NEW ISSUE - FULL BOOK-ENTRY
BANK QUALIFIED

INSURED RATING: Standard & Poor's: "AA"
UNDERLYING RATING: S&P: "A+"
See "RATINGS" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, interest on the Series C 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 imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, interest on the Series C Bonds is taken into account in determining certain income and earnings, and the Series C Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series C Bonds is exempt from California personal income taxes. See "TAX MATTERS."

$1,267,414.10
ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds,
Election of 2010, Series C
(Bank Qualified)

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

Authority and Purpose. The captioned bonds (the "Series C Bonds") are being issued by the Anderson Valley Unified School District (the "District") pursuant to certain provisions of the California Government Code and a resolution of the Governing Board of the District adopted on April 22, 2015 (the "Bond Resolution"). The Series C Bonds were authorized at an election of the registered voters of the District held on June 8, 2010, which authorized the issuance of $15,250,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities. The Series C Bonds are the third series of bonds to be issued under this authorization. See "THE SERIES C BONDS – Authority For Issuance" and "THE FINANCING PLAN" herein.

Security. The Series C Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied on taxable property within the District and collected by Mendocino County (the "County"). The County Board of Supervisors is empowered and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Series C Bonds 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). See "SECURITY FOR THE SERIES C BONDS."

Book-Entry Only. The Series C 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 C Bonds. See "THE SERIES C BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payments. The Series C Bonds are dated the date of delivery set forth above and are being issued as Current Interest Bonds and Capital Appreciation Bonds (both as defined herein). The Current Interest Bonds accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity, commencing August 1, 2015. The Capital Appreciation Bonds accrete interest at the accretion rates set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing on August 1, 2015 until payment of the accreted value thereof at maturity or upon earlier redemption (if any). Payments of principal of and interest on the Series C Bonds will be paid by The Bank of New York Mellon Trust Company, Dallas, Texas, as the designated paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Series C Bonds. See "THE SERIES C BONDS - Description of the Series C Bonds."

Redemption. The Series C Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES C BONDS – Optional Redemption."

Bond Insurance. The scheduled payment of principal of and interest on the Series C Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Series C Bonds by ASSURED GUARANTY MUNICIPAL CORP.

MATURITY SCHEDULE
(See inside cover)

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

The Series C 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. Nossaman LLP, Irvine, California is serving as Underwriter's Counsel. It is anticipated that the Series C Bonds, in book-entry form, will be available for delivery through the facilities of DTC, on or about June 11, 2015.

The date of this Official Statement is May 28 2015.

MATURITY SCHEDULE

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds,
Election of 2010, Series C

$1,017,414.10 Denominational Amount
($3,215,000 Maturity Value)
Capital Appreciation Bonds

Maturity Date (August 1)	Initial Principal Amount	Accretion Rate	Yield to Maturity	Maturity Value	CUSIP†
2026	$3,223.45	3.980%	3.980%	$5,000	034161 BS7
2027	3,018.85	4.200	4.200	5,000	034161 BT5
2029	2,635.75	4.580	4.580	5,000	034161 BV0
2030	2,452.85	4.760	4.760	5,000	034161 BW8
2031	2,281.90	4.920	4.920	5,000	034161 BX6
2032	2,155.55	4.970	4.970	5,000	034161 BY4
2033	2,037.80	5.010	5.010	5,000	034161 BZ1
2034	1,924.95	5.050	5.050	5,000	034161 CA5
2035	1,817.00	5.090	5.090	5,000	034161 CB3
2036	255,348.75	5.130	5.130	745,000	034161 CC1
2037	250,875.25	5.160	5.160	775,000	034161 CD9
2038	247,503.60	5.190	5.190	810,000	034161 CE7
2039	242,138.40	5.220	5.220	840,000	034161 CF4

$250,000 Current Interest Bonds

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2040	$250,000	4.000%	4.090%	98.599	034161 CG2

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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 C Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

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

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

Insurer's Disclaimer. Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Series C Bonds or the advisability of investing in the Series C Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix I - Specimen Municipal Bond Insurance Policy".

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

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

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

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

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

GOVERNING BOARD

Martha Bradford, *President*
Richard Browning, *Clerk*
Erica Lemons, *Member*
Stacey Soboleski, *Member*
Patti Wilson, *Member*

DISTRICT ADMINISTRATION

James R. Collins, *Superintendent/Principal*
Jennifer Ryun, *Business Manager*

PROFESSIONAL SERVICES

FINANCIAL ADVISOR

Eastshore Consulting LLC
Oakland, California

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT

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

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$1,267,414.10
ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds,
Election of 2010, Series C

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the general obligation bonds captioned above (the **"Series C Bonds"**) by the Anderson Valley Unified School District (the "**District**").

INTRODUCTION

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

The District. The District, located in Mendocino County (the "**County**"), was established on July 1, 1963. The District currently operates Anderson Valley Elementary School (K-6), Anderson Valley Junior/Senior High School (7-12), Rancharia Continuation School, an Adult School and Peachland State Preschool. The District is governed by a five-member Board of Trustees. The District's 2014-15 enrollment is 540 students.

For more information regarding the District and its finances, see Appendix A and Appendix B attached hereto. See also Appendix C for demographic and other statistical information regarding the City and the County.

Purpose. The net proceeds of the Series C Bonds will be used to finance school construction and improvements to the school facilities as approved by the voters at an election held in the District on June 8, 2010 (the **"Bond Election"**). See "THE FINANCING PLAN" herein.

Authority for Issuance of the Series C Bonds. Issuance of the Series C Bonds was approved by the requisite 55% of the voters of the District voting at 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 Governing Board of the District on April 22, 2015 (the "**Bond Resolution**"). See "THE SERIES C BONDS - Authority for Issuance" herein.

Payment and Registration of the Series C Bonds. The Series C Bonds are being issued as current interest bonds (the "**Current Interest Bonds**") and capital appreciation bonds (the "**Capital Appreciation Bonds**"). The Series C Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Series C 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 C Bonds. See "THE SERIES C BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption. The Series C Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES C BONDS – Optional Redemption."

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

Bond Insurance. The scheduled payment of principal of and interest on the Series C Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Series C Bonds by Assured Guaranty Municipal Corp. See "BOND INSURANCE."

Tax-Exempt Status. In the opinion of Jones Hall, A Professional Law Corporation, bond counsel to the District (**"Bond Counsel"**), interest on the Series C Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes, although it is included in certain income and earnings in computing the alternative minimum tax imposed on certain corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" and Appendix D hereto for the forms of Bond Counsel's opinions to be delivered concurrently with the Series C Bonds.

Legal Opinion; Bank Qualified. Upon delivery of the Bond Counsel will release its final approving legal opinion with respect to the Series C Bonds, regarding the validity and tax-exempt status of the Series C Bonds, in the form attached hereto as Appendix D. In addition, Bond Counsel will opine that the Series C Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, subject to certain limitations as set forth in such opinion.

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

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Series C Bonds are available from the District from the Superintendent's Office at 12300 Anderson Valley Way, Boonville, CA 95415; (707) 895-3774. The District may impose a charge for copying, mailing and handling.

END OF INTRODUCTION

THE FINANCING PLAN

The proceeds of the Series C Bonds will be used to finance projects approved by the voters at the Bond Election. The abbreviated form of the ballot measure is as follows:

> *"To improve local schools by improving classrooms, vocational/agricultural job training and technology; fixing deteriorating roofs, bathrooms, plumbing/electrical systems; removing asbestos, mold/lead paint; improving fire safety; and constructing/equipping district facilities/sites shall Anderson Valley Unified School District issue $15,250,000 in bonds at legal interest rates, with independent audits, citizens' oversight, no money for administrators' salaries/pensions, and all funds used locally?"*

The Series C Bonds were authorized at an election of the registered voters of the District held on June 8, 2010, which authorized the issuance of $15,250,000 principal amount of general obligation bonds (the "**Authorization**") for the purpose of financing the renovation, construction and improvement of school facilities.

