and Interim Financial Reporting

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

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

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

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

A State law adopted in 1991 (**"A.B. 1200"**) imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification.

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 office of education reviews the certification and issues the following types of certifications:

- ***Positive certification*** - the school district that will meet its financial obligations for the current fiscal year and the subsequent two fiscal years.

- ***Negative certification*** - the school district will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

- ***Qualified certification*** - the school district may not meet its financial obligations for the current fiscal year or the subsequent two 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. During the past five years, each of the District's adopted budgets have been approved by the County Superintendent and the District has certified each of its interim reports as positive.

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at Mendocino Unified School District, 44141 Little Lake Road, Mendocino, California, telephone: 707-937-5868. The District may impose charges for copying, mailing and handling.

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District's General Fund Fiscal Year Fiscal Year 2019-20 (Adopted Budget and Second Interim. The following table shows the budgeted revenues, expenditures and changes in fund balances for the District's general fund for fiscal year 2019-20 (adopted budget and second interim projections).

REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Year 2019-20 (Adopted Budget and Second Interim Projections[1])
Mendocino Unified School District

Revenues	**Adopted Budget 2019-20**	**Second Interim 2019-20**
LCFF Sources	$7,285,475	$7,262,540
Federal Revenues	157,408	175,957
Other State Revenues	495,082	513,297
Other Local Revenues	521,917	526,630
Total Revenues	8,459,882	8,478,425
Expenditures		
Certificated Salaries	3,240,706	3,465,403
Classified Salaries	1,795,912	1,791,013
Employee Benefits	2,552,088	2,539,732
Books and Supplies	320,217	359,226
Contract Services & Operating Exp.	748,842	818,623
Capital Outlay	-	58,886
Other Outgo (Excluding Indirect Costs)	-	-
Other Outgo – Transfers of Indirect Costs	(6,000)	(6,000)
Total Expenditures	8,651,767	9,026,887
Excess of Revenues Over/(Under) Expenditures	(191,885)	(548,462)
Other Financing Sources (Uses)		
Operating Transfers In	40,000	40,000
Operating Transfers Out(2)	(176,687)	(173,788)
Contributions	-	-
Total Other Financing Sources (Uses)	(136,687)	(133,788)
Net Change in Fund Balance	(328,572)	(682,251)
Fund Balance, July 1	2,470,666	2,517,006
Fund Balance, June 30	$2,142,093	$1,834,755

(1) The District's Second Interim Report was adopted prior to the COVID-19 emergency and the closure of schools.
(2) Transfers out represent transfers to Cafeteria Fund 13 and Pre-School Fund 12.
Source: Mendocino Unified School District 2019-20 Second Interim Report.

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 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 California Education Code was amended to provide that, beginning in fiscal year 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, the Board of Trustees 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, which limits the amount of reserves which may be maintained at the District level. Specifically, the legislation, among other things, enacted Education Code Section 42127.01, which became operative December 15, 2014, and provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the State's Public School System Stabilization Account (the Proposition 98 reserve), a school district may not adopt a budget that contains a reserve for economic uncertainties in excess of twice the applicable minimum recommended reserve for economic uncertainties established by the State Board (for school districts with ADA over 400,000, the limit is three times the amount). Exemptions can be granted by the County Superintendent under certain circumstances.

Effective January 1, 2018, Senate Bill 751, which was signed by the Governor on October 11, 2017, amends Section 42127.01 of the 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 - District's Basic Aid Status

As previously described herein, the District is a Basic Aid District and as such, its revenues are not dependent on State funding based on average daily attendance. As a Basic Aid District, the District estimates that it receives approximately $3 million over of what it would have been entitled to under the LCFF.

Unduplicated Count. The District's unduplicated pupil count for fiscal year 2019-20 is approximately 43%, which means that if the District were funded under the LCFF, supplemental funding would be based on such percentage, and the District would not qualify for concentration grant funding under LCFF.

Possible Impacts of COVID-19. As described herein, the short-term and long-term impact of COVID-19 on the District's attendance, revenues and local property values cannot be predicted. The Series A Bonds described in this Official Statement are secured by *ad valorem* property taxes, and not the District's general fund. See "SECURITY FOR THE SERIES A BONDS – *Ad Valorem* Taxes – Disclosure Relating to COVID-19."

Revenue Sources

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

LCFF Sources. District funding is provided by a mix of (1) local property taxes and (2) State apportionments of funding. Because the District is a Basic Aid District, the District does not receive a general purpose entitlement grant from the State but does receive from the State certain minimum guaranteed amounts of State apportionments (referred to as "Minimum State Aid and Education Protection Account funding under Proposition 30).

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

The principal component of local revenues is the school district's property tax revenues, i.e., 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. Education Code Section 42238.03(c) itemizes the local revenues that are subtracted from the base entitlement to determine the amount of the State apportionment of funding.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under Every Student Succeeds Act, 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 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, 2019" for further information.

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

STRS Contributions
Mendocino Unified School District
Fiscal Years 2013-14 through 2019-20 (Projected)

Fiscal Year	Amount
2013-14	$222,280
2014-15	271,558
2015-16	340,205
2016-17	390,777
2017-18[(1)]	444,563
2018-19	507,461
2019-20[(2)]	847,633

(1) Increase in fiscal years 2017-18 and after attributed to increase in contribution rates and modified accounting reporting requirements, which include reporting the District's proportionate share of the plan's net pension liability and recognizing on-behalf STRS contributions in governmental funds.
(2) Second Interim Projection.
Source: Mendocino 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 $102.0 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	18.13%
2020-21	19.10
2021-22[2]	18.60
2022-23[2]	18.10

(1) Expressed as a percentage of covered payroll.
(2) The employer contribution rate is projected to decrease in fiscal years 2021-22 and 2022-23. Projections may change based on actual experience. Does not reflect the proposed changes to such rates included in the May Revise.
Source: AB 1469.

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

PERS Contributions
Mendocino Unified School District
Fiscal Years 2013-14 through 2019-20 (Projected)

Fiscal Year	Amount
2013-14	$256,589
2014-15	251,527
2015-16	263,301
2016-17	240,545
2017-18	267,326
2018-19	328,863
2019-20[1]	359,542

(1) Second Interim Projection.
Source: Mendocino 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 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, will be implemented for school districts beginning in fiscal year 2016-17, with the costs spread over 20 years and the increases phased in over the first five years.

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

EMPLOYER CONTRIBUTION RATES (PERS)
Fiscal Years 2019-20 through 2022-23(1)

Fiscal Year	Employer Contribution Rate(2)
2020-21(3)	22.680%
2021-22	24.600
2022-23	25.500

(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 footnote (3). Does not reflect the proposed changes to such rates in the May Revise.
(3) The contribution rate for fiscal year 2020-21 reflects an initial actuarially determined rate of 23.35% that has been reduced by 0.67% after reflecting part of the State contribution in accordance with SB 90.
Source: PERS

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

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

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

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

Additional Information. Additional information regarding the District's retirement programs is available in Note 11 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's post-employment Benefits Plan (the "**Plan**") is a single-employer defined benefit healthcare plan administered by the District. Employees may retire and receive District-paid contributions towards healthcare upon attainment of age 55 and completion of 5 years of service. The District pays the medical, dental, and vision premiums up to a monthly cap of $777.83 in 2017. Dental and vision benefits end at age 65. A Medicare supplement of $100 per month is paid to age 70.

Membership of the Plan as of the District's June 30, 2017 valuation (the most recent valuation date) consisted of 21 retirees and beneficiaries currently receiving benefits, and 51 active plan members.

For more information regarding the District's Plan and OPEB (defined below), see Note 10 in the District's 2018-19 Audit in Appendix B hereto under the heading "LONG-TERM OBLIGATIONS - Net Post Employment Benefit (OPEB) Liability".

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

Contribution Information. The contribution requirements of Plan members and the District are established and may be amended by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. As set forth in the District's audit for year ending June 30, 2019, the District contributed $34,214 to the Plan for said fiscal year, all of which was used for current premiums.

Actuarial Assumptions. The District's total OPEB liability of $878,975 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified: salary increases 3.00%, discount rate 3.62%, ultimate trend rate of 5.00%, and the healthcare cost trend rate begins at 7.00% and decreases to 5.00%. The discount rate was based on a yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. Pre-retirement morality rates were based on the RP-2014 Employee Mortality Tables for Males or Females, as appropriate without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

The actual assumptions used in the July 1, 2017 valuation were based on the results of an actual experience study for the period July 1, 2015 to June 30, 2017.

Changes in OPEB Liability of the District. The changes in OPEB liability of the District as of June 30, 2019 as shown in the District's audit, is shown in the following table:

CHANGES IN TOTAL OPEB LIABILITY
Mendocino Unified School District

Total OPEB Liability	
Service Cost	$64,096
Interest	26,697
Changes of assumptions	(44,997)
Benefit payments	(39,190)
Net change in total OPEB liability	6,606
Total OPEB Liability at June 30, 2018	$872,369
Total OPEB Liability at June 30, 2019	$878,975
Covered-employee payroll	$5,470,137
District's total OPEB liability as a % of covered employee payroll	16.07%

Source: Mendocino Unified School District.

OPEB Expense. For the year ended June 30, 2019, the District recognized an OPEB expense of $86,665. For more information regarding the District's OPEB and assumptions used in the Actuarial Study, see Note 10 in the District's 2018-19 Audit in Appendix B hereto.

Long-Term Indebtedness

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

General Obligation Bonds. The District has issued general obligation bonds and refunding general obligation bonds pursuant to voter approvals in previous years. The following table summarizes the District's outstanding general obligation bond indebtedness.

MENDOCINO UNIFIED SCHOOL DISTRICT
Outstanding General Obligation Bonds

Issue Date	Original Principal Amount	Name of Issue	Final Maturity	Amount Outstanding May 1, 2020
4/5/2007	$15,499,521.50	General Obligation Bonds Election of 2006, Series 2007	8/1/2031	$5,174,524.50
5/22/2019	7,070,000.00	2019 Refunding Bonds*	8/1/2023	5,850,000.00
Total	--	--	--	$11,024,524.50

* Private Placement.
Source: Mendocino Unified School District.

Capital Lease Obligation. The District entered into a lease for networking and storage devices under an agreement which provides for title to pass upon expiration of the lease period. The District's liability on these lease agreements, with options to purchase, totaled $12,854 as of June 30, 2019.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq*., the Mendocino County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq*. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. See "APPENDIX G - Mendocino County Investment Policy and Recent Investment Report."

Effect of State Budget on Revenues

Public school districts which do not operate as Basic Aid 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 which do not operate as Basic Aid Districts is LCFF funding, which is derived from a combination of State funds and local property taxes (see "—State Funding of Education; Recent State Budgets – 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 District cannot predict how education funding may further be changed in the future, or the state of the economy which in turn can impact the amounts of funds available from the State for education funding. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS" below.

Because the District is a Basic Aid District, it does not expect that material reductions in the availability of State revenues will have a material impact on its finances. However, the impacts of the current COVID-19 emergency on property values and the economy generally and the possible impact on District finances and operations cannot be predicted at this time.

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

State Funding of Education

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

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

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

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

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

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

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each House of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

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

Recent State Budgets

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

- The California State Treasurer Internet home page at www. Treasurer.ca.gov, under the heading "Bond Finance" and sub-heading "-Public Finance Division", (1) posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State, and (2) also posts various financial documents for the State under the "-Financial Information" link.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the headings "The Budget" and "State Budget Condition."

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

Summary of Budget As Adopted. 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.

Impacts of COVID-19 on Current Year State Budget. The COVID-19 pandemic will result in material declines in State revenues in the current fiscal year. The short and long term outlooks for the State's revenues are uncertain. See summaries below of the May Revise, as well as LAO Fiscal Perspective Reports and Budget Letters released by the State Department of Finance.

2020-21 Proposed State Budget

Summary as Introduced. On January 10, 2020, the Governor released the proposed State budget for fiscal year 2020-21 (the "**2020-21 Proposed State Budget**"), noting that while economic expansion is occurring, there are growing risks facing the State, including risks caused by climate change and uncertainty regarding the political climate and federal policies. The 2020-21 Proposed State Budget projects general fund revenues in fiscal year 2020-21 of approximately $155 billion (including a prior year balance of approximately $8.5 billion) and expenditures of approximately $149.7 billion. The 2020-21 Proposed State Budget continues to build State reserves, with $21 billion set aside in reserve funds. The 2020-21 Proposed State Budget maintains $900 million in the Safety Net Reserve, sets aside $110 million in the Public School System Stabilization Account, and allocates $3.1 billion in a Special Fund for Economic Uncertainties. In addition, the 2020-21 Proposed State Budget estimates the Rainy Day Fund will have a fund balance of approximately $18 billion in fiscal year 2020-21 and $19.4 billion by 2023-24.

The 2020-21 Proposed State Budget raises the Proposition 98 funding for school districts and community college districts for fiscal year 2020-21 to $84 billion, a new all-time high, which reflects a 2.29% cost of living adjustment and includes an additional $1.2 billion in Proposition 98 funding for the LCFF. The 2020-21 Proposed State Budget also confirms that school district reserve caps are not required for fiscal year 2021-22. The 2020-21 Proposed State Budget includes an includes one-time increases in Proposition 98 general fund resources of $350 million of educator workforce investment grants, $193 million for workforce development grants, $18 million to strengthen the capacity of local educational agencies in certain priority areas, and $10 million for credentialed teacher stipends. The Governor is required to release a revision to the Proposed State Budget by May 14 of each year.

May Revise to 2020-21 Proposed State Budget. On May 15, 2020, the Governor released the May Revise to the 2020-21 Proposed State Budget (the **"May Revise"**). The May Revise is typically an updated budget proposal based on April tax filings. However, because, due to the COVID-19 pandemic, the federal and State income tax deadline has been extended to July 15, 2020, it is likely that the budget when adopted in June will be updated after the July 15, 2020 filing deadline to more accurately reflect income tax revenues.

The May Revise notes that the COVID-19 pandemic and resulting recession has changed the State's fiscal landscape dramatically. Entrepreneurs who run small businesses throughout California have been severely impacted and unemployment claims have surged, with increased unemployment claims of 4.4 million from mid-March to May 9, 2020, and a projected 2020 unemployment rate of 18 percent. Job losses have occurred in nearly every sector of the economy, but they have been most acute in sectors not fully able to telework such as leisure and hospitality, retail trade, and personal services. Personal income is projected to decline by 9 percent in 2020.

After a record economic expansion, the U.S. economy entered into a recession in March of 2020, having an immediate negative impact on State revenues, with all three major revenue sources showing significant declines relative to the Governor's original budget forecast. From fiscal years 2018-19 through 2020-21, the May Revise baseline revenue estimate (absent policy changes) has decreased by over $41 billion, and over $43 billion before accounting for transfers.

The changes in the three largest State tax sources are:

- Personal income tax revenues are revised downward by $32.6 billion (including $6.9 billion less in 2019-20 and $26.3 billion less in 2020-21), due to a decline in all income sources, but particularly wages, proprietorship income, and capital gains.

- Sales and use tax receipts are down by almost $10 billion ($2.2 billion less in 2019-20 and $7.7 billion in 2020-21) due mainly to lower consumption and investment by business.

- Corporation tax revenues are down over $5 billion based on a significant drop in corporate profits.

After accounting for transfers, which includes loan repayments as well as automatic and discretionary transfers to the State's Rainy Day Fund, baseline State General Fund revenues at the May Revise forecast are down relative to the proposed budget by $41.2 billion ($9.6 billion in the current 2019-20 fiscal year and $32 billion in the budgeted 2020-21 fiscal year).

The revenue decrease, combined with increased costs in health and human service programs and the added costs to address COVID-19, results in a projected budget deficit of approximately $54 billion, before the changes proposed in the May Revise. To close the budget gap, the May Revise proposes to:

- Cancel $6.1 billion in program expansions and spending increases.

- Draw down $16.2 billion in the Budget Stabilization Account (Rainy Day Fund) over three years, with $8.3 billion withdrawn in 2020-21 ($7.8 billion from the Rainy Day Fund and $450 million from the Safety Net Reserves).

- Borrow and transfer $4.1 billion from special funds.

- Undertake revenue generating measures with a temporary suspension of net operating losses and temporary limit to $5 million the amount of credits a taxpayer can use in any given tax year, generating new revenue of $4.4 billion in 2020-21.

- Reflect federal funds support of $8.3 billion and triggers of $14.0 billion in reductions to base programs and employee compensation that will be necessary if sufficient federal funding does not materialize.

The State estimates, as of May 9, 2020, that the State will benefit from over $186 billion in federal stimulus funds (which amount includes approximately $115 billion in direct benefits to individuals, families, small businesses, higher education institutions and $71 billion to or through the State), as a result of the Coronavirus Preparedness and Response Supplemental Appropriations Act, the Families First Coronavirus Response Act, the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act. This federal funding is not expected to be sufficient to address the State's fiscal crisis.

With respect to California K-12 schools and community colleges, the economy and State's reduced State General Fund revenues have an equally significant negative impact on the Proposition 98 education funding guarantee. The May Revise estimates that Proposition 98 funding will decline by $19 billion from the original budget, being a decline of 25% from the prior year. To mitigate the impacts on school funding, the May Revise withdraws a number of funding proposals that were included in the proposed budget, suspends the statutory cost-of-living adjustment of 2.31 percent in 2020-21 for all eligible programs, and proposes the following:

- *Temporary Revenue Increases.* The May Revise proposes the temporary three-year suspension of net operating losses and limitation on business incentive tax credits to offset no more than $5 million of tax liability per year. These measures along with other more minor tax changes will generate $4.5 billion in State General Fund revenues and approximately $1.8 billion in benefit to the Proposition 98 Guarantee.

- *Federal Funds.* The May Revise proposes a one-time investment of $4.4 billion ($4 billion federal Coronavirus Relief Fund and $355 million federal Governor's Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures, including supporting an earlier start date for the next school year.

- *Revising CalPERS/CalSTRS Contributions*. The 2019 Budget Act included $850 million to buy down local educational agency employer contribution rates for STRS and PERS in 2019-20 and 2020-21, as well as $2.3 billion towards the employer long-term unfunded liability. To provide local educational agencies with increased fiscal relief, the May Revise proposes redirecting the $2.3 billion paid to STRS and PERS towards long-term unfunded liabilities to further reduce employer contribution rates in 2020-21 and 2021-22. This reallocation will reduce the STRS employer rate from 18.41 percent to approximately 16.15 percent in 2020-21 and from 18.2 percent to 16.02 percent in 2021-22. The PERS Schools Pool employer contribution rate will be reduced from 22.67 percent to 20.7 percent in 2020-21 and from 25 percent to 22.84 percent in 2021-22.

The May Revise indicates that in 2019-20 and 2020-21, the Proposition 98 funding level drops below the target funding level by a total of approximately $13 billion. To accelerate the recovery from this funding reduction, the May Revise proposes to provide supplemental appropriations above the constitutionally required Proposition 98 funding level, beginning in 2021-22, and in each of the next several fiscal years, in an amount equal to 1.5 percent of State General Fund revenues per year, up to a cumulative total of $13 billion. This will accelerate growth in the Proposition 98 guarantee, which the Administration proposes to increase as a share of the State General Fund. Currently, Proposition 98 guarantees that K-14 schools receive approximately 38 percent of the State General Fund in Test 1 years. The May Revise proposes to increase this share of funding to 40 percent by 2023-24.

The May Revise also reflects the withdrawal of all of the funding in the Public School System Stabilization Account, which was projected at time the budget was proposed to be approximately $524 in 2019-20. The May Revise projects that no additional deposits will be required and the entire amount is available to offset the decline in the Proposition 98 guarantee.

The May Revise proposes a one-time investment of $4.4 billion ($4 billion federal Coronavirus Relief Fund and $355 million federal Governor's Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures. Funds will be allocated to local educational agencies offering classroom-based instruction based on a formula that takes into account the share of students most heavily impacted by school closures, including students with disabilities, low-income students, English learners, youth in foster care, and homeless youth.

Absent additional federal funds, the COVID-19 Recession requires a 10 percent ($6.5 billion) reduction to LCFF, including the elimination of the 2.31 percent cost-of-living adjustment. This reduction to LCFF will be removed if the federal government provides sufficient funding to backfill this cut. The May Revise also proposes apportionment deferrals to align Proposition 98 expenditures and resources with the need of local educational agencies to maintain a level of fiscal stability. In 2019-20, the Budget proposes to defer $1.9 billion of LCFF apportionments to 2020-21, and an additional $3.4 billion is added to the 2019-20 deferral in 2020-21, for a total of $5.3 billion in LCFF deferrals scheduled for payment in 2021-22.

The May Revise includes certain fiscal and programmatic flexibilities, including exemptions from deferrals in the case of documented hardship, excluding state pension payments on behalf of local educational agencies from the calculation of required contributions to restricted maintenance, increases on internal inter-fund borrowing, and the use of proceeds from the sale of surplus property for one-time general fund purposes, among others.

The May Revise notes that property taxes are local revenue sources, but the amount generated each year has a substantial impact on the State budget because local property tax revenues allocated to K-14 schools help offset State General Fund expenditures. Preliminary data show statewide property tax revenues increased 5.8 percent in 2019-20, which is 0.6 percentage point lower than the 6.4-percent growth rate anticipated at the Governor's Budget. Property tax revenues are expected to grow 3.5 percent in 2020-21, which is 2.2 percentage points lower than the 5.7-percent growth expected at the time of the original proposed budget due to increased delinquencies, which typically rise in a recession. Approximately 42 percent ($32 billion) of 2020-21 property tax revenues will go to K-14 schools. While this amount includes $2.3 billion that schools are expected to receive in 2020-21 due to the dissolution of redevelopment agencies, it excludes the $9.4 billion shifted from schools to cities and counties to replace Vehicle License Fee revenue losses stemming from the reduced VLF rate of 0.65 percent.

LAO Fiscal Perspective Report (March 18, 2020 and April 15, 2020): COVID-19

The LAO issued a fiscal perspective report on March 18, 2020 entitled "COVID-19 and California's Evolving Fiscal Outlook," concluding that the economic uncertainty caused by the

Coronavirus emergency will significantly affect California's near-term fiscal outlook. Key takeaways from the report are as follows:

> ***Volatility in Financial Markets Indicate Lower Capital Gains-Related Tax Revenue.*** Taxes on capital gains are a significant source of State revenue, but they are difficult to forecast because of their correlation to stock market performance. The LAO states that the volatility of financial markets indicate lower capital gains-related tax revenue. With the market now well below the budget assumption, absent a more rapid recovery than has occurred in any modern market downturn of this severity, it appears likely that the average price level will wind up lower than the budget assumption. The LAO projects there is a high likelihood that tax revenues from capital gains income will be several billion dollars lower than what the Governor's budget assumed.
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> ***COVID-19 Response Brings Economic Activity to a Halt.*** For the broader economy, the LAO stated that the odds of a recession have increased substantially due to the pullback in activity across wide swaths of the economy. The abrupt and nearly across-the-board curtailment of spending that is now underway sets it apart from previous downturns. An optimistic scenario is that the economy would experience a sharp but comparatively short-lived downturn lasting one or two months. Under a more pessimistic scenario, economic activity would remain depressed for longer, compounded by dislocated supply chains and reduced lending caused by elevated risk aversion in credit markets. The type of contraction the state, national, and global economies experience will have implications for revenue collections in the coming years.
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> ***California's Strong Fiscal Position is a Key Advantage.*** The LAO notes, however, that California's budget entered 2020 on a strong footing due to strong budget reserves, the pay down of debt and multiyear balanced budgets during the economic expansion of previous years.

The LAO issued another fiscal perspective report on April 15, 2020 entitled "State Budget Effects of Recent Federal Actions to Address COVID-19," concluding that recent actions by the federal government will mitigate some of the adverse budgetary effects that the COVID-19 pandemic is likely to cause, but only a small portion of the federal funding allocated to date, being additional Medi-Cal funding, will assist the State with budgetary strain caused by lower revenues. Key information in the report is as follows:

> ***Sources of Potential Budget Problem.*** The State likely will face a budget problem at the time of the May Revision, resulting from COVID-19. Specifically from higher direct costs to respond to the public health emergency, higher indirect costs as a result of changes in the economy, and lower revenues as a result of changes in the economy.
>
> ***Federal Legislation May Affect State Budget.*** Recent federal legislation could help reduce budgetary strain at the State level. This includes funds under the CARES Act which established the Coronavirus Relief Fund, and which the U.S. Department of the Treasury has indicated the State is eligible for $15.3 billion to be shared between the State and local governments, with the State's eligibility without regard to local governments estimated at $9.5 billion. Said funds are available to provide relief for direct and possibly indirect higher costs resulting

> from COVID-19, but not revenue losses. Additional federal aid in the form of increases to funding under Medicaid and unemployment insurance, which is a federal-state program, could also provide potential benefits to the State's budget. Education relief funding could provide some additional relief, although this form of relief will mainly accrue to the State's educational institutions.

State Department of Finance – Effect of COVID-19 on State Budgets.

On March 24, 2020, the California Department of Finance released Budget Letter 20-08 which states that the Department anticipates a severe drop in economic activity in California as a result of the COVID-19 pandemic, which could negatively impact anticipated revenue levels in fiscal year 2019-20, and will certainly produce impacts on the fiscal year 2020-21 Proposed State Budget.

On May 7, 2020. the DOF released a fiscal update, indicating that the State is facing a $54 billion budget deficit. Job losses and business closures are predicted to sharply reduce state revenues. The State's three main General Fund revenue sources, personal income taxes, sales and use taxes and corporate taxes, are projected to drop for the 2020-21 fiscal year by 22.5%, 27.2% and 22.7%, respectively. The revenue declines will result in a lower required funding level to the Proposition 98 General Fund for school districts and community colleges by $18.3 billion. The revenue declines combined with the increased costs of supporting health and human service programs results in the $54.3 billion deficit, of which $13.4 billion occurs in the current fiscal year, and $40.9 billion occurs in the 2020-21 budget year. The DOF notes that the overall deficit is equal to nearly 37 percent of State General Fund spending authorized in the 2019 Budget Act, and is nearly three and one half times the revised balance in the State's Rainy Day Fund.

Disclaimer Regarding State Budgets

The implementation of the foregoing 2019-20 State Budget, the 2020-21 Proposed Budget including the May Revise and as adopted, and future State budgets may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable, including the COVID-19 emergency.

The current and proposed State budgets are expected to be impacted by the COVID-19 emergency described herein. Notwithstanding data contained in the May Revise, the District cannot predict the impact that the COVID-19 emergency, the results of the 2019-20 State Budget, the 2020-21 Proposed State Budget, or subsequent state budgets, including adjustments made for economic conditions, will have on its own finances and operations. However, the Series A Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

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

Uncertainty Regarding Future State Budgets

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

Legal Challenges to State Funding of Education

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

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Series A 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 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 Series A Bonds. The tax levied by the County for payment of the Series A 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. 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.

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

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

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 of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID (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 Series A 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 percent 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. 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 percent 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. Proposition 55 did not extend the sales and use tax increase that was approved as part of Proposition 30. Tax revenue received under Proposition 55 is to be allocated 89% to K-12 schools and 11% to community colleges.

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 provision 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 Series A 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 B

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

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MENDOCINO UNIFIED SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2019

MENDOCINO UNIFIED SCHOOL DISTRICT
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SUPPLEMENTARY INFORMATION

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Mendocino Unified School District
Mendocino, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

348 Olive Street
San Diego, CA
92103
O: 619-270-8222
F: 619-260-9085
christywhite.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mendocino Unified School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mendocino Unified School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2020 on our consideration of Mendocino Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mendocino Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mendocino Unified School District's internal control over financial reporting and compliance.

Christy White, Inc.

San Diego, California
February 5, 2020

MENDOCINO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

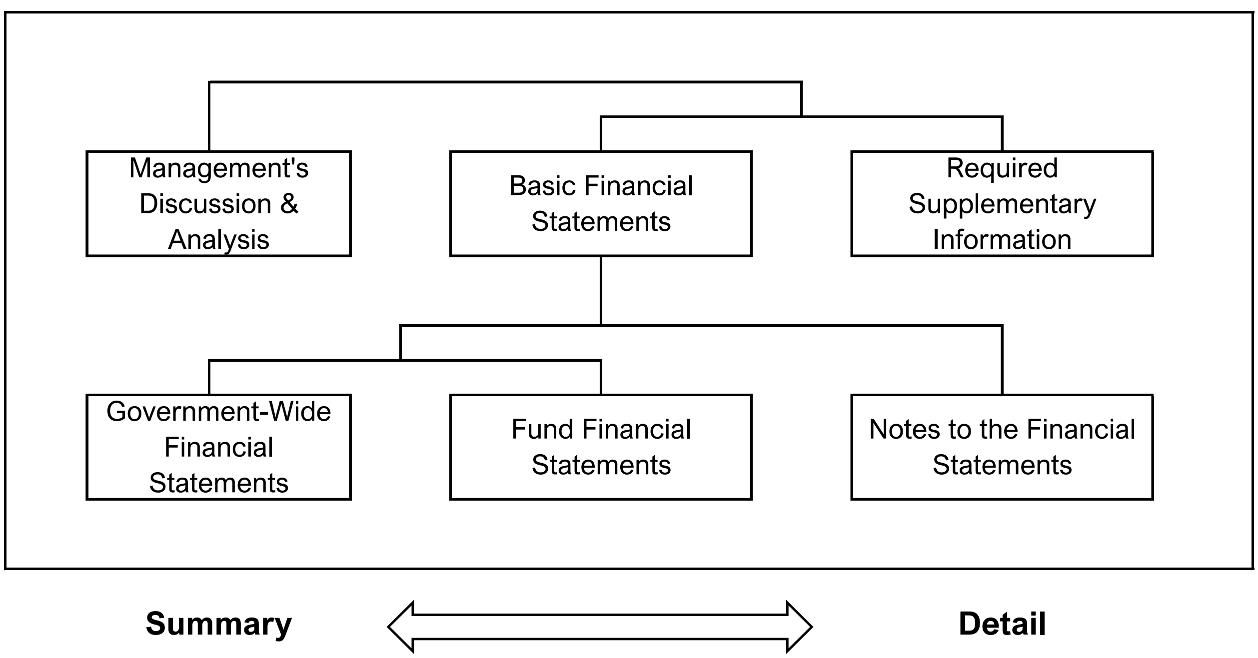
Our discussion and analysis of Mendocino Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's combined net position was $9,723,013 at June 30, 2019. This was a decrease of $429,025 from the prior year.
- Overall revenues were $12,775,366 which were exceeded by expenses of $13,204,391.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



OVERVIEW OF FINANCIAL STATEMENTS (continued)

Components of the Financials Section (continued)

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

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

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

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

  - **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.

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

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

Government-Wide Statements

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

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

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was $10,145,429 for governmental activities and $(422,416) for business-type activities at June 30, 2019, as reflected in the table below. Of this amount, $(8,903,481) was unrestricted for governmental activities and $(432,720) was unrestricted for business-type activities. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
ASSETS						
Current and other assets	$ 5,405,007	$ 5,065,619	$ 339,388	$ 347,880	$ 303,709	$ 44,171
Capital assets	29,647,677	30,539,919	(892,242)	23,158	44,400	(21,242)
Total Assets	35,052,684	35,605,538	(552,854)	371,038	348,109	22,929
DEFERRED OUTFLOWS OF RESOURCES	2,219,300	2,430,066	(210,766)	259,445	261,190	(1,745)
LIABILITIES						
Current liabilities	1,546,313	1,242,334	303,979	47,329	43,207	4,122
Long-term liabilities	24,398,057	25,067,760	(669,703)	937,135	911,982	25,153
Total Liabilities	25,944,370	26,310,094	(365,724)	984,464	955,189	29,275
DEFERRED INFLOWS OF RESOURCES	1,182,185	1,163,946	18,239	68,435	63,636	4,799
NET POSITION						
Net investment in capital assets	17,603,156	17,510,407	92,749	10,304	19,346	(9,042)
Restricted	1,445,754	1,265,938	179,816	-	-	-
Unrestricted	(8,903,481)	(8,214,781)	(688,700)	(432,720)	(428,872)	(3,848)
Total Net Position	$ 10,145,429	$ 10,561,564	$ (416,135)	$ (422,416)	$ (409,526)	$ (12,890)

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

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

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
REVENUES						
Program revenues						
Charges for services	$ 158,097	$ 104,110	$ 53,987	$ -	$ -	$ -
Operating grants and contributions	973,566	924,868	48,698	31,583	-	31,583
General revenues						
Property taxes	7,163,045	6,729,453	433,592	-	-	-
Unrestricted federal and state aid	2,037,243	1,990,482	46,761	-	-	-
Other	219,611	219,829	(218)	2,192,221	2,133,266	58,955
Total Revenues	10,551,562	9,968,742	582,820	2,223,804	2,133,266	90,538
EXPENSES						
Instruction	5,530,669	5,337,865	192,804	-	-	-
Instruction-related services	1,107,516	1,030,792	76,724	-	-	-
Pupil services	1,392,977	1,228,975	164,002	-	-	-
General administration	811,605	751,268	60,337	-	-	-
Plant services	1,254,087	1,238,230	15,857	-	-	-
Ancillary and community services	194,132	160,694	33,438	-	-	-
Debt service	701,475	736,173	(34,698)	-	-	-
Other outgo	6,507	9,579	(3,072)	-	-	-
Enterprise activities	-	-	-	2,205,423	2,082,843	122,580
Total Expenses	10,998,968	10,493,576	505,392	2,205,423	2,082,843	122,580
Transfers & special items	31,271	31,247	24	(31,271)	(31,247)	(24)
Change in net position	(416,135)	(493,587)	77,452	(12,890)	19,176	(32,066)
Net Position - Beginning	10,561,564	11,055,151	(493,587)	(409,526)	(428,702)	19,176
Net Position - Ending	$ 10,145,429	$ 10,561,564	$ (416,135)	$ (422,416)	$ (409,526)	$ (12,890)

The cost of all our governmental activities this year was $10,998,968 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only $7,163,045, because a portion of the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

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

	Net Cost of Services	
	2019	2018
Instruction	$ 4,883,897	$ 4,733,322
Instruction-related services	1,045,901	992,184
Pupil services	1,107,561	989,329
General administration	774,254	731,764
Plant services	1,156,277	1,112,610
Ancillary and community services	191,433	159,637
Debt service	701,475	736,173
Transfers to other agencies	6,507	9,579
Total Expenses	$ 9,867,305	$ 9,464,598

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $4,960,777, which is more than last year's ending fund balance of $4,842,241. The District's General Fund had $30,821 more in operating revenues than expenditures for the year ended June 30, 2019. The District's Bond Interest and Redemption Fund had $121,384 more in operating revenues than expenditures for the year ended June 30, 2019.

CURRENT YEAR BUDGET 2018-2019

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

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

By the end of 2018-2019 the District had invested $29,647,677 in capital assets, net of accumulated depreciation for governmental activities and $23,158 for business-type activities.

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
CAPITAL ASSETS						
Land	$ 3,109,699	$ 3,109,699	$ -	$ -	$ -	$ -
Land improvements	756,368	756,368	-	-	-	-
Buildings & improvements	37,489,494	37,489,494	-	66,234	66,234	-
Furniture & equipment	1,158,120	1,158,120	-	145,290	145,290	-
Accumulated depreciation	(12,866,004)	(11,973,762)	(892,242)	(188,366)	(167,124)	(21,242)
Total Capital Assets	$ 29,647,677	$ 30,539,919	$ (892,242)	$ 23,158	$ 44,400	$ (21,242)

Long-Term Liabilities

At year-end, the District had $24,398,057 in long-term liabilities for governmental activities, a decrease of 3% from last year's balance – as shown in the table below. The District also had $937,135 in long-term liabilities for business-type activities, an increase of 3% from last year. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
LONG-TERM LIABILITIES						
Total general obligation bonds	$ 15,743,671	$ 16,332,881	$ (589,210)	$ -	$ -	$ -
Capital leases	-	-	-	12,854	25,054	(12,200)
Compensated absences	59,541	59,005	536	26,311	26,997	(686)
Total OPEB liability	878,975	872,369	6,606	-	-	-
Net pension liability	8,820,870	8,788,505	32,365	910,824	872,131	38,693
Less: current portion of long-term liabilities	(1,105,000)	(985,000)	(120,000)	(12,854)	(12,200)	(654)
Total Long-term Liabilities	$ 24,398,057	$ 25,067,760	$ (669,703)	$ 937,135	$ 911,982	$ 25,153

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

The US economy continues to grow slowly, but the State economic growth is slowing down due to low levels of available employees. However, the State is still experiencing overall economic prosperity. The State Budget for Education contained an increase of 3.26% in fiscal year 2019-20, plus $3.15 billion in non-Proposition 98 funding for school employer pension relief.