Pursuant to the Authorization, the District has issued:

- $2,200,000 Taxable Direct-Pay New Clean Renewable Energy General Obligation Bonds, 2010 Election, Series A (the "**Series A Bonds**"),
- $4,223,484.70 General Obligation Bonds, 2010 Election, Series B-1 (the "**Series B-1 Bonds**"), and
- $60,000 Federally Taxable General Obligation Bonds, 2010 Election, Series B-2 (the "**Series B-2 Bonds**").

The Series B-2 Bonds matured in 2011 and are no longer outstanding. The Series A Bonds and the Series B-1 Bonds are payable from *ad valorem* taxes levied on taxable parcels in the District. In addition, the Series A Bonds are further secured by and payable from the "Refundable Credit Payments" described in this paragraph. The District designated the Series A Bonds as "New Clean Renewable Energy Bonds" under Section 54C of the Tax Code and the Series A Bonds are "Specified Tax Credit Bonds" under Section 6431(f) of the Tax Code which makes the District eligible for the credit payable from the United States Treasury. Although the District has pledged the Refundable Credit Payments to the Series A Bonds, the District has covenanted to cause the County to levy sufficient *ad valorem* taxes in the District to provide for the payment of principal of and interest on the Series A Bonds. Therefore, in the event the Refundable Credit Payments are not received and deposited in the Debt Service Fund, the County will be required to levy *ad valorem* taxes in an amount sufficient to pay the full amount of debt service on the Series A Bonds.

See "DEBT SERVICE SCHEDULES" for the remaining debt service on the Outstanding Bonds.

SOURCES AND USES OF FUNDS

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

Sources of Funds	
Principal Amount of Series C Bonds	$1,267,414.10
Net Original Issue Discount	(3,502.50)
Total Sources	$1,263,911.60
Uses of Funds	
Building Fund	$1,168,943.59
Debt Service Fund	5,388.89
Costs of Issuance[(1)]	89,579.12
Total Uses	$1,263,911.60

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

THE SERIES C BONDS

Authority for Issuance

The Series C Bonds will be issued under the Bond Law and the Bond Resolution. The Series C Bonds are the third series of bonds to be issued under the Authorization. After the Series C Bonds are issued, there will be $7,499,101.20 of Authorization remaining.

See "DEBT SERVICE SCHEDULES" below for the remaining debt service on the Outstanding Bonds.

Description of the Series C Bonds

The Series C Bonds are being issued as Current Interest Bonds and Capital Appreciation Bonds, both as described below. The Series C Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Series C 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 C Bonds. See "Book-Entry Only System" below and "APPENDIX F – DTC and the Book-Entry Only System."

Current Interest Bonds. The Current Interest Bonds shall be issued in the denominations of $5,000 principal amount each or any integral multiple thereof. Interest on the Current Interest Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2015 (each, an **"Interest Payment Date"**). Each Current Interest Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month preceding the Interest Payment Date (the **"Record Date"**), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to July 15, 2015, in which event it will bear interest from the date of delivery of the Series C Bonds identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Current Interest Bond is in default at the time of authentication thereof, such Current Interest Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Current Interest Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Current Interest Bonds.

Capital Appreciation Bonds. The Capital Appreciation Bonds are dated the date of delivery, and accrete interest from such date. The Capital Appreciation Bonds are issuable in denominations of $5,000 Maturity Value (defined below) or any integral multiple thereof (except that one Capital Appreciation Bond may be issued in a denomination the Maturity Value of which is not an integral multiple of $5,000). The Capital Appreciation Bonds are payable only at maturity or upon earlier redemption, according to the amounts set forth in the accreted value table. See "APPENDIX H - TABLE OF ACCRETED VALUES."

The Capital Appreciation Bonds do not bear current interest, but accrete in value, compounded on each February 1 and August 1, commencing on August 1, 2015, to maturity, from their original principal amounts (the "**Denominational Amount**") on the date of delivery to its stated value at maturity (the "**Maturity Value**"). See "APPENDIX H - TABLE OF ACCRETED VALUES."

The interest portion of the Maturity Value of any Capital Appreciation Bond which is payable on the date of maturity shall represent interest accrued and coming due on such date. The Maturity Value of any Capital Appreciation Bond at maturity shall be payable by check mailed by first-class mail, in lawful money of the United States of America upon presentation and surrender of such Capital Appreciation Bond at the Office of the Paying Agent.

Book-Entry Only System

The Series C 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, New York, New York ("**DTC**"). Purchasers of the Series C Bonds (the "**Beneficial Owners**") will not receive physical certificates representing their interest in the Series C Bonds. Payments of principal of and interest on the Series C Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "**Paying Agent**") to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Series C Bonds.

As long as DTC's book-entry method is used for the Series C Bonds, the Paying Agent will send any notice of prepayment 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 prepayment of the Series C Bonds called for prepayment or of any other action premised on such notice. See "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Paying Agent, the District, and the Underwriter of the Series C 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 C Bonds.

Optional Redemption

Current Interest Bonds. The Current Interest Bonds 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, 2025, 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.

Capital Appreciation Bonds. The Capital Appreciation Bonds maturing on or after August 1, 2025 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 February 1, 2025, or on any date thereafter, at a price equal to 100% of the Accreted Value thereof as of the date of redemption, without premium.

Selection of Bonds for Purpose of Redemption. For the purpose of selection for optional redemption, Series C Bonds will be deemed to consist of $5,000 portions (principal amount or Maturity Value, as applicable), and any such portion may be separately redeemed. Whenever less than all of the outstanding Series C Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Series C Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Series C Bond will be deemed to consist of individual bonds of $5,000 portions (principal amount or Maturity Value, as applicable). The Series C Bonds may all be separately redeemed.

Notice of Redemption

The Paying Agent is required to give notice of the redemption of the Series C Bonds, at the expense of the District, at least 30 days but not more than 60 days prior to the date fixed for redemption. Notice of any redemption of Series C Bonds shall specify: (a) the Series C Bonds or designated portions thereof (in the case of redemption of the Series C 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 C Bonds to be redeemed, (f) the Series C Bond numbers of the Series C Bonds to be redeemed in whole or in part and, in the case of any Series C Bond to be redeemed in part only, the principal amount of such Series C Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Series C Bond to be redeemed in whole or in part. Such notice shall further state that on the specified date there shall become due and payable upon each Series C 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 C Bonds.

Partial Redemption of Bonds

Upon the surrender of any Series C Bond redeemed in part only, the Paying Agent shall execute and deliver to the Owner thereof a new Series C Bond or Bonds of like tenor and maturity and of authorized denominations equal in transfer amounts to the unredeemed portion of the Series C Bond 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 C 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 C Bonds then called for redemption. The District and the Paying Agent have no liability to the 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.

Registration, Transfer and Exchange of 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 C Bonds.

If the book entry system is discontinued, the person in whose name a Series C Bond is registered on the Bond Register shall be regarded as the absolute owner of that Bond. Payment of the principal of and interest on any Series C 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.