The fiscal policy for the funding of public education changes annually, based on fluctuations in State revenues. The UCLA Anderson Forecast (June 2019) noted that the risk of recession is about 50% within the next 5-8 quarters depending on the model, the biggest economic threat being from the escalating trade war with China and Mexico. If a recession were to happen, State revenues for public education would be negatively impacted.

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

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

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2019. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans received a one-time funding allocation from the 2019-20 State Budget and continue to raise employer rates in future years. The projected increased pension costs to school employers remain a significant fiscal factor.

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

All of these factors were considered in preparing the District's budget for the 2019-20 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Jason Fruth, Chief Business Officer, Mendocino Unified School District, P.O. Box 1154, Mendocino, CA 95460.

MENDOCINO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 4,967,981	$ 320,874	$ 5,288,855
Accounts receivable	420,223	27,006	447,229
Inventory	2,488	-	2,488
Prepaid expenses	14,315	-	14,315
Capital assets, not depreciated	3,109,699	-	3,109,699
Capital assets, net of accumulated depreciation	26,537,978	23,158	26,561,136
Total Assets	35,052,684	371,038	35,423,722
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	2,185,086	259,445	2,444,531
Deferred outflows related to OPEB	34,214	-	34,214
Total Deferred Outflows of Resources	2,219,300	259,445	2,478,745
LIABILITIES			
Deficit cash	17,059	-	17,059
Accrued liabilities	424,254	17,915	442,169
Unearned revenue	-	16,560	16,560
Long-term liabilities, current portion	1,105,000	12,854	1,117,854
Long-term liabilities, non-current portion	24,398,057	937,135	25,335,192
Total Liabilities	25,944,370	984,464	26,928,834
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	1,141,316	68,435	1,209,751
Deferred inflows related to OPEB	40,869	-	40,869
Total Deferred Inflows of Resources	1,182,185	68,435	1,250,620
NET POSITION			
Net investment in capital assets	17,603,156	10,304	17,613,460
Restricted:			
Capital projects	206,327	-	206,327
Debt service	1,171,020	-	1,171,020
Educational programs	68,082	-	68,082
All others	325	-	325
Unrestricted	(8,903,481)	(432,720)	(9,336,201)
Total Net Position	$ 10,145,429	$ (422,416)	$ 9,723,013

MENDOCINO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	$ 5,530,669	$ 25,403	$ 621,369	$ (4,883,897)		
Instruction-related services						
Instructional supervision and administration	149,014	13	33,872	(115,129)		
Instructional library, media, and technology	244,045	-	6,679	(237,366)		
School site administration	714,457	-	21,051	(693,406)		
Pupil services						
Home-to-school transportation	633,195	-	15,331	(617,864)		
Food services	290,079	65,964	97,091	(127,024)		
All other pupil services	469,703	23,230	83,800	(362,673)		
General administration						
Centralized data processing	28,339	-	-	(28,339)		
All other general administration	783,266	1,463	35,888	(745,915)		
Plant services	1,254,087	42,024	55,786	(1,156,277)		
Ancillary services	180,173	-	2,699	(177,474)		
Community services	13,959	-	-	(13,959)		
Interest on long-term debt	701,475	-	-	(701,475)		
Other outgo	6,507	-	-	(6,507)		
Total Governmental Activities	$ 10,998,968	$ 158,097	$ 973,566	(9,867,305)		
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	2,205,423	-	31,583		(2,173,840)	
Total Business-Type Activities	2,205,423	-	31,583		(2,173,840)	
Total School District	$ 13,204,391	$ 158,097	$ 1,005,149			$ (12,041,145)
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes				5,650,310	-	5,650,310
Property taxes, levied for debt service				1,422,107	-	1,422,107
Property taxes, levied for other specific purposes				90,628	-	90,628
Federal and state aid not restricted for specific purposes				2,037,243	-	2,037,243
Interest and investment earnings				60,398	2,689	63,087
Interagency revenues				55,671	-	55,671
Miscellaneous				103,542	2,189,532	2,293,074
Subtotal, General Revenue				9,419,899	2,192,221	11,612,120
Change in net position before transfers & special items				(447,406)	18,381	(429,025)
Internal transfers				31,271	(31,271)	-
Total Transfers & Special Items				31,271	(31,271)	-
CHANGE IN NET POSITION				(416,135)	(12,890)	(429,025)
Net Position - Beginning				10,561,564	(409,526)	10,152,038
Net Position - Ending				$ 10,145,429	$ (422,416)	$ 9,723,013

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

MENDOCINO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 3,427,108	$ 1,296,189	$ 218,599	$ 4,941,896
Accounts receivable	402,333	-	17,890	420,223
Due from other funds	-	-	75,009	75,009
Stores inventory	-	-	2,488	2,488
Prepaid expenditures	14,315	-	-	14,315
Total Assets	$ 3,843,756	$ 1,296,189	$ 313,986	$ 5,453,931
LIABILITIES				
Deficit cash	$ -	$ -	$ 17,059	$ 17,059
Accrued liabilities	297,503	-	1,502	299,005
Due to other funds	177,081	-	9	177,090
Total Liabilities	474,584	-	18,570	493,154
FUND BALANCES				
Nonspendable	24,315	-	2,488	26,803
Restricted	68,082	1,296,189	206,652	1,570,923
Committed	-	-	82,900	82,900
Assigned	-	-	3,376	3,376
Unassigned	3,276,775	-	-	3,276,775
Total Fund Balances	3,369,172	1,296,189	295,416	4,960,777
Total Liabilities and Fund Balances	$ 3,843,756	$ 1,296,189	$ 313,986	$ 5,453,931

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

MENDOCINO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balance - Governmental Funds		$ 4,960,777
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
Capital assets:		
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:		
Capital assets	$ 42,513,681	
Accumulated depreciation	(12,866,004)	29,647,677
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:		(125,169)
Long-term liabilities:		
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
Total general obligation bonds	$ 15,743,671	
Compensated absences	59,541	
Total OPEB liability	878,975	
Net pension liability	8,820,870	(25,503,057)
Deferred outflows and inflows of resources relating to pensions:		
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources related to pensions	$ 2,185,086	
Deferred inflows of resources related to pensions	(1,141,316)	1,043,770
Deferred outflows and inflows of resources relating to OPEB:		
In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported.		
Deferred outflows of resources related to OPEB	$ 34,214	
Deferred inflows of resources related to OPEB	(40,869)	(6,655)
Internal service funds:		
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:		128,086
Total Net Position - Governmental Activities		$ 10,145,429

MENDOCINO UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	$ 7,376,120	$ -	$ 75,000	$ 7,451,120
Federal sources	203,028	-	86,569	289,597
Other state sources	917,806	7,347	15,215	940,368
Other local sources	647,781	1,424,818	176,160	2,248,759
Total Revenues	9,144,735	1,432,165	352,944	10,929,844
EXPENDITURES				
Current				
Instruction	4,868,582	-	65,536	4,934,118
Instruction-related services				
Instructional supervision and administration	150,957	-	42	150,999
Instructional library, media, and technology	229,013	-	-	229,013
School site administration	697,713	-	-	697,713
Pupil services				
Home-to-school transportation	577,539	-	-	577,539
Food services	220	-	276,524	276,744
All other pupil services	501,713	-	-	501,713
General administration				
Centralized data processing	28,339	-	-	28,339
All other general administration	748,345	-	6,000	754,345
Plant services	1,124,337	-	69,782	1,194,119
Ancillary services	180,649	-	-	180,649
Transfers to other agencies	6,507	-	-	6,507
Debt service				
Principal	-	985,000	-	985,000
Interest and other	-	325,781	-	325,781
Total Expenditures	9,113,914	1,310,781	417,884	10,842,579
Excess (Deficiency) of Revenues Over Expenditures	30,821	121,384	(64,940)	87,265
Other Financing Sources (Uses)				
Transfers in	40,000	-	115,994	155,994
Transfers out	(124,714)	-	(9)	(124,723)
Net Financing Sources (Uses)	(84,714)	-	115,985	31,271
NET CHANGE IN FUND BALANCE	(53,893)	121,384	51,045	118,536
Fund Balance - Beginning	3,423,065	1,174,805	244,371	4,842,241
Fund Balance - Ending	$ 3,369,172	$ 1,296,189	$ 295,416	$ 4,960,777

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

MENDOCINO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances - Governmental Funds		$ 118,536
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:		
Depreciation expense:	$ (892,242)	(892,242)
Debt service:		
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		985,000
Unmatured interest on long-term debt:		
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:		20,096
Accreted interest on long-term debt:		
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.		(395,790)
Compensated absences:		
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:		(536)
Postemployment benefits other than pensions (OPEB):		
In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:		(52,452)
Pensions:		
In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:		(215,524)
Internal Service Funds:		
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:		16,777
Change in Net Position of Governmental Activities		$ (416,135)

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

MENDOCINO UNIFIED SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019

	Business-Type Activities	Governmental Activities
	Mendocino Community Network	Internal Service Fund
ASSETS		
Current assets		
Cash and investments	$ 320,874	$ 26,085
Accounts receivable	27,006	-
Due from other funds	-	102,081
Total current assets	347,880	128,166
Non-current assets		
Capital assets, net of accumulated depreciation	23,158	-
Total non-current assets	23,158	-
Total Assets	371,038	128,166
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	259,445	-
Total Deferred Outflows of Resources	259,445	-
LIABILITIES		
Current liabilities		
Accrued liabilities	17,915	80
Unearned revenue	16,560	-
Capital leases, current portion	12,854	-
Total current liabilities	47,329	80
Non-current liabilities		
Compensated absences	26,311	-
Net pension liability	910,824	-
Total non-current liabilities	937,135	-
Total Liabilities	984,464	80
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	68,435	-
Total Deferred Inflows of Resources	68,435	-
NET POSITION		
Net investment in capital assets	10,304	-
Restricted	-	128,086
Unrestricted	(432,720)	-
Total Net Position	$ (422,416)	$ 128,086

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

MENDOCINO UNIFIED SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Mendocino Community Network	Governmental Activities Internal Service Fund
OPERATING REVENUE		
Charges for services	$ 2,186,706	$ 118,186
State revenues	31,583	-
Other local revenues	2,826	-
Total operating revenues	2,221,115	118,186
OPERATING EXPENSE		
Salaries and benefits	829,607	-
Supplies and materials	65,690	-
Professional services	1,288,884	102,503
Depreciation	21,242	-
Total operating expenses	2,205,423	102,503
Operating income/(loss)	15,692	15,683
NON-OPERATING REVENUES		
Interest income	2,689	1,094
Transfers in	8,729	-
Transfers out	(40,000)	-
Total non-operating revenues/(expenses)	(28,582)	1,094
CHANGE IN NET POSITION	(12,890)	16,777
Net Position - Beginning	(409,526)	111,309
Net Position - Ending	$ (422,416)	$ 128,086

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

MENDOCINO UNIFIED SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities	Governmental Activities
	Mendocino Community Network	Internal Service Fund
Cash flows from operating activities		
Cash received from user charges	$ 2,215,822	$ 16,105
Cash payments for payroll, insurance, and operating costs	(2,130,066)	(102,423)
Net cash provided by (used for) operating activities	85,756	(86,318)
Cash flows from non-capital financing activities		
Interfund transfers in (out)	(31,271)	-
Net cash provided by (used for) non-capital financing activities	(31,271)	-
Cash flows from capital and related financing activities		
Capital lease payments	(12,200)	-
Net cash provided by (used for) in capital and related financing activities	(12,200)	-
Cash flows from investing activities		
Interest received	2,689	1,094
Net cash provided by (used for) investing activities	2,689	1,094
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,974	(85,224)
CASH AND CASH EQUIVALENTS		
Beginning of year	275,900	111,309
End of year	$ 320,874	$ 26,085
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income/(loss)	$ 15,692	$ 15,683
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	21,242	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	803	-
(Increase) decrease in due from other funds	-	(102,081)
(Increase) decrease in deferred outflows of resources	1,745	-
Increase (decrease) in accrued liabilities	9,564	80
Increase (decrease) in unearned revenue	(6,096)	
Increase (decrease) in compensated absences	(686)	
Increase (decrease) in net pension liability	38,693	-
Increase (decrease) in deferred outflows of resources	4,799	-
Net cash provided by (used for) operating activities	$ 85,756	$ (86,318)

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

MENDOCINO UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019

	Trust Funds	Agency Funds
	Private-Purpose Trust Fund	Student Body Fund
ASSETS		
Cash and investments	$ 63,150	$ 55,366
Total Assets	63,150	$ 55,366
LIABILITIES		
Due to student groups	-	$ 55,366
Total Liabilities	-	$ 55,366
NET POSITION		
Restricted	63,150	
Total Net Position	$ 63,150	

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

MENDOCINO UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Trust Funds
	Private-Purpose Trust Fund
ADDITIONS	
Contributions	$ 500
Investment earnings	140
Total Additions	640
DEDUCTIONS	
Benefits	1,000
Total Deductions	1,000
CHANGE IN NET POSITION	(360)
Net Position - Beginning	63,510
Net Position - Ending	$ 63,150

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

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

C. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

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

Major Governmental Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds

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

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section* 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section* 8328).

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections* 38090–38093). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections* 38091 and 38100).

Deferred Maintenance Fund: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections* 17582–17587). In addition, whenever the state funds provided pursuant to *Education Code Sections* 17584 and 17585 (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections* 17582 and 17583).

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

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section* 15146) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section* 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section* 41003).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Project Funds (continued)

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

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Mendocino Community Network: This fund is used to account for revenue and expenses for self-supporting entities. The Mendocino Community Network (MCN) provides internet access and related services to users on a cost-recovery basis.

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section* 17566).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Private-Purpose Trust Fund: This fund is used to account separately for gifts or bequests per *Education Code Section* 41031 that benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the District's own programs.

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

D. Basis of Accounting – Measurement Focus

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

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of $5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over an estimated useful life of 5 to 50 years depending on the asset class.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Postemployment Benefits Other Than Pensions (OPEB)
For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary using the Alternative Measurement Method. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

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

Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 through June 30, 2018

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Activity

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

G. Estimates

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

H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

I. Property Tax

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

J. New Accounting Pronouncements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

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

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement is effective for periods beginning after June 15, 2018. The District has implemented GASB Statement No. 88 for the year ended June 30, 2019.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities	Business-Type Activities	Fiduciary Funds
Investment in county treasury*	$ 4,914,512	$ 26,085	$ 4,940,597	$ 198,417	$ -
Cash on hand and in banks	325	-	325	107,457	118,516
Cash in revolving fund	10,000	-	10,000	15,000	-
Total cash and investments	$ 4,924,837	$ 26,085	$ 4,950,922	$ 320,874	$ 118,516

*Presented net of deficit cash

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section* 41001. The Mendocino County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately $5,192,242 and an amortized book value of $5,139,014. The average weighted maturity for this pool is 358 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2019, the pooled investments in the County Treasury were not rated.

NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

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

G. Fair Value

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

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

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

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

	Uncategorized
Investment in county treasury	$ 5,192,242
Total fair market value of investments	$ 5,192,242

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Total Business-Type Activities
Federal Government				
Categorical aid	$ 11,133	$ 16,728	$ 27,861	$ -
State Government				
Apportionment	119,284	-	119,284	-
Categorical aid	17,784	1,162	18,946	-
Lottery	59,006	-	59,006	-
Local Government				
Other local sources	195,126	-	195,126	27,006
Total	$ 402,333	$ 17,890	$ 420,223	$ 27,006

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
Governmental Activities				
Capital assets not being depreciated				
Land	$ 3,109,699	$ -	$ -	$ 3,109,699
Total Capital Assets not Being Depreciated	3,109,699	-	-	3,109,699
Capital assets being depreciated				
Land improvements	756,368	-	-	756,368
Buildings & improvements	37,489,494	-	-	37,489,494
Furniture & equipment	1,158,120	-	-	1,158,120
Total Capital Assets Being Depreciated	39,403,982	-	-	39,403,982
Less Accumulated Depreciation				
Land improvements	341,715	34,555	-	376,270
Buildings & improvements	10,502,776	838,682	-	11,341,458
Furniture & equipment	1,129,271	19,005	-	1,148,276
Total Accumulated Depreciation	11,973,762	892,242	-	12,866,004
Governmental Activities Capital Assets, net	$ 30,539,919	$ (892,242)	$ -	$ 29,647,677
Business-Type Activities				
Capital assets being depreciated				
Buildings & improvements	$ 66,234	$ -	$ -	$ 66,234
Furniture & equipment	145,290	-	-	145,290
Total Capital Assets Being Depreciated	211,524	-	-	211,524
Less Accumulated Depreciation				
Buildings & improvements	66,234	-	-	66,234
Furniture & equipment	100,890	21,242	-	122,132
Total Accumulated Depreciation	167,124	21,242	-	188,366
Business-Type Activities Capital Assets, net	$ 44,400	$ (21,242)	$ -	$ 23,158

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 843,178
School site administration	10,594
Pupil transportation	21,151
Community services	13,959
All other general administration	1,621
Plant services	1,739
Total	$ 892,242

Depreciation expense for business-type activities of $21,242 was charged to enterprise activities.

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2019 consisted of the following:

	Due From Other Funds		
Due To Other Funds	Non-Major Governmental Funds	Self-Insurance Fund	Total
General Fund	$ 75,000	$ 102,081	$ 177,081
Non-Major Governmental Funds	9	-	9
Total Due From Other Funds	$ 75,009	$ 102,081	$ 177,090

Due from the General Fund to the Deferred Maintenance Fund for priority projects.	$ 75,000
Due from the General Fund to the Self-Insurance Fund for contribution.	102,081
Due from the Building Fund to the Deferred Maintenance Fund to close the fund.	9
Total	$ 177,090

B. Operating Transfers

Interfund transfers for the year ended June 30, 2019 consisted of the following:

	Interfund Transfers In			
Interfund Transfers Out	General Fund	Non-Major Governmental Funds	Enterprise Fund - Mendocino Community Network	Total
General Fund	$ -	$ 115,985	$ 8,729	$ 124,714
Non-Major Governmental Funds	-	9	-	9
Enterprise Fund - Mendocino Community Network	40,000	-	-	40,000
Total Interfund Transfers	$ 40,000	$ 115,994	$ 8,729	$ 164,723

Transfer from the Enterprise Fund to the General Fund for contribution for District overhead.	$ 40,000
Transfer from the General Fund to the Cafeteria Fund for contribution to the program.	115,985
Transfer from the General Fund to the Enterprise Fund for voice telephone services provided.	8,729
Transfer from the Building Fund to the Deferred Maintenance Fund to close the fund.	9
Total	$ 164,723

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2019 consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities	Total Business-Type Activities
Payroll	$ 33,901	$ -	$ -	$ -	$ 33,901	$ 3,407
Vendors payable	263,602	1,502	80	-	265,184	14,508
Unmatured interest	-	-	-	125,169	125,169	-
Total	$ 297,503	$ 1,502	$ 80	$ 125,169	$ 424,254	$ 17,915

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2019 consisted of $16,560 in business-type activities for amounts collected but not yet earned.

NOTE 8– LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2019 consisted of the following:

	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Balance Due In One Year
Governmental Activities					
General obligation bonds	$ 16,332,881	$ 395,790	$ 985,000	$ 15,743,671	$ 1,105,000
Compensated absences	59,005	536	-	59,541	-
Total OPEB liability	872,369	6,606	-	878,975	-
Net pension liability	8,788,505	32,365	-	8,820,870	-
Total	$ 26,052,760	$ 435,297	$ 985,000	$ 25,503,057	$ 1,105,000

	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Balance Due In One Year
Business-Type Activities					
Capital leases	$ 25,054	$ -	$ 12,200	$ 12,854	$ 12,854
Compensated absences	26,997	-	686	26,311	-
Net pension liability	872,131	38,693	-	910,824	-
Total	$ 924,182	$ 38,693	$ 12,886	$ 949,989	$ 12,854

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for capital leases are made in the Enterprise Fund for the Mendocino Community Network.
- Payments for compensated absences are typically liquidated in the General Fund and the Enterprise Fund for the Mendocino Community Network.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2019 amounted to $59,541 for governmental activities and $26,311 for business-type activities. These amounts are included as part of long-term liabilities in the statement of net position.

B. General Obligation Bonds

On August 1, 1998 the District issued $2,499,479 of General Obligation bonds, which were authorized at an election held in the District June 2, 1998. The proceeds of the bonds have been used for construction of new classrooms – including a high school music room to replace a deteriorating portable and three new classrooms in Albion and to pay certain costs of issuance of the Bonds. The issue was comprised of $275,000 Current Interest Serial Bonds, which were paid in full in 2007-2008, $479,479 of Capital Appreciation Bonds, and $1,745,000 of Current Interest Term Bonds due on August 1, 2023.

On April 5, 2007, the District issued $15,499,521 of General Obligation Bonds, which were authorized at an election held in the District on November 7, 2006. The issue was comprised of $10,325,000 Current Interest Bonds and $5,174,521 of Capital Appreciation Bonds. The proceeds of the bonds were used for construction and modernization projects at the Little Lake Campus, the downtown grammar school and to qualify for $4 million in State aid.

NOTE 8– LONG-TERM LIABILITIES (continued)

B. General Obligation Bonds (continued)

The outstanding bonded debt of Mendocino Unified School District at June 30, 2019 is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2018	Additions	Deductions	Bonds Outstanding June 30, 2019
1998	8/1/2023	5.1-10.5%	$ 2,499,479	$ 1,745,000	$ -	$ 210,000	$ 1,535,000
2007	8/1/2031	4.5-7.0%	15,499,521	14,587,881	395,790	775,000	14,208,671
				$ 16,332,881	$ 395,790	$ 985,000	$ 15,743,671

The following table summarizes the annual debt service requirements of the District for the bonds:

Year Ended June 30,	Principal	Interest	Total
2020	$ 1,105,000	$ 272,781	$ 1,377,781
2021	1,230,000	219,206	1,449,206
2022	1,365,000	164,431	1,529,431
2023	1,505,000	103,806	1,608,806
2024	1,665,000	36,003	1,701,003
2025 - 2029	3,229,546	4,565,454	7,795,000
2030 - 2032	1,944,975	3,730,025	5,675,000
Accretion	3,699,150	(3,699,150)	-
Total	$ 15,743,671	$ 5,392,556	$ 21,136,227

C. Capital Leases

The District has entered into a lease that extend beyond the current fiscal year for networking and storage devices under an agreement which provides for title to pass upon expiration of the lease period. Future minimum lease payments at June 30, 2019 were as follows:

Year Ended June 30,	Lease Payment
2020	$ 13,542
Total minimum lease payments	13,542
Less amount representing interest	(688)
Present value of minimum lease payments	$ 12,854

D. Other Postemployment Benefits

The District's beginning total OPEB liability was $872,369 and increased by $6,606 during the year ended June 30, 2019. The ending total OPEB liability at June 30, 2019 was $878,975. See Note 10 for additional information regarding the total OPEB liability.

E. Net Pension Liability

The District's beginning net pension liability was $9,660,636 and increased by $71,058 during the year ended June 30, 2019. The ending net pension liability at June 30, 2019 was $9,731,694. See Note 11 for additional information regarding the net pension liability.

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2019:

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	$ 10,000	$ -	$ -	$ 10,000
Stores inventory	-	-	2,488	2,488
Prepaid expenditures	14,315	-	-	14,315
Total non-spendable	24,315	-	2,488	26,803
Restricted				
Educational programs	68,082	-	-	68,082
Capital projects	-	-	206,327	206,327
Debt service	-	1,296,189	-	1,296,189
All others	-	-	325	325
Total restricted	68,082	1,296,189	206,652	1,570,923
Committed				
Deferred maintenance	-	-	82,900	82,900
Total committed	-	-	82,900	82,900
Assigned				
Other assignments	-	-	3,376	3,376
Total assigned	-	-	3,376	3,376
Unassigned				
Reserve for economic uncertainties	349,000	-	-	349,000
Remaining unassigned	2,927,775	-	-	2,927,775
Total unassigned	3,276,775	-	-	3,276,775
Total	$ 3,369,172	$ 1,296,189	$ 295,416	$ 4,960,777

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Benefits Provided

The Mendocino Unified School District's defined benefit OPEB plan, the Mendocino Unified School District's Retiree Benefit Plan (the Plan) is described below. The Plan is a single-employer defined benefit plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

B. Contributions

The contribution requirements of Plan members and the Mendocino Unified School District are established and may be amended by the Mendocino Unified School District. For fiscal year 2018-19, the District contributed $34,214 to the Plan, all of which was used for current premiums.

C. Plan Membership

Membership of the Plan consisted of the following:

	Number of participants
Inactive employees receiving benefits	21
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	51
Total number of participants**	72

*Information not provided
**As of the July 1, 2017 valuation date

D. Total OPEB Liability

The Mendocino Unified School District's total OPEB liability of $878,975 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017.

E. Actuarial Assumptions and Other Inputs

The total OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Economic assumptions:	
Salary increases	3.00%
Discount rate	3.62%
Ultimate trend rate	5.00%*

*The healthcare cost trend rate begins at 7.00% and decreases to 5.00%

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

E. Actuarial Assumptions and Other Inputs (continued)

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

Actuarial assumptions used in the July 1, 2017 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017.

The discount rate was based on a yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

F. Changes in Total OPEB Liability

	June 30, 2019
Total OPEB Liability	
Service Cost	$ 64,096
Interest on total OPEB liability	26,697
Changes of assumptions	(44,997)
Benefits payments	(39,190)
Net change in total OPEB liability	6,606
Total OPEB liability - beginning	872,369
Total OPEB liability - ending	$ 878,975
Covered-employee payroll	$ 5,470,137
District's total OPEB liability as a percentage of covered-employee payroll	16.07%

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

The following presents the total OPEB liability of the Mendocino Unified School District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62 percent) or one percentage point higher (4.62 percent) than the current discount rate:

	1% Decrease (2.62%)	Valuation Discount Rate (3.62%)	1% Increase (4.62%)
Total OPEB liability	$ 975,612	$ 878,975	$ 798,507

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

H. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Mendocino Unified School District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current healthcare cost trend rate:

	1% Decrease (6.00%)	Valuation Trend Rate (7.00%)	1% Increase (8.00%)
Total OPEB liability	$ 777,685	$ 878,975	$ 1,004,572

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

For the fiscal year ended June 30, 2019, the Mendocino Unified School District recognized OPEB expense of $86,665. At June 30, 2019, the Mendocino Unified School District reported the following deferred outflows and deferred inflows of resources related to OPEB:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ 40,869
District contributions subsequent to the measurement date	34,214	-
	$ 34,214	$ 40,869

The $34,214 resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. Deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2020	$ 4,128
2021	4,128
2022	4,128
2023	4,128
2024	4,128
Thereafter	20,229
	$ 40,869

NOTE 11 – PENSION PLANS

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

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	$ 5,361,321	$ 1,356,953	$ 973,958	$ 455,657
PERS Pension	4,370,373	1,087,578	235,793	641,428
Total	$ 9,731,694	$ 2,444,531	$ 1,209,751	$ 1,097,085

A. California State Teachers' Retirement System (CalSTRS)

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

Benefits Provided
The CalSTRS defined benefit plan has two benefit formulas:

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

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

NOTE 11 – PENSION PLANS (continued)

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

Contributions
Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 10.205% of their salary for fiscal year 2019, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2019 was 16.28% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were $507,461 for the year ended June 30, 2019.

On-Behalf Payments
The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately $489,367 to CalSTRS, which included a supplemental contribution for fiscal year 2019 due to California Senate Bill No. 90.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	$	5,361,321
State's proportionate share of the net pension liability associated with the District		3,069,621
Total	$	8,430,942

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to June 30, 2018. 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 0.006 percent, which did not change from its proportion measured as of June 30, 2017.

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2019, the District recognized pension expense of $455,657. In addition, the District recognized pension expense and revenue of $111,085 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ -	$ 206,445
Differences between expected and actual experience	16,625	77,876
Changes in assumptions	832,867	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	689,637
District contributions subsequent to the measurement date	507,461	-
	$ 1,356,953	$ 973,958

The $507,461 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2020	$ 169,898	$ 151,271
2021	169,898	228,771
2022	169,898	369,596
2023	169,898	154,605
2024	169,900	56,521
2025	-	13,194
	$ 849,492	$ 973,958

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010−June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

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

*20-year geometric average

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	$ 7,853,707	$ 5,361,321	$ 3,294,890

Pension Plan Fiduciary Net Position

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

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits Provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2019 was 18.062% of annual payroll. Contributions to the plan from the District were $328,863 for the year ended June 30, 2019.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalPERS for K-12 education. These payments consisted of state general fund contributions of approximately $148,165 to CalPERS for fiscal year 2019 due to California Senate Bill No. 90.

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

At June 30, 2019, the District reported a liability of $4,370,373 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to June 30, 2018. 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 0.016 percent, which was a decrease of 0.001 percent from its proportion measured as of June 30, 2017.

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2019, the District recognized pension expense of $641,428. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ 35,847	$ -
Differences between expected and actual experience	286,506	-
Changes in assumptions	436,362	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	235,793
District contributions subsequent to the measurement date	328,863	-
	$ 1,087,578	$ 235,793

The $328,863 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2020	$ 452,199	$ 103,907
2021	337,862	69,414
2022	(5,550)	62,472
2023	(25,796)	-
	$ 758,715	$ 235,793

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from 1997 to 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. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

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

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.0%	-0.92%
	100.0%		

*An expected inflation of 2.00% used for this period.
**An expected inflation of 2.92% used for this period.

Discount Rate

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

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

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

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 6,363,054	$ 4,370,373	$ 2,717,159

Pension Plan Fiduciary Net Position

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2019.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in four joint ventures under joint powers authorities (JPAs), the Northern California Schools Insurance Group, the Schools Insurance Group Northern Alliance, the Schools Excess Liability Fund, and the Mendocino County Youth Project. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

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

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2019, total deferred outflows related to pensions was $2,444,531 and total deferred inflows related to pensions was $1,209,751.

B. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2019, total deferred outflows related to other postemployment benefits was $34,214 and total deferred inflows related to other postemployment benefits was $40,869.

REQUIRED SUPPLEMENTARY INFORMATION

MENDOCINO UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual*	Variances -
	Original	Final	(Budgetary Basis)	Final to Actual
REVENUES				
LCFF sources	$ 7,005,994	$ 7,023,994	$ 7,376,120	$ 352,126
Federal sources	169,616	183,722	203,028	19,306
Other state sources	604,021	589,484	917,806	328,322
Other local sources	543,559	574,471	634,337	59,866
Total Revenues	8,323,190	8,371,671	9,131,291	759,620
EXPENDITURES				
Certificated salaries	3,347,814	3,346,698	3,392,578	(45,880)
Classified salaries	1,733,469	1,719,532	1,722,366	(2,834)
Employee benefits	2,464,294	2,466,116	2,742,016	(275,900)
Books and supplies	285,266	356,530	389,461	(32,931)
Services and other operating expenditures	758,864	830,138	866,986	(36,848)
Other outgo				
Excluding transfers of indirect costs	-	-	6,507	(6,507)
Transfers of indirect costs	(6,000)	(6,000)	(6,000)	-
Total Expenditures	8,583,707	8,713,014	9,113,914	(400,900)
Excess (Deficiency) of Revenues Over Expenditures	(260,517)	(341,343)	17,377	358,720
Other Financing Sources (Uses)				
Transfers in	40,000	40,000	40,000	-
Transfers out	(145,779)	(160,958)	(124,714)	36,244
Net Financing Sources (Uses)	(105,779)	(120,958)	(84,714)	36,244
NET CHANGE IN FUND BALANCE	(366,296)	(462,301)	(67,337)	394,964
Fund Balance - Beginning	2,421,772	2,584,344	2,584,344	-
Fund Balance - Ending	$ 2,055,476	$ 2,122,043	$ 2,517,007	$ 394,964

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

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

See accompanying note to required supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019

	June 30, 2019	June 30, 2018
Total OPEB Liability		
Service Cost	$ 64,096	$ 62,151
Interest on total OPEB liability	26,697	25,369
Changes of assumptions	(44,997)	-
Benefits payments	(39,190)	(50,934)
Net change in total OPEB liability	6,606	36,586
Total OPEB liability - beginning	872,369	835,783
Total OPEB liability - ending	$ 878,975	$ 872,369
Covered-employee payroll	$ 5,470,137	$ 3,215,612
District's total OPEB liability as a percentage of covered-employee payroll	16.07%	27.13%

See accompanying note to required supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.006%	0.006%	0.006%	0.007%	0.006%
District's proportionate share of the net pension liability	$ 5,361,321	$ 5,493,330	$ 5,120,771	$ 4,536,357	$ 3,506,220
State's proportionate share of the net pension liability associated with the District	3,069,621	3,249,834	2,915,593	2,399,226	2,090,442
Total	$ 8,430,942	$ 8,743,164	$ 8,036,364	$ 6,935,583	$ 5,596,662
District's covered payroll	$ 3,145,267	$ 3,159,346	$ 3,174,056	$ 2,742,880	$ 2,659,697
District's proportionate share of the net pension liability as a percentage of its covered payroll	170.5%	173.9%	161.3%	165.4%	131.8%
Plan fiduciary net position as a percentage of the total pension liability	71.0%	69.5%	70.0%	74.0%	76.5%

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

See accompanying note to required supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
FOR THE YEAR ENDED JUNE 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.016%	0.017%	0.019%	0.019%	0.017%
District's proportionate share of the net pension liability	$ 4,370,373	$ 4,167,306	$ 3,682,090	$ 2,803,902	$ 1,958,852
District's covered payroll	$ 2,163,202	$ 2,226,041	$ 2,154,416	$ 2,242,514	$ 1,803,111
District's proportionate share of the net pension liability as a percentage of its covered payroll	202.0%	187.2%	170.9%	125.0%	108.6%
Plan fiduciary net position as a percentage of the total pension liability	70.8%	71.9%	73.9%	79.4%	83.4%

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

See accompanying note to required supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 507,461	$ 444,563	$ 390,777	$ 340,205	$ 271,558
Contributions in relation to the contractually required contribution*	(507,461)	(444,563)	(390,777)	(340,205)	(271,558)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 3,193,217	$ 3,145,267	$ 3,159,346	$ 3,174,056	$ 2,742,880
Contributions as a percentage of covered payroll	15.89%	14.13%	12.37%	10.72%	9.90%

*Amounts do not include on-behalf contributions

See accompanying note to required supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 328,863	$ 267,326	$ 240,545	$ 263,301	$ 251,527
Contributions in relation to the contractually required contribution*	(328,863)	(267,326)	(240,545)	(263,301)	(251,527)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 2,279,850	$ 2,163,202	$ 2,226,041	$ 2,154,416	$ 2,242,514
Contributions as a percentage of covered payroll	14.42%	12.36%	10.81%	12.22%	11.22%

*Amounts do not include on-behalf contributions

See accompanying note to required supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Total OPEB Liability and Related Ratios

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

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation.

Changes in Assumptions

The discount rate was changed from 3.13% to 3.62% since the previous measurement.

Schedule of the District's Proportionate Share of the Net Pension Liability

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

Changes in Benefit Terms

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

Changes in Assumptions

There were no changes in economic assumptions since the previous valuations for CalSTRS and CalPERS.