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 C Bonds of authorized denominations and of the same maturity. Any Series C 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 C Bonds, (ii) DTC determines to discontinue providing such services and no successor securities depository is named or (iii) DTC requests the District to deliver Series C 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 his duly authorized attorney, upon surrender of such Series C 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 C Bonds shall be required to be made (a) fifteen days prior to an Interest Payment Date or the date established by the Paying Agent for selection of Series C Bonds for redemption until the close of business on the Interest Payment Date or day on which the applicable notice of redemption is given or (b) with respect to a Series C Bond after such Series C Bond has been selected or called for redemption in whole or in part.

Defeasance

The Series C 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 C 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 C Bonds; or

(c) by delivering such Series C 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 C 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 C Bonds and all unpaid interest thereon to maturity, except that, in the case of Series C 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 C 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 C Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Series C 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 C Bond (whether upon or prior to its maturity or the redemption date of such Bond), then all liability of the County and the District in respect of such Series C 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 C 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.

"Federal Securities" means United States Treasury notes, bonds, bills or certificates of indebtedness, or obligations issued by any agency or department of the United States which are secured, directly or indirectly, by the full faith and credit of the United States.

DEBT SERVICE SCHEDULES

The following table shows the debt service schedule with respect to the Series C Bonds, assuming no optional redemptions.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Series C Bonds Debt Service Schedule

Bond Year Ending August 1	Initial Denominational Amount or Principal	Accreted Interest or Interest	Total Debt Service
2015	-	$1,388.89	$1,388.89
2016	-	10,000.00	10,000.00
2017	-	10,000.00	10,000.00
2018	-	10,000.00	10,000.00
2019	-	10,000.00	10,000.00
2020	-	10,000.00	10,000.00
2021	-	10,000.00	10,000.00
2022	-	10,000.00	10,000.00
2023	-	10,000.00	10,000.00
2024	-	10,000.00	10,000.00
2025	-	10,000.00	10,000.00
2026	$3,223.45	11,776.55	15,000.00
2027	3,018.85	11,981.15	15,000.00
2028	-	10,000.00	10,000.00
2029	2,635.75	12,364.25	15,000.00
2030	2,452.85	12,547.15	15,000.00
2031	2,281.90	12,718.10	15,000.00
2032	2,155.55	12,844.45	15,000.00
2033	2,037.80	12,962.20	15,000.00
2034	1,924.95	13,075.05	15,000.00
2035	1,817.00	13,183.00	15,000.00
2036	255,348.75	499,651.25	755,000.00
2037	250,875.25	534,124.75	785,000.00
2038	247,503.60	572,496.40	820,000.00
2039	242,138.40	607,861.60	850,000.00
2040*	250,000.00	8,333.33	258,333.33
Total	$1,267,414.10	$2,447,308.12	$3,714,722.22

* Matures on June 1, 2040.

The following table shows the combined debt service schedule with respect to the Outstanding Bonds and the Series C Bonds, assuming no optional redemptions.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
All Outstanding General Obligation Bonds Debt Service Schedule

Bond Year Ending August 1	Series A Bonds	Series B-1 Bonds[(2)]	Series C Bonds	Total Debt Service
2015[(1)]	$127,801.50	$194,937.50	$1,388.89	324,127.89
2016	137,801.50	199,937.50	10,000.00	347,739.00
2017	142,709.10	204,937.50	10,000.00	357,646.60
2018	147,152.50	214,937.50	10,000.00	372,090.00
2019	151,060.50	224,937.50	10,000.00	385,998.00
2020	159,673.00	234,937.50	10,000.00	404,610.50
2021	162,904.50	247,987.50	10,000.00	420,892.00
2022	170,790.50	252,987.50	10,000.00	433,778.00
2023	178,300.50	262,987.50	10,000.00	451,288.00
2024	185,404.50	277,987.50	10,000.00	473,392.00
2025	192,157.50	288,587.50	10,000.00	490,745.00
2026	198,539.50	298,275.00	15,000.00	511,814.50
2027	209,530.50	307,325.00	15,000.00	531,855.50
2028	--	541,125.00	10,000.00	551,125.00
2029	-	560,325.00	15,000.00	575,325.00
2030	-	583,125.00	15,000.00	598,125.00
2031	-	608,150.00	15,000.00	623,150.00
2032	-	633,150.00	15,000.00	648,150.00
2033	-	654,375.00	15,000.00	669,375.00
2034	-	683,725.00	15,000.00	698,725.00
2035	-	710,600.00	15,000.00	725,600.00
2036	-		755,000.00	755,000.00
2037	-	-	785,000.00	785,000.00
2038	-	-	820,000.00	820,000.00
2039	-	-	850,000.00	850,000.00
2040[(3)]	-	-	258,333.33	258,333.33
Total	$2,163,825.60	$8,185,337.50	$3,714,722.22	$14,063,885.32

(1) Includes February 1, 2015 net interest payments.
(2) Amounts include federal Clean Renewable Energy Bonds subsidies.
(3) Matures on June 1, 2040.

APPLICATION OF PROCEEDS OF THE SERIES C BONDS

Building Fund

Pursuant to the Bond Resolution, the net proceeds from the sale of the Series C Bonds will be paid and credited to the fund established and held by the Mendocino County Treasurer (the "**County Treasurer**") and designated as the "Anderson Valley Unified School District, 2015 Building Fund" (the "**Building Fund**"). Amounts credited to the Building Fund will be expended by the District for the purpose of financing any of the projects for which the Series C Bond proceeds are authorized to be expended under the Authorization and further including all incidental expenses and related costs of issuance. All interest and other gain arising from the investment of proceeds of the Series C Bonds will be retained in the Building Fund and used for the purposes thereof. All moneys held in the Building Fund will be invested in Authorized Investments (as defined in the Bond Resolution) in accordance with the investment policies of the County, as such policies exist at the time of investment. Pursuant to the Bond Resolution and applicable provisions of the Education Code, a portion of the proceeds of the Series C Bonds may be deposited with a fiscal agent for the purpose of paying costs of issuance. See also "APPENDIX G - MENDOCINO COUNTY INVESTMENT POLICY AND QUARTERLY INVESTMENT REPORT" herein.

Debt Service Fund

Pursuant to the Bond Resolution, premium, if any, received by the County from the sale of the Series C Bonds, will be deposited and kept separate and apart in the fund established and held by the County Treasurer and designated as the "Anderson Valley Unified School District, 2015 Debt Service Fund" (the "**Debt Service Fund**"), which is pledged for the payment of the principal of and interest on the Series C Bonds when and as the same become due. All taxes levied by the County for the payment of the principal of and interest and premium (if any) on the Series C Bonds will be deposited in the Debt Service Fund by the County promptly upon apportionment of said levy.

Any moneys remaining in the Debt Service Fund after the Series C Bonds and the interest thereon have been paid, shall be transferred to any other interest and sinking fund or account for general obligation bond indebtedness of the District, including refunding bonds, and in the event there is no such debt outstanding, shall 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 C Bonds

All moneys held in any of the funds or accounts established with the County under the Bond Resolution will be invested in Authorized Investments (as defined in the Bond Resolution) in accordance with the investment policies of the County, as such policies exist at the time of investment. Obligations purchased as an investment of moneys in any fund or account will be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Bond Resolution will be deposited in the fund or account from which such investment was made, and will be expended for the purposes thereof.

In accordance with Government Code Section 53600 et seq., the County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 et seq. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. See “APPENDIX G - MENDOCINO COUNTY INVESTMENT POLICY AND QUARTERLY INVESTMENT REPORT.”

SECURITY FOR THE SERIES C BONDS

Ad Valorem Taxes

Bonds Payable from Ad Valorem Property Taxes. The Series C 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 C 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). The District has other series of general obligation bonds outstanding that are similarly paid from *ad valorem* taxes levied on taxable parcels in the District.