Schedule of District Contributions

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2019, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	$ 3,346,698	$ 3,392,578	$ 45,880
Classified salaries	$ 1,719,532	$ 1,722,366	$ 2,834
Employee benefits	$ 2,466,116	$ 2,742,016	$ 275,900
Books and supplies	$ 356,530	$ 389,461	$ 32,931
Services and other operating expenditures	$ 830,138	$ 866,986	$ 36,848
Other outgo			
Excluding transfers of indirect costs	$ -	$ 6,507	$ 6,507

SUPPLEMENTARY INFORMATION

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2019

	Second Period Report Certificate No. 74D87A54	Annual Report Certificate No. C9FEF41C
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	116.88	117.56
Total TK/K through Third	116.88	117.56
Fourth through Sixth		
Regular ADA	98.57	98.69
Total Fourth through Sixth	98.57	98.69
Seventh through Eighth		
Regular ADA	74.57	74.41
Total Seventh through Eighth	74.57	74.41
Ninth through Twelfth		
Regular ADA	129.48	127.97
Total Ninth through Twelfth	129.48	127.97
TOTAL SCHOOL DISTRICT	419.50	418.63

	Second Period Report Certificate No. B7051BA0	Annual Report Certificate No. 015A4D3C
DISTRICT OF CHOICE		
TK/K through Third		
Regular ADA	8.28	8.38
Total TK/K through Third	8.28	8.38
Fourth through Sixth		
Regular ADA	12.24	13.08
Total Fourth through Sixth	12.24	13.08
Seventh through Eighth		
Regular ADA	17.67	17.44
Total Seventh through Eighth	17.67	17.44
Ninth through Twelfth		
Regular ADA	38.83	38.82
Total Ninth through Twelfth	38.83	38.82
TOTAL DISTRICT OF CHOICE	77.02	77.72

See accompanying note to supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	Minutes Requirement	2018-19 Actual Minutes	Number of Days	Status
Kindergarten	36,000	36,735	180	Complied
Grade 1	50,400	50,530	180	Complied
Grade 2	50,400	50,530	180	Complied
Grade 3	50,400	50,530	180	Complied
Grade 4	54,000	57,860	180	Complied
Grade 5	54,000	57,860	180	Complied
Grade 6	54,000	58,699	180	Complied
Grade 7	54,000	58,699	180	Complied
Grade 8	54,000	58,699	180	Complied
Grade 9	64,800	64,975	180	Complied
Grade 10	64,800	64,975	180	Complied
Grade 11	64,800	64,975	180	Complied
Grade 12	64,800	64,975	180	Complied

See accompanying note to supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

	2020 (Budget)	2019	2018	2017
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	$ 8,499,882	$ 9,171,291	$ 8,541,145	$ 8,729,330
Expenditures And Other Financing Uses	8,850,168	9,238,628	8,570,477	8,692,469
Net change in Fund Balance	$ (350,286)	$ (67,337)	$ (29,332)	$ 36,861
Ending Fund Balance	$ 2,166,721	$ 2,517,007	$ 2,584,344	$ 2,613,676
Available Reserves*	$ 2,948,902	$ 3,276,775	$ 3,295,559	$ 3,199,425
Available Reserves As A Percentage Of Outgo	33.32%	35.47%	38.45%	36.81%
Long-term Liabilities	$ 25,335,192	$ 26,453,046	$ 26,976,942	$ 25,258,815
Average Daily Attendance At P-2	497	497	474	476

The General Fund balance has decreased by $96,669 over the past two years. The fiscal year 2019-20 budget projects a further decrease of $350,286. For a District this size, the State recommends available reserves of the greater of 4% of General Fund expenditures, transfers out, and other uses (total outgo) or $67,000.

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2019-20 fiscal year. Total long-term obligations have increased by $1,194,231 over the past two years.

Average daily attendance has increased by 21 ADA over the past two years. No change in ADA is anticipated during the 2019-20 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

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

See accompanying note to supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Enterprise Fund- Mendocino Community Network
June 30, 2019, annual financial and budget report fund balance	$ 2,517,007	$ 852,165	$ (377,179)
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Allocation of liability for employee pensions (GASB 68)	-	-	(45,237)
Fund balance transfer (GASB 54)	852,165	(852,165)	-
Net adjustments and reclassifications	852,165	(852,165)	(45,237)
June 30, 2019, audited financial statement fund balance	$ 3,369,172	$ -	$ (422,416)

See accompanying note to supplementary information.

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2019

There were no charter schools sponsored by the District for the year ended June 30, 2019.

See accompanying note to supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2019

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds
ASSETS						
Cash and investments	$ 4,047	$ 325	$ 7,891	$ 9	$ 206,327	$ 218,599
Accounts receivable	-	17,890	-	-	-	17,890
Due from other funds	-	-	75,009	-	-	75,009
Stores inventory	-	2,488	-	-	-	2,488
Total Assets	$ 4,047	$ 20,703	$ 82,900	$ 9	$ 206,327	$ 313,986
LIABILITIES						
Deficit cash	$ -	$ 17,059	$ -	$ -	$ -	$ 17,059
Accrued liabilities	671	831	-	-	-	1,502
Due to other funds	-	-	-	9	-	9
Total Liabilities	671	17,890	-	9	-	18,570
FUND BALANCES						
Non-spendable	-	2,488	-	-	-	2,488
Restricted	-	325	-	-	206,327	206,652
Committed	-	-	82,900	-	-	82,900
Assigned	3,376	-	-	-	-	3,376
Total Fund Balances	3,376	2,813	82,900	-	206,327	295,416
Total Liabilities and Fund Balance	$ 4,047	$ 20,703	$ 82,900	$ 9	$ 206,327	$ 313,986

See accompanying note to supplementary information.

MENDOCINO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds
REVENUES						
LCFF sources	$ -	$ -	$ 75,000	$ -	$ -	$ 75,000
Federal sources	-	86,569	-	-	-	86,569
Other state sources	2,672	12,543	-	-	-	15,215
Other local sources	74,402	67,427	465	-	33,866	176,160
Total Revenues	77,074	166,539	75,465	-	33,866	352,944
EXPENDITURES						
Current						
Instruction	65,536	-	-	-	-	65,536
Instruction-related services						
Instructional supervision and administration	42	-	-	-	-	42
Pupil services						
Food services	-	276,524	-	-	-	276,524
General administration						
All other general administration	-	6,000	-	-	-	6,000
Plant services	8,120	-	61,662	-	-	69,782
Total Expenditures	73,698	282,524	61,662	-	-	417,884
Excess (Deficiency) of Revenues Over Expenditures	3,376	(115,985)	13,803	-	33,866	(64,940)
Other Financing Sources (Uses)						
Transfers in	-	115,985	9	-	-	115,994
Transfers out	-	-	-	(9)	-	(9)
Net Financing Sources (Uses)	-	115,985	9	(9)	-	115,985
NET CHANGE IN FUND BALANCE	3,376	-	13,812	(9)	33,866	51,045
Fund Balance - Beginning	-	2,813	69,088	9	172,461	244,371
Fund Balance - Ending	$ 3,376	$ 2,813	$ 82,900	$ -	$ 206,327	$ 295,416

See accompanying note to supplementary information.

The Mendocino Unified School District was established in 1964 and is comprised of an area of approximately 420 square miles located in Mendocino County. There were no changes in the boundaries of the District during the current year. The District is operating three elementary and one high school, one continuation high school, one preschool and one alternative education K-12.

GOVERNING BOARD

Member	Office	Term Expires
Jessica Grinberg	President	November 2022
Jim Gay	Clerk	November 2020
Windspirit Aum	Member	November 2022
Mark Morton	Member	November 2020
Michael Schaeffer	Member	November 2020

DISTRICT ADMINISTRATORS

Jason Morse
Superintendent/Secretary to the Board

Jason Fruth
Chief Business Officer

Sage Statham
MCN Manager

See accompanying note to supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

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

Schedule of Instructional Time
This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections* 46200 through 46208. During the year ended June 30, 2019, the District participated in the Longer Day incentive funding program. As of June 30, 2019, the District had met its target funding.

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Charter Schools
This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

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

Local Education Agency Organization Structure
This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

OTHER INDEPENDENT AUDITORS' REPORTS

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

Independent Auditors' Report

Governing Board
Mendocino Unified School District
Mendocino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mendocino Unified School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Mendocino Unified School District's basic financial statements, and have issued our report thereon dated February 5, 2020.

Internal Control over Financial Reporting

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

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

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

348 Olive Street
San Diego, CA
92103

O: 619-270-8222
F: 619-260-9085
christywhite.com

Compliance and Other Matters

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

Purpose of this Report

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

Christy White, Inc.

San Diego, California
February 5, 2020

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Mendocino Unified School District
Mendocino, California

Report on State Compliance

We have audited Mendocino Unified School District's compliance with the types of compliance requirements described in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Mendocino Unified School District's state programs for the fiscal year ended June 30, 2019, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mendocino Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Mendocino Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Mendocino Unified School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Mendocino Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2019.

348 Olive Street
San Diego, CA
92103
O: 619-270-8222
F: 619-260-9085
christywhite.com

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	No
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study or Continuation Education, because the ADA reported did not exceed the threshold required for testing.

Christy White, Inc.

San Diego, California
February 5, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

The District was not subject to Uniform Guidance Single Audit for the year ended June 30, 2019 because federal award expenditures did not exceed $750,000.

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for state programs:	Unmodified

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

There were no financial statement findings for the year ended June 30, 2019.

FIVE DIGIT CODE	AB 3627 FINDING TYPE
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no state award findings and questioned costs for the year ended June 30, 2019.

MENDOCINO UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings for the year ended June 30, 2018.

APPENDIX C

GENERAL INFORMATION ABOUT MENDOCINO COUNTY

*The Series A Bonds are not a debt of Mendocino County (the **"County"**). The County, including its Board of Supervisors, officers, officials, agents and other employees, are required, only to the extent required by law, to: (i) levy and collect ad valorem taxes for payment of the Series A Bonds in accordance with the law; and (ii) transmit the proceeds of such taxes to the paying agent for the payment of the principal of and interest on the Series A Bonds at the time such payment is due. The historical data and results presented in the tables that follow may differ materially from future results as a result of economic or other factors. For more information on the impact of the COVID-19 pandemic, see "SECURITY FOR THE SERIES A BONDS – Disclosure Regarding COVID-19" herein. See also references to COVID-19 in the section entitled "PROPERTY TAXATION", and in APPENDIX A under the heading "DISTRICT GENERAL INFORMATION" and "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."*

Mendocino County

The County was created in 1850 by the State Legislature and was one of the State's original 27 counties. Sonoma, Lake, Glenn, Tehama, Trinity and Humboldt counties all border Mendocino County on its inland side. The County spans an area of over 2 million acres, which is approximately 3,500 square miles and its coastline runs about 100 miles. U.S. Highway 101, which runs through the center of the County, and Coastal State Route 1, are important transportation routes. Smaller country roads connect the County's five distinct regions, which are the Anderson Valley to the south, South Mendocino coast, North Mendocino coast, Northern Mendocino County and the Russian River Valley to the east. The City of Ukiah is the largest city in the County and is the County seat. The County is legislatively governed by a board of five supervisors, each with a separate district.

The County has nine Indian reservations within its borders, the fourth most of any county in the United States (after San Diego County, California; Sandoval County, New Mexico; and Riverside County, California).

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Population

The County's population at January 1, 2019, the most recent estimate, was 89,009 according to the State Department of Finance. The table below shows population estimates for the County and its four incorporated cities, for the last five years.

MENDOCINO COUNTY
Population Estimates
Calendar Years 2015 through 2019 as of January 1

Area	2015	2016	2017	2018	2019
Fort Bragg	7,377	7,440	7,449	7,519	7,478
Point Arena	427	429	437	466	463
Ukiah	15,785	15,796	15,889	16,368	16,296
Willits	5,028	5,088	5,092	5,025	4,996
Balance Of County	59,598	59,968	60,225	59,752	59,776
Total County	**88,215**	**88,721**	**89,092**	**89,130**	**89,009**

Source: State Department of Finance estimates.

[Remainder of page intentionally left blank]

Largest Employers

The following table lists major employers within the County as of April 2020, being the most current date for which such information is available. The employers are listed in alphabetical order without regard to the number of employees.

MENDOCINO COUNTY
Major Employers (Listed Alphabetically)
As of April 2020

Employer Name	Location	Industry
Adventist Health Ukiah Vly	Ukiah	Outpatient Services
California Department-Forestry	Willits	Government Offices-State
Costco Wholesale	Ukiah	Wholesale Clubs
Coyote Valley Casino	Redwood Valley	Casinos
Dharma Realm Buddhist Assn	Ukiah	Associations
Fetzer Vineyards	Hopland	Wineries (mfrs)
Frank R Howard Memorial Hosp	Willits	Hospitals
Howard Memorial Hosp Med Imgng	Willits	Diagnostic Imaging Centers
Little River Inn Golf & Tennis	Little River	Hotels & Motels
Mendocino Coast Distict Hosp	Fort Bragg	Hospitals
Mendocino Community Health	Ukiah	Clinics
Mendocino County Food Stamps	Ukiah	Government Offices-County
Mendocino County Office-Edu	Ukiah	Government Offices-County
Mendocino County Sheriff	Point Arena	Government Offices-County
Mendocino County Social Svc	Ukiah	Government Offices-County
Mendocino Redwood Co LLC	Calpella	Nonclassified Establishments
Metalfx	Willits	Sheet Metal Fabricators (mfrs)
Pacific Coast Farm Credit	Ukiah	Loans-Agricultural
Redwood Empire Packing Inc	Ukiah	Fruits & Vegetables-Growers & Shippers
Safeway	Fort Bragg	Grocers-Retail
Sawmill	Ukiah	Sawmills & Planing Mills-General (mfrs)
Sho-Ka-Wah Casino	Hopland	Casinos
Ukiah City Civic Ctr	Ukiah	Government Offices-City/Village & Twp
Ukiah Valley Medical Ctr	Ukiah	Hospitals
Walmart	Ukiah	Department Stores

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

The following table lists major employers within the County as of June 30, 2019, based on estimated number of employees.

MENDOCINO COUNTY
Major Employers (By Number of Employees)
As of June 30, 2019

Employer Name	Industry	Number of Employees
County of Mendocino	County Services	1000-1250
Adventist Health Ukiah Valley	Outpatient Services	500-999
Ukiah Unified School District	Education	500-999
Fetzer Vineyards	Vineyard/Winery	250-499
Frank R. Howard Memorial Hospital	Hospitals	250-499
Mendocino Coast District Hospital	Hospitals	250-499
Mendocino Community Health	Hospitals	250-499
Mendocino Forrest Products/Redwood Co.	Manufacturing/Sawmill	250-499
CA Dept. of Forestry/Cal Fire	Fire Protection Services	100-249
City of Ukiah	City Services	100-249
Costco Wholesale	Wholesale Clubs	100-249
Coyote Valley Tribe of Pomo Indians	Casinos	100-249
Mendocino Lake Community College	Education	100-249
Safeway	Grocery	100-249
Wal-Mart Stores, Inc.	Retail	100-249

Source: County of Mendocino Comprehensive Annual Financial Report for fiscal year ended June 30, 2019.

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Employment and Industry

The following table shows the average annual estimated numbers of wage and salary workers by industry.

Mendocino County
Annual Average Civilian Labor Force, Employment and Unemployment,
Employment by Industry
(March 2019 Benchmark)

	2014	2015	2016	2017	2018
Civilian Labor Force (1)	39,860	39,640	39,630	39,720	38,930
Employment	37,550	37,550	37,840	38,150	37,390
Unemployment	2,320	2,090	1,790	1,560	1,550
Unemployment Rate	5.8%	5.3%	4.5%	3.9%	4.0%
Wage and Salary Employment: (2)					
Agriculture	1,400	1,360	1,380	1,450	1,460
Mining, Logging, and Construction	1,340	1,370	1,540	1,690	1,700
Manufacturing	2,510	2,550	2,540	2,470	2,380
Wholesale Trade	730	740	840	810	750
Retail Trade	4,650	4,730	4,760	4,820	4,810
Transportation, Warehousing, Utilities	690	710	710	730	710
Information	250	250	230	230	210
Financial Activities	1,040	1,050	1,060	1,070	1,060
Professional and Business Services	1,700	1,670	1,670	1,790	1,900
Educational and Health Services	5,500	5,580	5,750	5,780	5,830
Leisure and Hospitality	4,290	4,410	4,410	4,490	4,370
Other Services	780	790	810	810	740
Federal Government	270	280	270	270	270
State Government	590	570	560	580	600
Local Government	6,280	6,400	6,400	6,320	6,300
Total, All Industries (3)	32,020	32,440	32,950	33,290	33,080

(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.

Commercial Activity

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2019 in the County were reported to be $1,175,126,600, a 7.32% increase over the total taxable sales of $1,095,002,010 reported during the first three quarters of calendar year 2018. Annual figures are not yet available for calendar year 2019.

MENDOCINO COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2014 through 2018
(Dollars in Thousands)

	Retail Stores		Total Outlets	
Year	**Permits on July 1**	**Taxable Transactions**	**Permits on July 1**	**Taxable Transactions**
2014	2,623	$996,040	3,732	$1,333,741
2015[(1)]	1,538	1,034,850	4,001	1,378,476
2016	2,489	1,075,436	4,145	1,424,943
2017	2,529	1,111,403	4,460	1,467,165
2018	2,492	1,150,832	4,796	1,490,850

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.
Source: State Department of Tax and Fee Administration.

Construction Trends

Provided below are the building permits and valuations for the County for calendar years 2014 through 2018.