Other Debt Payable from Ad Valorem Property Taxes. In addition to the Series A Bonds and the Series B-1 Bonds, there is other debt issued by entities with jurisdiction in the District, which is payable from *ad valorem* taxes levied on parcels in the District. See “PROPERTY TAXATION – 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 a debt service fund for the Series C Bonds, which is maintained by the County and which is irrevocably pledged for the payment of principal of and interest on the Series C Bonds when due.

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 C 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 C Bonds. Fluctuations in the annual debt service on the Series C 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 land 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, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

Debt Service Fund

The County will establish the Debt Service Fund for the Series C Bonds, which will be established as a separate fund to be maintained distinct from all other funds of the County. All taxes levied by the County for the payment of the principal of and interest and premium (if any) on the Series C Bonds will be deposited in the Debt Service Fund by the County promptly upon the receipt. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the Series C 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 C Bonds as the same becomes due and payable.

If, after payment in full of the Series C Bonds, any amounts remain on deposit in the Debt Service Fund, the District shall transfer such amounts to its general fund, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

Not a County Obligation

The Series C 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 C Bonds. Although the County is obligated to collect the *ad valorem* tax for the payment of the Series C Bonds, the Series C Bonds are not a debt of the County.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing 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. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

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

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

Taxation of State-Assessed Utility Property

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

Assessed Valuation

Assessed Valuation History. The table below shows a recent history of the District's assessed valuation.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Assessed Valuations of All Taxable Property
Fiscal Years 2008-09 to 2014-15

Fiscal Year	Local Secured	Unsecured	Total	% Change
2008-09	428,594,218	22,116,883	450,711,101	7.09%
2009-10	456,087,901	23,358,332	479,446,233	6.38
2010-11	472,882,273	24,129,947	497,012,220	3.66
2011-12	482,059,182	25,516,648	507,575,830	2.13
2012-13	498,483,864	27,360,500	525,844,364	3.60
2013-14	514,673,268	28,170,127	542,843,395	3.23
2014-15	521,716,587	32,623,907	554,340,494	2.12

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table shows the land use of property in the District, as measured by assessed valuation and the number of parcels for fiscal year 2014-15. As shown, the majority of the District's assessed valuation is represented by agricultural property.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
2014-15 Assessed Valuation and Parcels by Land Use

Non-Residential:	**2014-15 Assessed Valuation** [(1)]	**% of Total**	**No. of Parcels**	**% of Total**
Agricultural/Rural/Timber	$247,807,778	47.50%	2,065	61.90%
Commercial	27,329,489	5.24	55	1.65
Vacant Commercial	336,747	0.06	5	0.15
Industrial	14,177,722	2.72	11	0.33
Vacant Industrial	1,362,913	0.26	5	0.15
Government/Social/Institutional	803,961	0.15	25	0.75
Miscellaneous	128,982	0.02	30	0.90
Subtotal Non-Residential	$291,947,592	55.96%	2,196	65.83%
Residential:				
Single Family Residence	$200,728,781	38.48%	843	25.27%
Mobile Home	13,912,261	2.67	90	2.70
Mobile Home Park	647,578	0.12	3	0.09
2+ Residential Units/Apartments	7,469,729	1.43	27	0.81
Vacant Residential	6,989,846	1.34	177	5.31
Subtotal Residential	$229,748,195	44.04%	1,140	34.17%
Total	$521,695,787	100.00%	3,336	100.00%

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

Assessed Valuation of Single Family Residential Parcels. The following table shows a breakdown of the assessed valuations of improved single-family residential parcels in the District, for fiscal year 2014-15.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Per Parcel 2014-15 Assessed Valuation of Single Family Homes

	No. of Parcels	2014-15 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	843	$200,728,781	$238,112	$173,463

2014-15 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	79	9.371%	9.371%	$ 1,138,774	0.567%	0.567%
$25,000 - $49,999	75	8.897	18.268	2,765,398	1.378	1.945
$50,000 - $74,999	58	6.880	25.148	3,546,723	1.767	3.712
$75,000 - $99,999	46	5.457	30.605	4,009,020	1.997	5.709
$100,000 - $124,999	51	6.050	36.655	5,720,714	2.850	8.559
$125,000 - $149,999	58	6.880	43.535	7,823,317	3.897	12.457
$150,000 - $174,999	56	6.643	50.178	9,099,130	4.533	16.990
$175,000 - $199,999	46	5.457	55.635	8,604,963	4.287	21.276
$200,000 - $224,999	30	3.559	59.193	6,379,418	3.178	24.455
$225,000 - $249,999	42	4.982	64.176	9,921,409	4.943	29.397
$250,000 - $274,999	39	4.626	68.802	10,204,733	5.084	34.481
$275,000 - $299,999	25	2.966	71.767	7,166,717	3.570	38.052
$300,000 - $324,999	22	2.610	74.377	6,805,135	3.390	41.442
$325,000 - $349,999	30	3.559	77.936	10,037,690	5.001	46.442
$350,000 - $374,999	22	2.610	80.546	7,982,098	3.977	50.419
$375,000 - $399,999	18	2.135	82.681	7,041,152	3.508	53.927
$400,000 - $424,999	19	2.254	84.935	7,865,058	3.918	57.845
$425,000 - $449,999	11	1.305	86.240	4,783,930	2.383	60.228
$450,000 - $474,999	16	1.898	88.138	7,399,788	3.686	63.915
$475,000 - $499,999	14	1.661	89.798	6,835,692	3.405	67.320
$500,000 and greater	86	10.202	100.000	65,597,922	32.680	100.000
Total	843	100.000%		$200,728,781	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 – Article XIIIA of the California Constitution" in Appendix B.

Under California law, property owners may apply for a Proposition 8 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.

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 C Bonds to increase accordingly, so that the fixed debt service on the Series C Bonds (and other outstanding general obligation bonds, if any) may be paid.

Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in a representative tax rate area (TRA 53-008) during fiscal years 2010-11 through 2014-15. The 2014-15 assessed valuation in TRA 53-008 is $254.2 million, or 45.8% of the total District 2014-15 assessed valuation.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Typical Tax Rates
(TRA 53-008)
Dollars per $100 of Assessed Valuation
Fiscal Years 2010-11 through 2014-15

	2010-11	2011-12	2012-13	2013-14	2014-15
General Tax Rate	1.000	1.000	1.000	1.000	1.000
Mendocino-Lake Community College District	.023	.023	.023	.024	.023
Anderson Valley Unified School District	.056	.062	.062	.057	.056
Total Tax Rate	1.079	1.085	1.085	1.081	1.079

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

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 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%. On July 15, 2008, the County adopted Resolution No. 08-322, which determined that, because the "…County of Mendocino Supplemental Secured Property Tax Roll is now severely delinquent and, by such delinquency, impairs, impedes and disrupts the County of Mendocino's general fund cash flow…", the County discontinued the use of the Teeter Plan as it applies to the supplemental secured property tax rolls. 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.

The table below shows the secured tax charge and delinquency rate for fiscal years 2009-10 through 2013-14.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
2009-10 through 2013-14
Secured Tax Charges and Delinquency Rates

Fiscal Year	Secured Tax Charge [1]	Amt. Del. June 30	% Del. June 30
2009-10	$4,526,676	$81,111	1.79%
2010-11	5,187,921	148,439	2.86
2011-12	5,435,792	102,920	1.89
2012-13	5,619,509	117,517	2.09
2013-14	5,770,684	134,456	2.33

(1) 1% General Fund apportionment.
Source: California Municipal Statistics, Inc.