MENDOCINO COUNTY
Total Building Permit Valuations
Calendar Years 2014 through 2018
(dollars in thousands)

	2014	2015	2016	2017	2018
Permit Valuation					
New Single-family	$13,054.7	$15,467.7	$11,628.5	$17,779.4	$29,034.7
New Multi-family	537.0	224.7	8,400.0	224.9	0.0
Res. Alterations/Additions	6,503.6	7,345.8	10,523.7	7,241.9	10,268.4
Total Residential	20,095.3	23,038.2	30,552.2	25,246.2	39,303.1
New Commercial	3,687.9	8,608.5	3,937.5	14,404.3	16,366.2
New Industrial	460.7	515.0	78.2	775.3	5.0
New Other	4,445.3	4,173.1	4,008.9	2,859.7	7,987.7
Com. Alterations/Additions	6,023.7	6,201.4	6,652.3	2,240.8	7,387.6
Total Nonresidential	14,617.6	19,498.0	14,676.9	20,280.1	31,746.5
New Dwelling Units					
Single Family	72	85	70	91	157
Multiple Family	7	2	48	2	0
TOTAL	79	87	118	93	157

Source: Construction Industry Research Board, Building Permit Summary.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and non-tax 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), non-tax 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 median household effective buying income for Mendocino, the County, the State and the United States for the period 2016 through 2020.

MENDOCINO, MENDOCINO COUNTY,
STATE OF CALIFORNIA AND THE UNITED STATES
Median Household Effective Buying Income
For Calendar Years 2016 through 2020

	2016	**2017**	**2018**	**2019**	**2020**
Mendocino	$43,352	$40,727	$43,382	$44,773	$46,538
County of Mendocino	40,060	40,032	40,496	42,231	48,768
State of California	53,589	55,681	59,646	62,637	65,870
United States	46,738	48,043	50,735	52,841	55,303

Source: The Nielsen Company (US), Inc for years 2016 through 2018; Claritas, LLC for 2019 and 2020.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

LETTERHEAD OF JONES HALL APLC

_____, 2020

Board of Trustees
Mendocino Unified School District
44141 Little Lake Road #1154
Mendocino, California. 95460

OPINION: $_________ Mendocino Unified School District (Mendocino County, California) General Obligation Bonds, Election of 2020, Series A

Members of the Board of Trustees:

We have acted as bond counsel to the Mendocino Unified School District (the "District") in connection with the issuance by the Board of Trustees of the District (the "Board") of the $________ principal amount of Mendocino Unified School District (Mendocino County, California) General Obligation Bonds, Election of 2020, Series A (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, and a resolution of the Board adopted on April 23, 2020 (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 the foregoing, we are of the opinion, under existing law, as follows:

1. The District is a duly created and validly existing school district with the power to issue the Bonds 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 District enforceable against the District in accordance with its terms.

3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District, and the County of Mendocino is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount.

4. The 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 opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, 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

$________
MENDOCINO UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds
Election of 2020, Series A

Continuing Disclosure Certificate

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Mendocino Unified School District (the "District") in connection with the issuance of $________ aggregate principal amount of Mendocino Unified School District School District (County of Mendocino, California) General Obligation Bonds, Election of 2020, Series A (the "Bonds"). The Bonds are being issued under a resolution adopted by the Board of Trustees of the District on April 23, 2020 (the "Bond Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report provided by the District under and as described in Sections 3 and 4.

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently by April 1 based on the District's fiscal year end of June 30).

"*Dissemination Agent*" means Isom Advisors, a Division of Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a).

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*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 provide, not later than nine months after the end of the District's fiscal year, commencing no later than April 1, 2021 with the report for the 2019-20 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) 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.

(c) With respect to the 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 Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, the following information for the most recently completed fiscal year, or, if available at the time of filing the Annual Report, the then-current fiscal year:

(i) Assessed value of taxable property in the jurisdiction of the District as shown on the equalized assessment roll;

(ii) Assessed valuation of the properties of the top twenty secured property taxpayers in the District as measured by secured assessed value;

(iii) Property tax collection delinquencies for the District, if available from the County at the time of filing the Annual Report, and only if the District's *ad valorem* taxes securing general obligation bonds are no longer included on Mendocino County's Teeter Plan;

(iv) The District's most recently adopted Budget or approved interim report with budgeted figures, 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 statements made pursuant to (a) and (b) of Section 4, 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) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following 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, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) or (a)(15) above, the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, 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 Event described in subsection (a)(8) 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.

(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 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(e) For purposes of Section 5(a)(15) and (16), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision hereof, 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 Bond Resolution for amendments to the Bond 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 under the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate prevents 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 10. 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 Bond 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 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: ______, 2020

MENDOCINO UNIFIED SCHOOL DISTRICT

By: ________________________________
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	Mendocino Unified School District
Name of Bond Issue:	$_______ aggregate principal amount of Mendocino Unified School District (County of Mendocino, California) General Obligation Bonds, Election of 2020, Series A
Date of Issuance:	______, 2020

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 15 of the resolution adopted by the Board of Trustees of the District authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____________.

Dated:_____________

DISSEMINATION AGENT

By: ______________________________
Authorized Officer

Cc: Mendocino Unified School District

APPENDIX F

DTC AND THE BOOK-ENTRY 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 Series A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series A 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 Series A Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Series A Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series A 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") 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

MENDOCINO COUNTY INVESTMENT POLICY AND INVESTMENT REPORT

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COUNTY OF MENDOCINO

STATEMENT OF INVESTMENT POLICY

OFFICE OF
SHARI L. SCHAPMIRE
MENDOCINO COUNTY TREASURER
JANUARY 2019

I. Introduction

As designated by the 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, as well as 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 benefits to the citizens of the County of Mendocino. 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 levels 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 funds.

The Investment Policy and practices of the County Treasurer are based on prudent money management principles and California State Law, specifically Government Code Sections 27000.1 - 27000.5, 27136, and 53600 - 53686. The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws will be the focus of this policy statement. Where this Investment Policy specifies a percentage limitation, compliance will be measured as of the date of purchase. This document is reviewed no less than annually and may be adjusted as needed to reflect any changes in the Government Code or investment practices.

II. Scope

This Investment Policy applies to all the County's financial assets and investment activities with the following exceptions:

A. Proceeds of debt issuance shall be invested in accordance with the County's general investment philosophy as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures.

Pooling of Funds: Except for cash in certain restricted and special funds, the County will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income shall be allocated quarterly, on the average daily balance method, to the various funds based on their respective participation and in accordance with generally accepted accounting principles. All costs related to investing, maintaining, and accounting for the investments purchased for the Treasury Pool, as authorized by California Government Code Section 27013, shall be apportioned equally on the same basis.

III. General Objectives

The overriding objectives of the investment program are to preserve principal, provide sufficient liquidity, and manage investment risks. The specific objectives for the program are ranked in order of importance:

1. ***Safety***: Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

2. ***Liquidity***: The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. ***Return on Investments***: The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs. Yield is definitely considered to be of much less importance than safety and liquidity and shall not be a driving force in determining which investments are selected for purchase.

IV. PRUDENCE, INDEMNIFICATION, AND ETHICS

A. *Prudent Investor Standard*: Management of the County's investments is governed by the Prudent Investor Standard as set forth in California Government Code Section 53600.3:

> **"…**all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the County, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

B. *Indemnification*: The Treasurer and other authorized persons responsible for managing County funds, acting in accordance with the investment policy and exercising due diligence, will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments.

C. *Ethics*: Officers and employees involved in the investment process will refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

V. DELEGATION OF AUTHORITY

A. Authority to manage the County's investment program is derived from California Government Code Sections 53600 *et seq.* The governing body is responsible for the County's cash management, including the administration of this Investment Policy. Management responsibility for the cash management of County funds is hereby delegated to the Treasurer.

   The Treasurer will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate employees.

B. The County may engage the services of one or more external investment managers to assist in the management of the County's investment portfolio in a manner consistent with the County's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

VI. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

A. The County Treasurer will determine which financial institutions are authorized to provide investment services to the County. Institutions eligible to transact investment business with the County include:

   1. Primary government dealers as designated by the Federal Reserve Bank;

   2. Non-primary government dealers;

   3. Nationally or state-chartered banks;

   4. The Federal Reserve Bank; and,

   5. Direct issuers of securities eligible for purchase.

B. Selection of financial institutions and broker/dealers authorized to engage in transactions with the County will be at the sole discretion of the County.

C. All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with a statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq*. and the County's Investment Policy.

D. Selection of broker/dealers used by an external investment adviser retained by the County will be at the sole discretion of the investment adviser.

E. Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

VII. DELIVERY, SAFEKEEPING AND CUSTODY, AND COMPETITIVE TRANSACTIONS

A. *Delivery-versus-payment*: Settlement of all investment transactions will be completed using standard delivery-vs.-payment procedures.

B. *Third-party safekeeping*: To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the County will be held in safekeeping by a third party bank custodian, acting as agent for the County under the terms of a custody agreement executed by the bank and the County.

C. *Competitive transactions*: All investment transactions will be conducted on a competitive basis which can be executed through a bidding process involving at least three separate brokers/financial institutions to the extent possible or through the use of a nationally recognized trading platform.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

All investments will be made in accordance with Sections 53600 *et seq.* of the Government Code of the State of California and as described within this Investment Policy. Percentage holding limits and credit rating minimums are applicable at the time the security is purchased. Permitted investments under this policy will include:

1. **Municipal Securities.** These include obligations of the County, the State of California, and any local Agency within the State of California. In addition, Municipal Securities include obligations of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states in addition to California. The bonds will be registered in the name of the County or held under a custodial agreement at a bank. The securities are rated in a rating category of "A" or higher by at least one nationally recognized statistical rating organization (NRSRO).

    a. The maximum maturity of an issue shall be no more than five years at time of purchase; and,

    b. No more than five percent per issuer.

c. No more than 30% of the portfolio may be invested in Municipal Securities.

2. **U.S. Treasury** and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the County may invest in U.S. Treasuries.

   a. The maximum maturity of an issue shall be no more than five years at time of purchase.

3. **Federal Agency** or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the County may invest in government-sponsored enterprises.

   a. The maximum maturity of an issue shall be no more than five years at time of purchase; and,

   b. No more than 25% of the pool value shall be invested in any single issuer.

4. **Banker's Acceptances** provided that:

   a. They are issued by institutions with short term debt obligations rated in the rating category of "A-1" or higher, or the equivalent, by at least two NRSROs; and have long-term debt obligations which are rated in the rating category of "A" or higher by at least two NRSROs;

   b. The maturity does not exceed 180 days; and,

   c. No more than 40% of the total portfolio may be invested in banker's acceptances; and,

   d. No more than five percent per issuer.

5. **Federally Insured Time Deposits** (Non-negotiable certificates of deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

   a. The amount per institution is limited to the maximum covered under federal insurance; and,

   b. The maturity of such deposits does not exceed five years; and,

   c. No more than five percent per issuer.

6. **Supranationals** provided that:

   a. Issues are unsubordinated obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank; and,

   b. The securities are rated in the rating category of "AA" or higher by two NRSROs; and,

   c. No more than 30% of the total portfolio may be invested in these securities; and,

   d. No more than 10% of the portfolio per issuer; and,

   e. The maximum maturity does not exceed five years.

7. **Time Deposits (Non-negotiable certificates of deposit)** in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

   a. No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits; and,

   b. The maturity of such deposits does not exceed five years; and,

   c. No more than five percent per issuer.

8. Certificate of Deposit Placement Service (CDARS) provided that:

   a. No more than 30% of the total portfolio may be invested in a combination of negotiable certificates of deposit including CDARS; and,

   b. The maturity of such deposits does not exceed five years.

9. **Negotiable Certificates of Deposit (NCDs)** provided that:

   a. They are issued by institutions which have long-term obligations which are rated in the rating category of "A" or higher by at least two NRSROs; and/or have short term debt obligations rated in the rating category of "A-1" or higher, or the equivalent, by at least two NRSROs; and,

   b. The maturity does not exceed five years; and,

   c. No more than 30% of the total portfolio may be invested in NCDs; and,

   d. No more than five percent per issuer.

10. **Repurchase Agreements** collateralized with securities authorized under Sections VI and VIII (2 and 3) of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that:

    a. The maximum maturity of repurchase agreements will be one year; and,

    b. There is no limit to the amount to be invested in repurchase agreements; and

    c. Securities used as collateral for repurchase agreements will be delivered to the County's custodian bank (See Section VII B); and,

    d. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider of the repurchase agreement. The master repurchase agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).

11. **Commercial Paper** provided that:

    a. The maturity does not exceed 270 days from the date of purchase; and,

    b. The issuer is a corporation organized and operating in the United States with assets in excess of $500 million; and,

    c. They are issued by institutions whose short term obligations are rated in the rating category of "A-1" or higher, or the equivalent, by at least two NRSROs; and whose long-term obligations are rated in the rating category of "A" or higher by at least two NRSROs; and,

    d. No more than 40% of the portfolio is invested in commercial paper; and,

    e. No more than five percent per issuer.

12. **State of California Local County Investment Fund (LAIF)**, provided that:

    a. The County may invest up to the maximum permitted amount in LAIF; and,

    b. LAIF's investments in instruments prohibited by or not specified in the County's policy do not exclude it from the County's list of allowable investments, provided that the fund's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

13. **Local Government Investment Pools**

14. **Corporate Medium Term Notes (MTNs),** provided that:

a. Such notes have a maximum maturity of five years; and,

b. Are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States; and,

c. Are rated in the rating category of "A" or better by at least two NRSROs; and,

d. Holdings of medium-term notes may not exceed 30% of the portfolio; and,

e. No more than five percent per issuer.

15. **Mortgage Pass-Through Securities and Asset-Backed Securities,** provided that such securities:

a. Have a maximum stated final maturity of five years; and

b. Be rated in a rating category of "AA" or its equivalent or better by at least two NRSROs; and,

c. Purchase of securities authorized by this subdivision may not exceed 20% of the portfolio.

d. No more than five percent of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer. There is no issuer limitation on any Mortgage security where the issuer is the US Treasury or a federal agency/government-sponsored entity.

16. **Mutual Funds and Money Market Mutual Funds** that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940:

a. Provided that such funds meet either of the following criteria:

1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs; or,

2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of $500 million.

b. Purchase of Mutual Funds authorized by this subdivision may not exceed 20% of the portfolio, with no more than 10% in any one mutual fund. Money Market Mutual Funds authorized by this subdivision may not exceed 20% of the portfolio, with no more than 20% in any one money market mutual fund.

c. No more than 20% of the total portfolio may be invested in a combination of Mutual Funds and Money Market Mutual Funds.

IX. Portfolio Risk Management

A. *Prohibited investment vehicles and practices*:

1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.

2. In accordance with California Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.

3. Purchasing securities with a final maturity longer than five years, unless approved by the Board of Supervisors, is prohibited.

4. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.

5. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

6. Purchasing or selling securities on margin is prohibited.

7. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

8. The purchase of foreign currency denominated securities is prohibited.

B. *Mitigating credit risk in the portfolio*: Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The County will mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section VIII are designed to mitigate credit risk in the portfolio;

2. No more than five percent of the total portfolio may be invested in securities of any single issuer, unless otherwise specified in this policy;

3. The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity, or yield of the portfolio in response to market conditions or County's risk preferences; and,

4. If a security's credit ratings owned by the County are downgraded to a level below the quality required by this Investment Policy, it will be the County's policy to review

the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

a. If a security is downgraded below the minimum required by this investment policy, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

b. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the governing board.

C. *Mitigating market risk in the portfolio*: Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The County will maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements;

2. The maximum percent of callable securities (does not include "make whole call" securities as defined in the Glossary) in the portfolio will be 20%;

3. The maximum stated final maturity of individual securities in the portfolio will be five years, except as otherwise stated in this policy; and,

4. The duration of the portfolio will at all times be approximately equal to the duration (typically plus or minus 20%) of a Market Benchmark Index selected by the County based on the County's investment objectives, constraints, and risk tolerances.

X. INVESTMENT OBJECTIVES (PERFORMANCE STANDARDS AND EVALUATION)

A. **Overall objective:** The investment portfolio will be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

B. **Specific objective:** The investment performance objective for the portfolio will be to earn a total rate of return over a market cycle which is approximately equal to the return on the selected Market Benchmark Index.

XI. Social and Environmental Concerns

In the event all general objectives mandated by state law and set forth in Section III above are met and created equal, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, or sexual orientation, as well as those entities that practice environmentally sound and fair labor practices. Investments are discouraged in entities that receive a significant portion of their revenues from the manufacturer of tobacco products, firearms, or weapons not used in our national defense.

XII. Procedures and Internal controls

A. *Procedures*: The Treasurer will establish written investment policy procedures in a separate investment procedures manual to assist investment staff with day-to-day operations of the investment program consistent with this policy. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy as designated in Appendix I and the procedures established by the Treasurer.

B. *Internal Controls*: The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft, or misuse. The internal control structure will be designed to provide reasonable assurance that these objectives are met. Internal controls will be described in the County's investment procedures manual.

XIII. Deposit and Withdrawal of Funds

A. *Deposits*: Funds will be accepted at all times 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 Treasury Pool. The County Treasurer, in conjunction with the Auditor, shall set conditions under which funds from local agencies not required to have their funds in the Treasury Pool may deposit voluntarily invested funds. Local agencies from outside the County will not be permitted to deposit funds in the Treasury Pool.

B. Withdrawals: Under language added to the California Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds in the Treasury Pool, to withdraw funds in order to invest outside the Treasury Pool. Local agencies within the County who voluntarily participate in the Treasury Pool may withdraw their funds under conditions set forth in California Government Code Section 27136.

XIV. Reporting, disclosure, and program evaluation

A. *Monthly Reports*: Monthly investment reports will be distributed electronically by the Treasurer to the governing board and pool participants. These reports will disclose, at a minimum, the following information about the risk characteristics of the County's portfolio:

   1. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, date of maturity, and interest rate;

   2. A one-page summary report that shows:

      a. Average maturity of the portfolio and modified duration of the portfolio;

      b. Maturity distribution of the portfolio;

      c. Average portfolio credit quality.

B. *Quarterly Reports*: Investment reports will be provided to the Board of Supervisors on a quarterly basis. The quarterly report shall be submitted within 30 days following the end of the quarter. These reports will disclose all information provided in the monthly reports, as well as the following:

   1. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution; and,

   2. A statement that the County has adequate funds to meet its cash flow requirements for the next six months.

C. *Annual Reports*:

   1. The investment policy will be reviewed and adopted by the Board of Supervisors at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current law and financial and economic trends.

   2. A comprehensive annual report will be issued at the conclusion of each fiscal year. This report will include comparisons of the County's return to the Benchmark Index return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

D. *Annual Audit*: An independent review by an external expert will be conducted annually to assure compliance with internal controls and adherence to the Investment Policy.

Policy approved by the Mendocino County Board of Supervisors on January 8, 2019.

Appendix I

Authorized Personnel

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day-to-day operations, the following job classes are authorized to transact investment business and wire funds for investment purposes on behalf of the County of Mendocino:

Assistant Treasurer-Tax Collector
Deputy Treasurer-Tax Collector (Treasurer Division)
Treasury Specialist

Appendix II

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE),* or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

- **FFCB.** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.
- **FHLB.** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.
- **FHLMC.** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.
- **FNMA.** Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.
- **GNMA.** The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.
- **PEFCO.** The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.
- **TVA.** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATINGS ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

Mendocino County Consolidated

Account #70006

Portfolio Summary

As of March 31, 2020

PORTFOLIO CHARACTERISTICS

Average Modified Duration	1.02
Average Coupon	1.59%
Average Purchase YTM	1.65%
Average Market YTM	0.95%
Average S&P/Moody Rating	AA+/Aa1
Average Final Maturity	1.06 yrs
Average Life	1.05 yrs

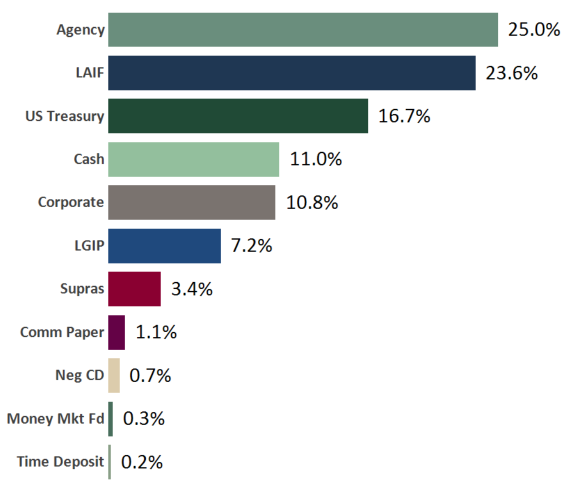
ACCOUNT SUMMARY

	Beg. Values as of 2/29/20	End Values as of 3/31/20
Market Value	263,862,736	275,590,767
Accrued Interest	926,314	954,872
Total Market Value	**264,789,050**	**276,545,639**
Income Earned	352,430	358,864
Cont/WD		
Par	261,476,757	272,072,838
Book Value	261,022,286	271,845,333
Cost Value	260,670,321	271,475,469

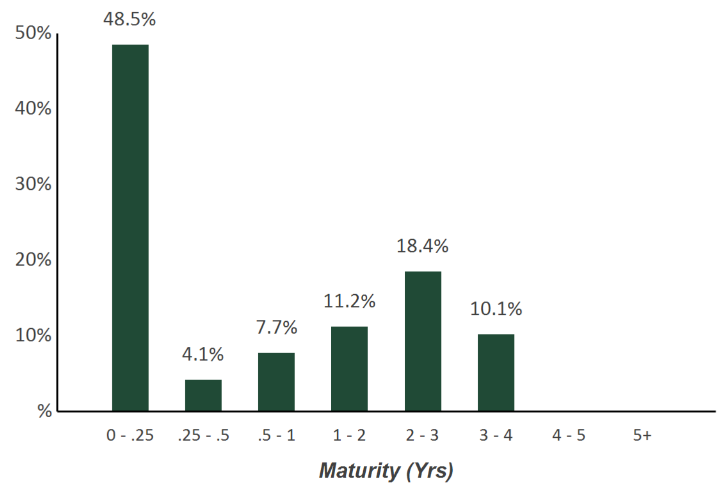
TOP ISSUERS

Local Agency Investment Fund	23.6%
Government of United States	16.7%
Federal Home Loan Bank	12.9%
Custodial Checking Account	10.9%
CAMP	7.2%
Federal Farm Credit Bank	4.8%
Federal National Mortgage Assoc	4.2%
Federal Home Loan Mortgage Corp	3.1%
Total	**83.5%**

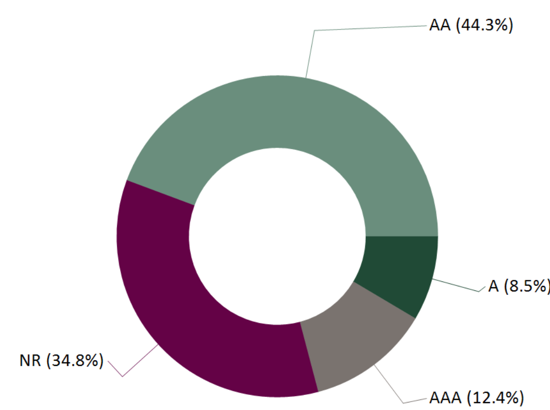
SECTOR ALLOCATION



MATURITY DISTRIBUTION



CREDIT QUALITY (S&P)



Statement of Compliance

As of March 31, 2020

County of Mendocino Consolidated

This portfolio is a consolidation of assets managed by Chandler Asset Management and assets managed internally by Client. Chandler relies on Client to provide accurate information for reporting assets and producing this compliance statement.

Category	Standard	Comment
Municipal Issues	"A" rated category or higher by a NRSRO; 5% per issuer; Include bonds of the County, State of California, any other state, and any local County within the State of California	*Complies*
Treasury Issues	No limitation	*Complies*
Agency Issues	25% max per issuer	*Complies*
Supranationals	"AA" rated category or higher by two NRSROs; 30% maximum; 10% per issuer; Unsubordinated obligations issued by IBRD, IFC, IADB	*Complies*
Banker's Acceptances	"A-1" or higher short term ratings by two NRSROs; and "A" rated or higher long term debt by two NRSROs; 40% maximum; 5% per issuer; 180 days max maturity	*Complies*
Commercial Paper	"A-1" or higher short term ratings by two NRSROs; and "A" rated or higher long term debt by two NRSROs; 40% maximum; 5% per issuer; 270 days max maturity; Issuer is a corporation organized and operating in the U.S. with assets in excess of $500 million	*Complies*
Negotiable Certificates of Deposit	"A" or higher long term ratings by two NRSROs; and/or "A-1" or higher short term ratings by two NRSROs; 30% maximum (includes CDARS); 5% per issuer	*Complies*
Corporate Medium Term Notes	"A" rated or better by two NRSROs; 30% maximum; 5% per issuer; Issued by corporations organized and operating within U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S.	*Complies*
Mutual Funds and Money Market Mutual Funds	Highest rating or "AAA" rated by two NRSROs; or SEC registered adviser with AUM >$500 million and experience greater than 5 years; 20% maximum in Mutual Funds; 10% max per Mutual Fund; 20% maximum in Money Market Mutual Funds; 20% max per Money Market Mutual Fund	*Complies*
FDIC insured Time Deposits/ Certificates of Deposit	Amount per institution limited to the max covered under FDIC; 20% maximum (combination of FDIC insured and collateralized TDs/ CDs); 5% per issuer	*Complies*
Collateralized Time Deposits/ Certificates of Deposit	20% maximum (combination of FDIC insured and collateralized TDs/ CDs); 5% per issuer	*Complies*
Asset Backed Securities (ABS) and Mortgage Pass Throughs (MPTs)	"AA" rated or better by two NRSROs; "A" rated or higher for the issuer's debt by two NRSROs; 20% maximum; 5% per issuer in Asset Backed or Commercial Mortgage security issuer. No issuer limitation on any Mortgage security where the issuer is U.S. Treasury or Federal agency/GSE	*Complies*
Local Agency Investment Fund (LAIF)/ Local Government Investment Pools	Maximum permitted amount by LAIF	*Complies*
Repurchase Agreements	No limitation; 1 year maximum maturity; 102% collateralized	*Complies*
Prohibited	Inverse floaters; ranges notes; interest-only strips from mortgaged backed securities; zero interest accrual securities; Securities with maturity longer than 5 years (unless approved by the Board of Supervisors); Margin; Reverse Repurchase Agreements, Securities lending; Foreign currency denominated securities; Social and Environmental Concerns: Investments are discouraged in entities that receive a significant portion of their revenues from the manufacturer of tobacoo products, firearms, or weapons not used in our national defense.	*Complies*
Maximum Callables	20% max of callable securities (does not include "make whole call")	*Complies*
Maximum Per Issuer	5% max per issuer, unless otherwise specified in the policy	*Complies*
Maximum maturity	5 years maximum maturity	*Complies*

Holdings Report

As of March 31, 2020

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
AGENCY									
3133EHFL2	FFCB Note 1.55% Due 4/13/2020	1,450,000.00	04/27/2017 1.57%	1,449,014.00 1,449,989.05	100.04 0.28%	1,450,611.90 10,488.33	0.53% 622.85	Aaa / AA+ AAA	0.04 0.03
3137EAEF2	FHLMC Note 1.375% Due 4/20/2020	1,800,000.00	04/19/2017 1.48%	1,794,258.00 1,799,900.46	100.05 0.47%	1,800,856.80 11,068.75	0.66% 956.34	Aaa / AA+ AAA	0.05 0.05
3137EADR7	FHLMC Note 1.375% Due 5/1/2020	1,600,000.00	10/21/2015 1.38%	1,599,579.20 1,599,992.36	100.09 0.28%	1,601,454.40 9,166.67	0.58% 1,462.04	Aaa / AA+ AAA	0.08 0.08
313383HU8	FHLB Note 1.75% Due 6/12/2020	1,700,000.00	07/28/2017 1.57%	1,708,449.00 1,700,581.02	100.28 0.35%	1,704,683.50 9,007.64	0.62% 4,102.48	Aaa / AA+ NR	0.20 0.20
3130ACE26	FHLB Note 1.375% Due 9/28/2020	2,000,000.00	09/22/2017 1.65%	1,983,940.00 1,997,369.61	100.54 0.27%	2,010,836.00 229.17	0.73% 13,466.39	Aaa / AA+ NR	0.50 0.49
3137EAEJ4	FHLMC Note 1.625% Due 9/29/2020	2,250,000.00	09/28/2017 1.67%	2,247,097.50 2,249,520.66	100.55 0.52%	2,262,314.25 203.13	0.82% 12,793.59	Aaa / AA+ AAA	0.50 0.49
3137EAEK1	FHLMC Note 1.875% Due 11/17/2020	800,000.00	11/27/2017 1.95%	798,368.00 799,654.05	101.04 0.21%	808,336.80 5,583.33	0.29% 8,682.75	Aaa / AA+ AAA	0.63 0.62
3130A3UQ5	FHLB Note 1.875% Due 12/11/2020	2,000,000.00	02/12/2018 2.32%	1,975,680.00 1,994,014.26	101.10 0.29%	2,022,018.00 11,458.33	0.74% 28,003.74	Aaa / AA+ NR	0.70 0.69
3130A7CV5	FHLB Note 1.375% Due 2/18/2021	2,000,000.00	02/23/2016 1.43%	1,994,480.00 1,999,020.89	100.90 0.35%	2,018,084.00 3,284.72	0.73% 19,063.11	Aaa / AA+ AAA	0.89 0.88
3135G0J20	FNMA Note 1.375% Due 2/26/2021	2,500,000.00	03/17/2016 1.52%	2,482,725.00 2,496,833.87	100.95 0.32%	2,523,755.00 3,342.01	0.91% 26,921.13	Aaa / AA+ AAA	0.91 0.90
313379RB7	FHLB Note 1.875% Due 6/11/2021	2,400,000.00	08/30/2017 1.65%	2,419,562.40 2,406,180.58	101.81 0.35%	2,443,500.00 13,750.00	0.89% 37,319.42	Aaa / AA+ AAA	1.20 1.18
3130A8QS5	FHLB Note 1.125% Due 7/14/2021	2,600,000.00	08/09/2016 1.25%	2,584,400.00 2,595,933.07	101.01 0.34%	2,626,309.40 6,256.25	0.95% 30,376.33	Aaa / AA+ AAA	1.29 1.28
3130AHSR5	FHLB Note 1.625% Due 12/20/2021	2,090,000.00	12/19/2019 1.68%	2,087,742.80 2,088,060.85	102.12 0.38%	2,134,393.69 9,528.37	0.78% 46,332.84	Aaa / AA+ AAA	1.72 1.69
3137EADB2	FHLMC Note 2.375% Due 1/13/2022	2,000,000.00	07/30/2018 2.86%	1,968,440.00 1,983,694.83	103.51 0.40%	2,070,130.00 10,291.67	0.75% 86,435.17	Aaa / AA+ AAA	1.79 1.75
313378WG2	FHLB Note 2.5% Due 3/11/2022	3,000,000.00	04/09/2018 2.65%	2,983,650.00 2,991,899.27	104.15 0.36%	3,124,551.00 4,166.67	1.13% 132,651.73	Aaa / AA+ NR	1.95 1.91
3135G0T45	FNMA Note 1.875% Due 4/5/2022	2,900,000.00	06/21/2017 1.87%	2,901,218.00 2,900,511.45	102.98 0.39%	2,986,417.10 26,583.33	1.09% 85,905.65	Aaa / AA+ AAA	2.01 1.96

Holdings Report

As of March 31, 2020

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
AGENCY									
313379Q69	FHLB Note 2.125% Due 6/10/2022	2,215,000.00	06/06/2018 2.81%	2,157,500.82 2,183,579.68	103.84 0.36%	2,300,131.31 14,512.86	0.84% 116,551.63	Aaa / AA+ AAA	2.19 2.14
3130A5P45	FHLB Note 2.375% Due 6/10/2022	1,500,000.00	05/21/2019 2.26%	1,505,190.00 1,503,723.77	104.16 0.47%	1,562,344.50 10,984.38	0.57% 58,620.73	Aaa / AA+ AAA	2.19 2.13
313383WD9	FHLB Note 3.125% Due 9/9/2022	2,200,000.00	01/16/2019 2.66%	2,235,266.00 2,223,607.82	106.63 0.39%	2,345,950.20 4,201.39	0.85% 122,342.38	Aaa / AA+ AAA	2.44 2.36
3135G0T78	FNMA Note 2% Due 10/5/2022	3,000,000.00	05/20/2019 2.22%	2,979,030.00 2,984,404.31	103.61 0.55%	3,108,354.00 29,333.33	1.13% 123,949.69	Aaa / AA+ AAA	2.52 2.43
3133EKHN9	FFCB Note 2.33% Due 10/18/2022	3,000,000.00	05/01/2019 2.32%	3,001,380.00 3,001,014.55	103.61 0.89%	3,108,330.00 31,649.17	1.14% 107,315.45	Aaa / AA+ AAA	2.55 2.45
313381BR5	FHLB Note 1.875% Due 12/9/2022	3,000,000.00	Various 2.45%	2,931,075.00 2,955,768.34	103.51 0.56%	3,105,375.00 17,500.00	1.13% 149,606.66	Aaa / AA+ AAA	2.69 2.61
3135G0T94	FNMA Note 2.375% Due 1/19/2023	2,700,000.00	03/18/2019 2.46%	2,691,819.00 2,694,030.55	105.39 0.44%	2,845,524.60 12,825.00	1.03% 151,494.05	Aaa / AA+ AAA	2.81 2.71
3133ELNW0	FFCB Note 1.45% Due 2/21/2023	3,000,000.00	02/14/2020 1.45%	2,999,940.00 2,999,942.19	101.96 0.76%	3,058,923.00 4,833.33	1.11% 58,980.81	Aaa / AA+ AAA	2.90 2.83
3130ADRG9	FHLB Note 2.75% Due 3/10/2023	3,000,000.00	03/28/2019 2.24%	3,057,120.00 3,042,503.30	106.67 0.47%	3,199,968.00 4,812.50	1.16% 157,464.70	Aaa / AA+ NR	2.94 2.84
3133834G3	FHLB Note 2.125% Due 6/9/2023	2,750,000.00	06/10/2019 2.00%	2,763,035.00 2,760,399.41	105.54 0.38%	2,902,319.75 18,180.56	1.06% 141,920.34	Aaa / AA+ NR	3.19 3.08
3133EKSN7	FFCB Note 1.77% Due 6/26/2023	2,500,000.00	06/21/2019 1.89%	2,488,375.00 2,490,602.93	103.81 0.58%	2,595,152.50 11,677.08	0.94% 104,549.57	Aaa / AA+ AAA	3.24 3.14
3133EKZK5	FFCB Note 1.6% Due 8/14/2023	3,000,000.00	08/09/2019 1.63%	2,996,040.00 2,996,666.12	103.49 0.55%	3,104,613.00 6,266.67	1.12% 107,946.88	Aaa / AA+ AAA	3.37 3.28
3130A7PH2	FHLB Note 1.875% Due 3/8/2024	2,000,000.00	03/03/2020 0.85%	2,080,700.00 2,079,157.61	105.81 0.39%	2,116,106.00 2,395.83	0.77% 36,948.39	Aaa / AA+ NR	3.94 3.81
Total Agency		**66,955,000.00**	**1.95%**	**66,865,074.72** **66,968,556.86**	**0.45%**	**68,941,343.70** **303,580.47**	**25.04%** **1,972,786.84**	**Aaa / AA+** **AAA**	**1.97** **1.91**
CASH									
90CASH$00	Cash Custodial Cash Account	195,805.26	Various 0.00%	195,805.26 195,805.26	1.00 0.00%	195,805.26 0.00	0.07% 0.00	NR / NR NR	0.00 0.00