Major Taxpayers

The following table shows the 20 largest taxpayers in the District as determined by their secured assessed valuations in fiscal year 2014-15.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Largest 2014-15 Local Secured Taxpayers

	Property Owner	Primary Land Use	2014-15 Assessed Valuation	% of Total (1)
1.	Heritage Wine LLC	Vineyards	$ 17,710,694	3.39%
2.	Jackson Family Investments II LLC	Vineyards	10,939,293	2.10
3.	Ferrari Carano Vineyards & Winery LLC	Vineyards	10,713,523	2.05
4.	Anderson Vineyards Inc.	Vineyards	10,446,297	2.00
5.	Peter and Heidi Van Vliet-Knez	Vineyards	10,022,268	1.92
6.	Cakebread Properties	Vineyards	6,976,591	1.34
7.	Mendocino Redwood Company LLC	Timber	5,559,562	1.07
8.	Milla Handley Trustee	Winery	5,280,580	1.01
9.	Navarro Ranch LLC	Vineyards	4,933,992	0.95
10.	The Squirrel and the Cross LLC	Rural	4,116,222	0.79
11.	Foggy Hills Farm LLC	Rural	4,108,977	0.79
12.	Hall Anderson Creek Vineyards LLC	Vineyards	3,772,755	0.72
13.	Goodlands Property Management	Residential	3,527,900	0.68
14.	Murano Vineyards LLC	Vineyards	3,387,044	0.65
15.	Gilman Ordway	Vineyards	3,339,673	0.64
16.	Mailliard Ranch	Rural	3,185,409	0.61
17.	Barbara R. Banke	Vineyards	3,125,332	0.60
18.	Gary N. and Virginia A. Island, Trustees	Rural	2,418,898	0.46
19.	David L. and Linda Gates	Residential	2,354,411	0.45
20.	Hale R. and Janice K. Allen	Rural	2,213,974	0.42
			$118,133,395	22.64%

(1) 2014-15 Local Secured Assessed Valuation: $521,695,787.
Source: California Municipal Statistics, Inc.

Concentration of Ownership. The District derives a portion of its revenues from its share of the one percent levy for general purposes. In addition, the Series C Bonds are secured by the levy and collection of voter-approved *ad valorem* property taxes. The top twenty property owners in the District account for 22.64% of the total assessed valuation in the District, with the top ten secured taxpayers accounting for over 16% of the District's secured assessed valuation. Because the County has adopted the Teeter Plan, whereby taxing entities such as the District are paid the full amount of taxes levied on their behalf, notwithstanding delinquencies or non-payment, failure by a large property taxpayer in the District to pay property taxers is unlikely to have a negative impact on the District's tax collections. Should the County remove tax levies such as *ad valorem* taxes levied for general obligation bonds from the Teeter Plan, or terminate the Teeter Plan, the District's receipt of its share of property taxes could become subject to delinquencies, although the District would then be entitled to interest and penalties accruing on such delinquencies. Notwithstanding the foregoing, the County is under a statutory duty to levy and collect sufficient taxes for payment of the Series C Bonds.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. for debt issued as of March 1, 2015. 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.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
(Debt Issued as of March 1, 2015)

2014-15 Assessed Valuation: $554,340,494

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 3/1/15	
Mendocino County Community College District	5.747%	$3,616,949	
Anderson Valley Unified School District	**100.000**	**6,081,636**	(1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$9,698,585	
OVERLAPPING GENERAL FUND DEBT:			
Mendocino County General Fund Obligations	5.418%	$1,221,488	
Mendocino County Pension Obligation Bonds	5.418	3,700,765	
TOTAL OVERLAPPING GENERAL FUND DEBT		$4,922,253	
COMBINED TOTAL DEBT		$14,620,838	(2)

(1) Excludes general obligation bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2014-15 Assessed Valuation:
Direct Debt (6,081,636)..1.10%
Total Direct and Overlapping Tax and Assessment Debt 1.75%
Combined Total Debt 2.64%

Source: California Municipal Statistics, Inc.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series C Bonds, Assured Guaranty Municipal Corp. ("**AGM**") will issue its Municipal Bond Insurance Policy for the Series C Bonds (the "**Policy**"). The Policy guarantees the scheduled payment of principal of and interest on the Series C Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). On February 18, 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Capitalization of AGM

At March 31, 2015, AGM's policyholders' surplus and contingency reserve were approximately $3,730 million and its net unearned premium reserve was approximately $1,702 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

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

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015); and

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (filed by AGL with the SEC on May 8, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Series C Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Series C Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Series C Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Series C Bonds or uninsured bonds at any time or from time to time.

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

TAX MATTERS

Tax Exemption

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 C 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 imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. The Series C Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "**Tax Code**") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution's interest expense allocable to interest payable on the Series C Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series C Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series C Bonds, and may cause the Series C Bonds to lose their status as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

Bank Qualified. The Code generally prohibits the deduction of interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the Series C Bonds. Banks and financial institutions, however, are permitted an 80% deduction for their interest expense allocable to "qualified tax-exempt obligations" of small governmental units (a) that together with their subordinate entities or entities issuing on their behalf and entities on whose behalf they issue do not reasonably expect to issue in the aggregate more than $10,000,000 of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds in a calendar year), and (b) that designate such obligations as "qualified tax-exempt obligations". By resolution, the District has (a) represented that it expects that it and all of the above-described entities will not issue in the aggregate more than $10,000,000 of tax-exempt obligations during calendar year 2015, and (b) designated the Series C Bonds as "qualified tax-exempt obligations".

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Series C 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 (excluding bond houses and brokers) at which a Series C 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 is 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 C 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 C Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series C Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series C Bonds who purchase the Series C Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series C Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series C Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series C Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series C Bond (said term being the shorter of the Series C 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 C Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series C Bond is amortized each year over the term to maturity of the Series C 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 Series C 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 C Bonds.

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

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

Other Tax Considerations

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

Future legislation, if enacted into law, or clarification of the Tax Code may cause interest on the Series C Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Series C Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Tax Code may also affect the market price for, or marketability of, the Series C Bonds. Prospective purchasers of the Series C Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

CERTAIN LEGAL MATTERS

Legality for Investment

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

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Series C Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Series C 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 C Bonds.

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

Compensation of Certain Professionals

Payment of the fees and expenses of Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel to the District, Eastshore Consulting LLC, as financial advisor to the District, and Nossaman LLP, Irvine, California, as Underwriter’s Counsel, is contingent upon issuance of the Series C Bonds.

CONTINUING DISCLOSURE

The District will execute a Continuing Disclosure Certificate in connection with the issuance of the Series C Bonds in the form attached hereto as Appendix E. The District has covenanted therein, for the benefit of holders and beneficial owners of the Series C Bonds to provide certain financial information and operating data relating to the District to the Municipal Securities Rulemaking Board (an **“Annual Report”**) not later than nine months after the end of the District’s fiscal year (which currently is June 30), commencing March 31, 2016 with the report for the 2014-15 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. Such notices will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter of the Series C Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the **“Rule”**).

The District has prior undertakings pursuant to the Rule. In the previous five years, the District failed to make many filings required by the Rule such as audited financial statements and updated annual operating data.. Such filings have since been made. Identification of such instances of non-compliance does not constitute a representation that such non-compliance was material. The District has undertaken training of District staff to act as its own dissemination agent in the future and is now aware of the requirements under the Rule and will be changing internal policies to ensure future compliance. The District will serve as its dissemination agent with respect to all of such undertakings pursuant to the Rule.

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.

RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**") is expected to assign ratings of "AA," to the Series C Bonds, with the understanding that AGM will issue the Policy with respect to the Series C Bonds at closing.

In addition, S&P has assigned its rating of "A+" to the Series C Bonds. The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement). Such rating reflects only the view of S&P and explanations of the significance of such rating may be obtained only from S&P. There is no assurance that any credit ratings given to the Series C 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 such agency's 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 C Bonds.

UNDERWRITING

The Series C Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "**Underwriter**"). The Underwriter has agreed to purchase the Series C Bonds at a price of $1,252,504.87 which is equal to the initial principal amount of the Series C Bonds of $1,267,414.10, less original issue discount of $3,502.50, less an Underwriter's discount of $11,406.73. The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Series C Bonds if any Series C Bonds are purchased. The Underwriter intends to offer the Series C Bonds to the public initially at the prices and/or yields set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Series C Bonds to the public. The Underwriter may offer and sell Series C Bonds to certain dealers (including dealers depositing Series C Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Series C Bonds to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Series C Bonds at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

ADDITIONAL INFORMATION

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

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 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 C Bonds.

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

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

By: /s/ James R. Collins
Superintendent

APPENDIX A

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2013-14

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ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended June 30, 2014

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ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2014
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FINANCIAL SECTION

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SUPPLEMENTARY INFORMATION

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FINDINGS AND QUESTIONED COSTS

Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Anderson Valley Unified School District
Boonville, California

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Anderson Valley Unified School District, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Anderson Valley Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE
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www.nncpas.com • *Licensed by the California Board of Accountancy*

Emphasis of Matter
As discussed in Note 1.G. to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. The adoption of this standard required retrospective application resulting in a $313,286 reduction of previously reported net position at July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the budgetary comparison information on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Anderson Valley Unified School District's basic financial statements. The other 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 other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated November 19, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro + Nigro, PC

Murrieta, California
November 19, 2014

This discussion and analysis of Anderson Valley Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position increased 25.4% over the course of the year.
- Overall revenues were $8.9 million, $1.1 million more than expenses.
- The total cost of basic programs was $7.8 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just $5.7 million.
- District average daily attendance (ADA) in grades K-12 decreased by 4, or 0.8%.

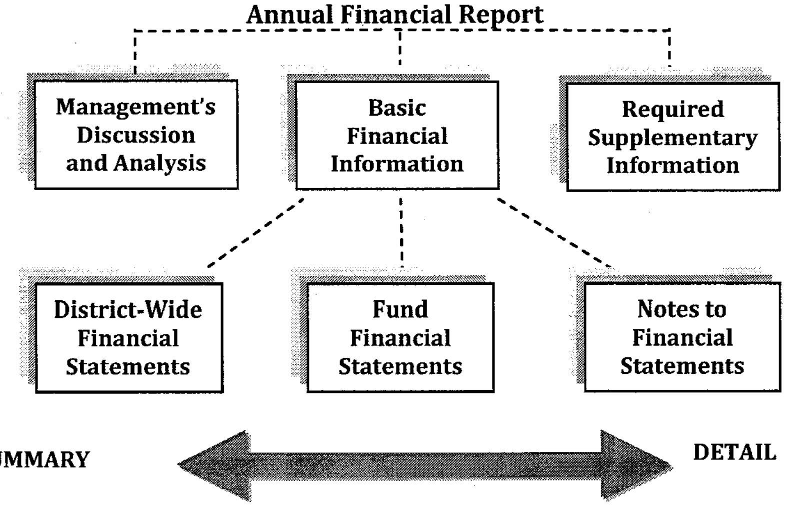
OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements.*
  - The *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Anderson Valley Unified School District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses, & Changes in Fund Net Position • Statement of Cash Flows	• Statement of Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements
The district-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 District'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 district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements
The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has three kinds of funds:

- ***Governmental funds*** – All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements 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. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

- ***Proprietary funds*** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for health, dental, and vision insurance.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

- ***Fiduciary funds*** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2014, than it was the year before – increasing 25.4% to $5.4 million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase
	2014	2013*	(Decrease)
Current assets	$ 3,747,525	$ 3,338,435	$ 409,090
Capital assets	8,463,383	7,712,443	750,940
Total assets	12,210,908	11,050,878	1,160,030
Current liabilities	313,515	162,357	151,158
Long-term liabilities	6,536,409	6,614,315	(77,906)
Total liabilities	6,849,924	6,776,672	73,252
Net position			
Net investment in capital assets	3,082,835	1,861,800	1,221,035
Restricted	769,644	670,043	99,601
Unrestricted	1,508,505	1,742,363	(233,858)
Total net position	$ 5,360,984	$ 4,274,206	$ 1,086,778

*As restated

Changes in net position, governmental activities. The District's total revenues increased 19.8% to $8.9 million (See Table A-2). The increase is due primarily to the LCFF funding model.

The total cost of all programs and services increased 4.2% to $0.3 million. The District's expenses are predominantly related to educating and caring for students, 79.0%. The purely administrative activities of the District accounted for just 7.7% of total costs. A significant contributor to the increase in costs was spending for instructional services and general administrative services.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2

	Governmental Activities		Variance Increase
	2014	2013	(Decrease)
Total Revenues	$ 8,878,173	$ 7,413,348	$ 1,464,825
Total Expenses	7,791,395	7,479,358	312,037
Increase (decrease) in net position	$ 1,086,778	$ (66,010)	$ 1,152,788

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $3.3 million, which is above last year's ending fund balance of $3.0 million. The primary cause of the increased fund balance is due to the additional revenues received under the local control funding model.

General Fund Budgetary Highlights
Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by over $0.8 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – decreased $90,000 due to a reduction of staff.
- Books and supplies and other services – increased about $0.4 million, to budget carryover funds.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about $1.6 million, the actual results for the year show that revenues fell short of expenditures by $49,271. Actual revenues were $1.9 million less than anticipated, and expenditures were approximately $0.3 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2014 that will be carried over into the 2014-15 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets
By the end of 2013-14 the District had invested $1.1 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was approximately $0.3 million.

Table A-3: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities		Variance Increase
	2014	2013	(Decrease)
Land	$ 69,300	$ 69,300	$ -
Construction in progress	1,704,125	6,612,524	(4,908,399)
Buildings	6,408,739	725,336	5,683,403
Equipment	281,219	305,283	(24,064)
Total	$ 8,463,383	$ 7,712,443	$ 750,940

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At June 30, 2014 the District had $6.5 million in debt, consisting entirely of general obligation bonds and compensated absences, a decrease of 1.2% from last year - as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements).

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2014	2013	
General obligation bonds	$ 6,534,728	$ 6,608,217	$ (73,489)
Compensated absences	1,681	6,098	(4,417)
Total	$ 6,536,409	$ 6,614,315	$ (77,906)

FACTORS BEARING ON THE DISTRICT'S FUTURE

Budget Overview

The Governor signed the *2014-15 Budget Act* on June 20, 2014. In late June, the Governor signed 17 budget-related bills into law. The 2014-15 budget package assumes total state spending of $152.3 billion, an increase of 8.6 percent over revised totals for 2013-14. This consists of $108 billion from the General Fund and the Education Protection Account created by Proposition 30 (2012), and $44.3 billion from special funds. The budget package assumes spending from federal funds to be $98 billion, an increase of 20.9 percent over 2013-14 revised levels, mainly due to increases in the health area of the budget. Bond spending is expected to decline 53 percent in 2014-15.

Major Features of the 2014-15 Spending Plan

Similar to the 2013-14 budget, the 2014-15 spending plan makes targeted augmentations in a few areas while paying down several billion dollars in key liabilities. In addition, if certain revenue and other targets are met, additional spending—mostly for paying down debt—would be "triggered" under the budget plan.

Fully Funds CalSTRS Pension Program

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a $74 billion shortfall. Budget-related legislation aims to erase the unfunded liability in 32 years by increasing contributions from the state, school and community college districts, and teachers.

Proposition 98

The budget plan includes large Proposition 98 funding increases for schools and community colleges. The Proposition 98 budget continues implementation of the Local Control Funding Formula, pays down most of the remaining payment deferrals, and pays down several hundred million dollars of other Proposition 98 obligations.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Spending Changes
Funding for K-14 education increases significantly under the new budget package. In the sections that follow, we describe how the State is spending these funds.

Deferral Payments

Pays Down $5.2 Billion in Outstanding Deferrals
The budget package pays down $5.2 billion in outstanding deferrals ($4.7 billion for schools and $498 million for community colleges). Of the total paydown, $1.4 billion is designated as 2012-13 spending, $3.1 billion is designated as 2013-14 spending, and $662 million is designated as 2014-15 spending. Under the budget plan, $992 million in deferrals ($897 million for schools and $94 million for community colleges) would remain outstanding at the end of 2014-15.

Eliminates Remaining Deferrals if Minimum Guarantee Exceeds Estimates
The budget package pays down additional deferrals (potentially eliminating all outstanding deferrals) if subsequent estimates of the 2013-14 and 2014-15 minimum guarantees are higher than the administration's May 2015 estimates. Effectively, the budget plan earmarks the first $992 million in potential additional 2013-14 and 2014-15 spending for deferral paydowns.

Mandates

Pays Down $450 Million in Outstanding Education Mandate Claims
We estimate the State currently has a backlog of more than $5 billion in unpaid claims for education mandates. The budget includes $400 million to reduce the mandate backlog for schools. (Of this amount, $287 million is 2014-15 Proposition 98 funding and $113 million is from unspent prior-year fund.) Funds will be distributed to schools and community colleges on a per-student basis.

Adds Several Mandates to School and Community College Block Grants
The Commission on State Mandates recently approved seven new reimbursable education mandates. Six of these mandates apply to schools, two apply to community colleges, and one applies to both schools and community colleges. For schools, the budget adds to the block grant mandates related to (1) parental involvement procedures, (2) compliance activities associated with the *Williams v. California* case, (3) uniform complaint procedures, (4) developer fees, (5) charter school oversight, and (6) public contracts.

Energy Grants

State Provides Second-Year Funding for Energy Projects
Passed by voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings. The 2014-15 budget provides $345 million Proposition 98 General Fund for Proposition 39 school and community college energy programs. Specifically, the budget provides $279 million for school grants, $38 million for community colleges grants, and $28 million for the revolving loan program for both schools and community colleges. (Estimates of Proposition 39 revenues are lower in 2014-15 compared to 2013-14, resulting in less provided for school and community college grants.) The budget also provides $8 million non-Proposition 98 General Fund for Proposition 39 job-training programs administered by the California Conservation Corps ($5 million) and the California Workforce Investment Board ($3 million).

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Chapter 751 Obligation

Makes Final $410 Million Payment on Outstanding Proposition 98 Obligations From 2004-05 and 2005-06

The 2014-15 budget makes a final $410 million payment to retire the state's obligation set forth in Chapter 751, Statutes of 2006 (SB 1133, Torlakson). Chapter 751 required the state to provide additional annual school and community college payments until a total of $2.8 billion had been provided. Of the amount provided in the budget package, $316 million is for continued funding of the QEIA program ($268 million for schools and $48 million for community colleges) and $94 million is to pay down a separate state obligation related to school facility repairs.

K-12 Education

The largest K-12 augmentation is for the second-year phase in of the recently adopted Local Control Funding Formula (LCFF). The budget also includes several other school-specific augmentations—some of which relate to school operations and some of which relate to school infrastructure. In addition to these budget actions, the Legislature adopted trailer legislation relating to school district reserves and independent study (IS) programs.

Operational Funding

Provides $4.7 Billion for LCFF Implementation

The budget plan includes $4.7 billion in additional funding for the school district LCFF—resulting in per-pupil LCFF funding that is 12 percent higher than 2013-14 levels. The additional funding is sufficient to close 29 percent of the gap between districts' 2013-14 funding levels and their target funding rates. We estimate the 2014-15 funding level is approximately 80 percent of the full implementation cost. The budget also includes $26 million for the LCFF for county offices of education (COEs). This increase is sufficient to bring all COEs up to their LCFF funding targets in 2014-15.

Other Notable K-12 Actions

The budget provides $54 million to continue implementation of new student assessments and $33 million to provide a cost-of-living adjustment (COLA) for several K-12 programs (including special education and child nutrition programs).

Infrastructure

Allocates $189 Million for Emergency Repair Program (ERP)

Chapter 899, Statutes of 2004 (SB 6, Alpert), created the ERP to fund critical repair projects at certain low-performing schools. Chapter 899 requires the state to contribute a total of $800 million for the program. The state has provided $338 million to date. The budget provides $189 million for the ERP in 2014-15.

Allocates $27 Million in One-Time Funds for School Internet Infrastructure

The budget includes $27 million in one-time Proposition 98 funding for schools to purchase Internet connectivity infrastructure upgrades required to administer new computer-based tests. Grantees are to be selected based on the results of a statewide assessment of schools' Internet connectivity infrastructure to be completed by the K-12 High-Speed Network (HSN) by March 1, 2015.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Shifts Remaining Bond Authority Among Certain School Facility Programs
The budget package shifts remaining bond authority from the Career Technical Education (CTE) and High Performance Incentive (HPI) school facility programs to the New Construction and Modernization facility programs.

Local Reserves

Requires School Districts to Disclose and Justify Reserves
Chapter 32, Statutes of 2014 (SB 858, Committee on Budget and Fiscal Review), creates new disclosure requirements effective beginning in 2015-16 for districts that have reserves exceeding state-specified minimums. If a district's budget reserve exceeds the state minimum, Chapter 32 requires the district to identify the amount of reserves that exceed the minimum and explain why the higher reserve levels are necessary. The district must disclose this information in a public meeting and each time it submits a budget to its COE.

Caps Local Reserves Some Years Under Proposition 2
Proposition 2 on the November 2014 ballot set forth new constitutional provisions relating to state reserves, including provisions relating to a new state reserve for schools. With the voters approving Proposition 2, certain provisions of Chapter 32 go into effect. These provisions cap school districts' reserve levels the year after the state makes a deposit into the new state reserve for schools. The caps for most districts will range from 3 percent to 10 percent of a district's annual expenditures.