Holdings Report

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CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
CASH									
90CHECK$1	Checking Deposit Bank Account	30,216,178.52	Various 0.00%	30,216,178.52 30,216,178.52	1.00 0.00%	30,216,178.52 0.00	10.93% 0.00	NR / NR NR	0.00 0.00
Total Cash		**30,411,983.78**	**N/A**	**30,411,983.78** **30,411,983.78**	**0.00%**	**30,411,983.78** **0.00**	**11.00%** **0.00**	**NR / NR** **NR**	**0.00** **0.00**
COMMERCIAL PAPER									
62479LDV4	MUFG Bank Ltd Discount CP 1.9% Due 4/29/2020	3,000,000.00	10/29/2019 1.95%	2,971,025.00 2,995,566.67	99.85 1.95%	2,995,566.67 0.00	1.08% 0.00	P-1 / A-1 NR	0.08 0.08
Total Commercial Paper		**3,000,000.00**	**1.95%**	**2,971,025.00** **2,995,566.67**	**1.95%**	**2,995,566.67** **0.00**	**1.08%** **0.00**	**Aaa / AA** **NR**	**0.08** **0.08**
CORPORATE									
747525AD5	Qualcomm Inc Note 2.25% Due 5/20/2020	1,700,000.00	10/06/2016 1.67%	1,734,408.00 1,701,281.15	99.99 2.33%	1,699,779.00 13,918.75	0.62% (1,502.15)	A2 / A- NR	0.14 0.14
437076BQ4	Home Depot Note 1.8% Due 6/5/2020	200,000.00	06/12/2017 1.77%	200,150.00 200,008.98	99.94 2.14%	199,876.00 1,160.00	0.07% (132.98)	A2 / A A	0.18 0.18
458140AQ3	Intel Corp Note 2.45% Due 7/29/2020	1,750,000.00	01/24/2017 2.00%	1,776,775.00 1,752,491.18	100.12 2.06%	1,752,157.75 7,384.03	0.64% (333.43)	A1 / A+ A+	0.33 0.33
857477AS2	State Street Bank Note 2.55% Due 8/18/2020	1,590,000.00	12/11/2017 2.19%	1,604,993.70 1,592,128.83	100.16 2.11%	1,592,575.80 4,842.87	0.58% 446.97	A1 / A AA-	0.38 0.38
02665WAZ4	American Honda Finance Note 2.45% Due 9/24/2020	1,800,000.00	02/14/2017 2.25%	1,812,492.00 1,801,671.93	99.30 3.92%	1,787,484.60 857.50	0.65% (14,187.33)	A3 / A NR	0.48 0.47
594918BG8	Microsoft Callable Note Cont. 10/3/2020 2% Due 11/3/2020	2,000,000.00	12/03/2015 2.01%	1,999,240.00 1,999,908.39	100.22 1.55%	2,004,396.00 16,444.44	0.73% 4,487.61	Aaa / AAA AA+	0.59 0.50
00440EAT4	Chubb INA Holdings Inc Callable Note Cont 10/3/2020 2.3% Due 11/3/2020	1,500,000.00	07/25/2019 2.27%	1,500,495.00 1,500,211.98	100.11 2.07%	1,501,602.00 14,183.33	0.55% 1,390.02	A3 / A A	0.59 0.50
44932HAG8	IBM Credit Corp Note 2.65% Due 2/5/2021	1,500,000.00	02/12/2018 2.72%	1,496,880.00 1,499,110.21	100.34 2.24%	1,505,122.50 6,183.33	0.55% 6,012.29	A2 / A NR	0.85 0.83

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
CORPORATE									
69353REW4	PNC Bank Callable Note Cont 3/30/2021 2.15% Due 4/29/2021	1,200,000.00	10/30/2019 1.97%	1,202,940.00 1,202,072.27	100.03 2.11%	1,200,398.40 10,893.33	0.44% (1,673.87)	A2 / A A+	1.08 0.98
06406FAB9	Bank of NY Mellon Corp Callable Note Cont 4/3/2021 2.05% Due 5/3/2021	1,700,000.00	12/13/2016 2.50%	1,668,771.00 1,692,246.46	100.46 1.58%	1,707,889.70 14,327.22	0.62% 15,643.24	A1 / A AA-	1.09 0.99
808513AW5	Charles Schwab Corp Callable Note Cont 4/21/2021 3.25% Due 5/21/2021	1,775,000.00	Various 3.05%	1,784,554.00 1,778,489.76	100.75 2.52%	1,788,296.53 20,831.60	0.65% 9,806.77	A2 / A A	1.14 1.02
68389XBK0	Oracle Corp Callable Note Cont 8/15/2021 1.9% Due 9/15/2021	1,800,000.00	10/25/2017 2.20%	1,779,786.00 1,792,421.53	100.29 1.68%	1,805,304.60 1,520.00	0.65% 12,883.07	A3 / A+ A-	1.46 1.35
91159HHP8	US Bancorp Callable Note Cont 12/23/2021 2.625% Due 1/24/2022	890,000.00	01/19/2017 2.66%	888,469.20 889,444.18	101.38 1.81%	902,264.20 4,348.02	0.33% 12,820.02	A1 / A+ AA-	1.82 1.68
74005PBA1	Praxair Callable Note Cont 11/15/2021 2.45% Due 2/15/2022	1,750,000.00	03/09/2018 2.96%	1,717,222.50 1,734,353.60	100.37 2.22%	1,756,405.00 5,478.47	0.64% 22,051.40	A2 / A NR	1.88 1.58
91159HHC7	US Bancorp Callable Note Cont 2/15/2022 3% Due 3/15/2022	1,000,000.00	04/12/2018 3.05%	997,970.00 998,987.13	102.37 1.71%	1,023,682.00 1,333.33	0.37% 24,694.87	A1 / A+ AA-	1.96 1.82
911312BC9	UPS Callable Note Cont 4/16/2022 2.35% Due 5/16/2022	1,240,000.00	04/10/2018 2.99%	1,209,632.40 1,224,257.60	101.24 1.73%	1,255,314.00 10,927.50	0.46% 31,056.40	A2 / A NR	2.13 1.97
69371RQ33	Paccar Financial Corp Note 2% Due 9/26/2022	1,000,000.00	09/23/2019 2.04%	998,780.00 998,989.27	98.51 2.62%	985,076.00 277.78	0.36% (13,913.27)	A1 / A+ NR	2.49 2.41
89236TEL5	Toyota Motor Credit Corp Note 2.7% Due 1/11/2023	1,500,000.00	05/20/2019 2.66%	1,501,890.00 1,501,442.37	100.61 2.47%	1,509,150.00 9,000.00	0.55% 7,707.63	A1 / AA- A+	2.78 2.65
69371RQ41	Paccar Financial Corp Note 1.9% Due 2/7/2023	1,000,000.00	10/31/2019 1.90%	999,950.00 999,956.14	98.66 2.39%	986,598.00 2,850.00	0.36% (13,358.14)	A1 / A+ NR	2.86 2.75
931142DH3	Wal-Mart Stores Callable Note Cont 1/11/2023 2.55% Due 4/11/2023	1,500,000.00	05/01/2019 2.62%	1,495,965.00 1,496,901.55	103.30 1.34%	1,549,477.50 18,062.50	0.57% 52,575.95	Aa2 / AA AA	3.03 2.65
037833AK6	Apple Inc Note 2.4% Due 5/3/2023	1,000,000.00	05/20/2019 2.65%	990,790.00 992,801.89	104.26 1.00%	1,042,550.00 9,866.67	0.38% 49,748.11	Aa1 / AA+ NR	3.09 2.96
Total Corporate		**29,395,000.00**	**2.40%**	**29,362,153.80** **29,349,176.40**	**2.10%**	**29,555,399.58** **174,690.67**	**10.75%** **206,223.18**	**A1 / A+** **A+**	**1.37** **1.26**

Holdings Report

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CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
LAIF									
90LAIF$00	Local Agency Investment Fund State Pool	65,000,000.00	Various 1.74%	65,000,000.00 65,000,000.00	1.00 1.74%	65,000,000.00 306,099.57	23.61% 0.00	NR / NR NR	0.00 0.00
Total LAIF		**65,000,000.00**	**1.74%**	**65,000,000.00 65,000,000.00**	**1.74%**	**65,000,000.00 306,099.57**	**23.61% 0.00**	**NR / NR NR**	**0.00 0.00**
LOCAL GOV INVESTMENT POOL									
90CAMP$00	California Asset Mgmt Program CAMP	20,000,000.00	Various 1.50%	20,000,000.00 20,000,000.00	1.00 1.50%	20,000,000.00 0.00	7.23% 0.00	NR / AAA NR	0.00 0.00
Total Local Gov Investment Pool		**20,000,000.00**	**1.50%**	**20,000,000.00 20,000,000.00**	**1.50%**	**20,000,000.00 0.00**	**7.23% 0.00**	**NR / AAA NR**	**0.00 0.00**
MONEY MARKET FUND FI									
261908107	Dreyfus Trsy/Agcy Cash Management 521	815,854.61	Various 0.22%	815,854.61 815,854.61	1.00 0.22%	815,854.61 0.00	0.30% 0.00	Aaa / AAA NR	0.00 0.00
Total Money Market Fund FI		**815,854.61**	**0.22%**	**815,854.61 815,854.61**	**0.22%**	**815,854.61 0.00**	**0.30% 0.00**	**Aaa / AAA NR**	**0.00 0.00**
NEGOTIABLE CD									
89114NBZ7	Toronto Dominion Bank NY Yankee CD 1.85% Due 6/3/2020	2,000,000.00	12/03/2019 1.85%	2,000,000.00 2,000,000.00	100.00 1.85%	2,000,000.00 12,230.56	0.73% 0.00	P-1 / A-1+ F-1+	0.18 0.17
Total Negotiable CD		**2,000,000.00**	**1.85%**	**2,000,000.00 2,000,000.00**	**1.85%**	**2,000,000.00 12,230.56**	**0.73% 0.00**	**Aaa / AAA AAA**	**0.18 0.17**
SUPRANATIONAL									
4581X0CX4	Inter-American Dev Bank Note 1.625% Due 5/12/2020	1,375,000.00	04/05/2017 1.70%	1,371,741.25 1,374,881.34	100.16 0.26%	1,377,142.25 8,627.17	0.50% 2,260.91	Aaa / AAA AAA	0.12 0.11
459058GA5	Intl. Bank Recon & Development Note 1.625% Due 9/4/2020	2,000,000.00	08/22/2017 1.63%	1,999,580.00 1,999,940.54	100.46 0.55%	2,009,152.00 2,437.50	0.73% 9,211.46	Aaa / AAA AAA	0.43 0.42
45950KCM0	International Finance Corp Note 2.25% Due 1/25/2021	720,000.00	01/18/2018 2.35%	717,883.20 719,422.52	101.40 0.53%	730,087.20 2,970.00	0.27% 10,664.68	Aaa / AAA NR	0.82 0.81

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SUPRANATIONAL									
45950KCJ7	International Finance Corp Note 1.125% Due 7/20/2021	1,600,000.00	11/29/2017 2.12%	1,544,832.00 1,580,252.60	100.71 0.58%	1,611,302.40 3,550.00	0.58% 31,049.80	Aaa / AAA NR	1.30 1.29
4581X0CN6	Inter-American Dev Bank Note 1.75% Due 4/14/2022	1,500,000.00	04/24/2018 2.92%	1,434,810.00 1,466,572.69	102.42 0.55%	1,536,247.50 12,177.08	0.56% 69,674.81	Aaa / AAA AAA	2.04 1.99
4581X0CZ9	Inter-American Dev Bank Note 1.75% Due 9/14/2022	2,000,000.00	05/04/2018 2.93%	1,904,540.00 1,946,206.19	102.99 0.52%	2,059,868.00 1,652.78	0.75% 113,661.81	Aaa / AAA AAA	2.46 2.40
Total Supranational		**9,195,000.00**	**2.27%**	**8,973,386.45 9,087,275.88**	**0.50%**	**9,323,799.35 31,414.53**	**3.38% 236,523.47**	**Aaa / AAA AAA**	**1.28 1.25**
TIME DEPOSIT									
90MEND$11	Savings Bank of Mendocino Coun Time Deposit 0.5% Due 3/3/2021	250,000.00	03/03/2020 0.50%	250,000.00 250,000.00	100.00 0.50%	250,000.00 41.10	0.09% 0.00	NR / NR NR	0.92 0.92
99MEND$01	Community First Credit Union Time Deposit 1.25% Due 3/20/2021	250,000.00	03/20/2020 1.25%	250,000.00 250,000.00	100.00 1.25%	250,000.00 102.74	0.09% 0.00	NR / NR NR	0.97 0.96
Total Time Deposit		**500,000.00**	**0.88%**	**500,000.00 500,000.00**	**0.88%**	**500,000.00 143.84**	**0.18% 0.00**	**NR / NR NR**	**0.95 0.94**
US TREASURY									
912828VA5	US Treasury Note 1.125% Due 4/30/2020	2,600,000.00	Various 1.44%	2,572,789.96 2,599,375.68	100.08 0.13%	2,602,163.20 12,268.76	0.95% 2,787.52	Aaa / AA+ AAA	0.08 0.08
912828L65	US Treasury Note 1.375% Due 9/30/2020	2,500,000.00	12/30/2015 1.79%	2,452,449.78 2,495,012.02	100.66 0.06%	2,516,405.00 93.92	0.91% 21,392.98	Aaa / AA+ AAA	0.50 0.50
912828L99	US Treasury Note 1.375% Due 10/31/2020	2,600,000.00	04/14/2016 1.20%	2,619,508.71 2,602,503.23	100.72 0.14%	2,618,688.80 15,026.79	0.95% 16,185.57	Aaa / AA+ AAA	0.59 0.58
912828P87	US Treasury Note 1.125% Due 2/28/2021	2,400,000.00	Various 1.45%	2,368,765.85 2,393,155.20	100.94 0.10%	2,422,500.00 2,347.83	0.88% 29,344.80	Aaa / AA+ AAA	0.92 0.91
912828D72	US Treasury Note 2% Due 8/31/2021	2,400,000.00	12/28/2016 2.01%	2,398,508.04 2,399,547.86	102.55 0.19%	2,461,312.80 4,173.91	0.89% 61,764.94	Aaa / AA+ AAA	1.42 1.40
912828T34	US Treasury Note 1.125% Due 9/30/2021	3,000,000.00	08/29/2019 1.53%	2,975,390.63 2,982,334.22	101.38 0.21%	3,041,250.00 92.21	1.10% 58,915.78	Aaa / AA+ AAA	1.50 1.49

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US TREASURY									
912828U81	US Treasury Note 2% Due 12/31/2021	1,000,000.00	01/30/2018 2.40%	984,960.94 993,279.75	103.11 0.22%	1,031,094.00 5,054.95	0.37% 37,814.25	Aaa / AA+ AAA	1.75 1.72
9128282P4	US Treasury Note 1.875% Due 7/31/2022	3,000,000.00	12/28/2018 2.53%	2,932,851.56 2,956,312.44	103.82 0.23%	3,114,726.00 9,426.51	1.13% 158,413.56	Aaa / AA+ AAA	2.33 2.29
912828YA2	US Treasury Note 1.5% Due 8/15/2022	3,000,000.00	12/17/2019 1.65%	2,988,398.44 2,989,652.99	103.00 0.23%	3,089,883.00 5,686.81	1.12% 100,230.01	Aaa / AA+ AAA	2.38 2.34
912828L24	US Treasury Note 1.875% Due 8/31/2022	3,000,000.00	10/15/2019 1.60%	3,022,968.75 3,019,293.75	103.92 0.25%	3,117,540.00 4,891.30	1.13% 98,246.25	Aaa / AA+ AAA	2.42 2.37
912828M80	US Treasury Note 2% Due 11/30/2022	2,300,000.00	04/17/2019 2.38%	2,270,082.03 2,277,980.19	104.57 0.28%	2,405,027.20 15,459.02	0.88% 127,047.01	Aaa / AA+ AAA	2.67 2.59
912828ZD5	US Treasury Note 0.5% Due 3/15/2023	3,000,000.00	03/24/2020 0.39%	3,009,843.75 3,009,780.24	100.63 0.28%	3,018,984.00 692.93	1.09% 9,203.76	Aaa / AA+ AAA	2.96 2.93
912828R28	US Treasury Note 1.625% Due 4/30/2023	2,000,000.00	12/04/2019 1.60%	2,001,796.88 2,001,626.16	104.08 0.29%	2,081,640.00 13,660.71	0.76% 80,013.84	Aaa / AA+ AAA	3.08 3.00
912828R69	US Treasury Note 1.625% Due 5/31/2023	2,500,000.00	04/11/2019 2.30%	2,433,593.75 2,449,104.70	104.16 0.30%	2,604,102.50 13,652.66	0.95% 154,997.80	Aaa / AA+ AAA	3.17 3.08
912828S92	US Treasury Note 1.25% Due 7/31/2023	3,000,000.00	11/27/2019 1.62%	2,960,507.81 2,964,162.31	103.11 0.31%	3,093,165.00 6,284.34	1.12% 129,002.69	Aaa / AA+ AAA	3.33 3.27
912828T26	US Treasury Note 1.375% Due 9/30/2023	3,000,000.00	12/19/2019 1.71%	2,963,554.69 2,966,274.88	103.71 0.31%	3,111,327.00 112.70	1.13% 145,052.12	Aaa / AA+ AAA	3.50 3.43
912828T91	US Treasury Note 1.625% Due 10/31/2023	1,500,000.00	09/25/2019 1.60%	1,501,347.66 1,501,178.30	104.69 0.31%	1,570,371.00 10,245.54	0.57% 69,192.70	Aaa / AA+ AAA	3.59 3.47
912828V80	US Treasury Note 2.25% Due 1/31/2024	2,000,000.00	03/03/2020 0.71%	2,118,671.88 2,116,344.98	107.33 0.32%	2,146,640.00 7,541.21	0.78% 30,295.02	Aaa / AA+ AAA	3.84 3.68
Total US Treasury		**44,800,000.00**	**1.63%**	**44,575,991.11** **44,716,918.90**	**0.23%**	**46,046,819.50** **126,712.10**	**16.70%** **1,329,900.60**	**Aaa / AA+** **AAA**	**2.22** **2.18**
TOTAL PORTFOLIO		**272,072,838.39**	**1.65%**	**271,475,469.47** **271,845,333.10**	**0.95%**	**275,590,767.19** **954,871.74**	**100.00%** **3,745,434.09**	**Aa1 / AA+** **AAA**	**1.06** **1.02**
TOTAL MARKET VALUE PLUS ACCRUED						**276,545,638.93**			