All of these factors were considered in preparing Anderson Valley Unified School District's budget for the 2014-15 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jennifer Ryun, Business Manager, PO Box 457, Boonville, CA 95415, (707) 895-3774.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Statement of Net Position

June 30, 2014

	Total Governmental Activities
ASSETS	
Current Assets:	
Cash	$ 2,875,657
Accounts receivable	871,868
Total current assets	3,747,525
Capital Assets:	
Non-depreciable assets	1,773,425
Depreciable assets	10,859,091
Less accumulated depreciation	(4,169,133)
Total capital assets, net of depreciation	8,463,383
Total assets	12,210,908
LIABILITIES	
Current Liabilities:	
Accounts payable	313,275
Unearned revenue	240
Total current liabilities	313,515
Long-Term Liabilities:	
Due or payable within one year	121,428
Due or payable after one year	6,414,981
Total long term liabilities	6,536,409
Total liabilities	6,849,924
NET POSITION	
Net investment in capital assets	3,082,835
Restricted for:	
Capital projects	48,355
Debt service	348,041
Categorical programs	373,248
Unrestricted	1,508,505
Total net position	$ 5,360,984

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Instructional Services:				
Instruction	$ 4,565,506	$ 132,966	$ 1,334,285	$ (3,098,255)
Instruction-Related Services:				
Supervision of instruction	29,582	-	14,397	(15,185)
Instructional library, media and technology	192,658	-	15,204	(177,454)
School site administration	535,584	7,262	7,273	(521,049)
Pupil Support Services:				
Home-to-school transportation	264,762	-	27,874	(236,888)
Food services	420,516	21,278	299,921	(99,317)
All other pupil services	148,583	2,475	21,451	(124,657)
General Administration Services:				
Data processing services	30,881	-	-	(30,881)
Other general administration	565,408	8,118	57,226	(500,064)
Plant services	675,321	4,194	59,792	(611,335)
Ancillary services	75,324	3,864	24,957	(46,503)
Community services	12,206	-	975	(11,231)
Enterprise activities	180	14	93	(73)
Interest on long-term debt	197,855	-	-	(197,855)
Other outgo	77,029	-	-	(77,029)
Total Governmental Activities	$ 7,791,395	$ 180,171	$ 1,863,448	(5,747,776)

General Revenues:	
Property taxes	2,263,358
Federal and state aid not restricted to specific purpose	4,296,324
Interest and investment earnings	14,470
Interagency revenues	111,511
Miscellaneous	148,891
Total general revenues	6,834,554
Change in net position	1,086,778
Net position - July 1, 2013, as originally stated	4,587,492
Adjustment for restatement - Note 1.G.	(313,286)
Net position - July 1, 2013, as restated	4,274,206
Net position - June 30, 2014	$ 5,360,984

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2014

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 1,074,123	$ 1,210,717	$ 517,523	$ 2,802,363
Accounts receivable	766,109	-	105,759	871,868
Due from other funds	2,127	-	39,017	41,144
Total Assets	$ 1,842,359	$ 1,210,717	$ 662,299	$ 3,715,375
LIABILITIES AND FUND BALANCES				
Liabilities				
Cash overdraft	$ -	$ -	$ 78,536	$ 78,536
Accounts payable	96,956	165,006	10,009	271,971
Due to other funds	39,017	-	2,127	41,144
Unearned revenue	240	-	-	240
Total Liabilities	136,213	165,006	90,672	391,891
Fund Balances				
Nonspendable	5,000	-	-	5,000
Restricted	304,857	1,045,711	464,787	1,815,355
Committed	-	-	78,023	78,023
Assigned	-	-	28,817	28,817
Unassigned	1,396,289	-	-	1,396,289
Total Fund Balances	1,706,146	1,045,711	571,627	3,323,484
Total Liabilities and Fund Balances	$ 1,842,359	$ 1,210,717	$ 662,299	$ 3,715,375

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014

Total fund balances - governmental funds		$	3,323,484
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $12,632,516 and the accumulated depreciation is $(4,169,133).			8,463,383
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:			(39,345)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
General obligation bonds payable	6,534,728		
Compensated absences	1,681		
Total:			(6,536,409)
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 and liabilities of internal services funds are reported with governmental activities in the statement of net position. Net position for internal services funds was:			149,871
Total net position - governmental activities		$	5,360,984

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2014

REVENUES	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
LCFF sources	$ 4,670,184	$ -	$ 39,017	$ 4,709,201
Federal sources	773,146	-	333,209	1,106,355
Other state sources	440,329	1,434,624	21,979	1,896,932
Other local sources	598,845	6,467	578,719	1,184,031
Total Revenues	6,482,504	1,441,091	972,924	8,896,519
EXPENDITURES				
Current:				
Instruction	4,086,957	-	165,709	4,252,666
Instruction-related services:				
Supervision of instruction	29,582	-	-	29,582
Instructional library, media and technology	192,658	-	-	192,658
School site administration	511,205	-	24,379	535,584
Pupil support services:				
Home-to-school transportation	240,698	-	-	240,698
Food services	30,794	-	408,067	438,861
All other pupil services	148,583	-	-	148,583
Ancillary services	75,324	-	-	75,324
Community services	989	-	11,217	12,206
Enterprise activities	-	-	180	180
General administration services:				
Data processing services	30,881	-	-	30,881
Other general administration	520,274	-	-	520,274
Plant services	615,376	-	59,945	675,321
Transfers of indirect costs	(28,575)	-	28,575	-
Other outgo	77,029	-	-	77,029
Capital outlay	-	1,087,844	-	1,087,844
Debt service:				
Principal	-	-	97,216	97,216
Interest	-	-	174,945	174,945
Total Expenditures	6,531,775	1,087,844	970,233	8,589,852
Excess (Deficiency) of Revenues Over (Under) Expenditures	(49,271)	353,247	2,691	306,667
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	8,204	52,339	60,543
Interfund transfers out	(60,543)	-	-	(60,543)
Total Other Financing Sources and Uses	(60,543)	8,204	52,339	-
Net Change in Fund Balances	(109,814)	361,451	55,030	306,667
Fund Balances, July 1, 2013	1,815,960	684,260	516,597	3,016,817
Fund Balances, June 30, 2014	$ 1,706,146	$ 1,045,711	$ 571,627	$ 3,323,484

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Total net change in fund balances - governmental funds		$	306,667
Amounts reported for governmental *activities* in the statement of activities are different because:			
In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
Expenditures for capital outlay	1,087,844		
Depreciation expense	(336,904)		
Net:			750,940
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 a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			97,216
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium for the period is:			11,428
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, is:			817
In governmental funds, compensated absences are measured by the amount 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:			4,417
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In government-wide statement of activities, however, this is recorded as an interest expense for the period.			(35,155)
The District uses an internal service fund to charge the costs of certain activities to individual funds. The change in net assets of the internal service fund are reported with governmental activities in the statement of activities.			(49,552)
Total change in net position - governmental activities		$	1,086,778

	Governmental Activities Internal Service Fund
ASSETS	
Cash	$ 151,830
Total assets	151,830
LIABILITIES	
Accounts payable	1,959
Total liabilities	1,959
NET POSITION	
Restricted for employee benefits	149,871
Total net position	$ 149,871

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Charges to other funds	$ 160,110
Total operating revenues	160,110
OPERATING EXPENSES	
Employee benefits	74,154
Services and other operating expenses	136,393
Total operating expenses	210,547
OPERATING INCOME	(50,437)
NON-OPERATING REVENUES	
Interest income	885
Change in net position	(49,552)
Net position, July 1, 2013	199,423
Net position, June 30, 2014	$ 149,871

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	$ 170,294
Cash payments for benefits, insurance claims and operating costs	(208,788)
Net cash provided (used) by operating activities	(38,494)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	885
Net increase (decrease) in cash	(37,609)
Cash, July 1, 2013	189,439
Cash, June 30, 2014	$ 151,830
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ (50,437)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Decrease in due to other funds	(200)
Decrease in accounts receivable	184
Increase in accounts payable	1,959
Decrease in due from other funds	10,000
Net cash provided (used) by operating activities	$ (38,494)

	Agency Funds Student Body Funds
Assets	
Cash	$ 28,338
Total Assets	$ 28,338
Liabilities	
Due to student groups	$ 28,338
Total Liabilities	$ 28,338

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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 Anderson Valley Unified School District, this includes general operations, food service, and student related activities of the District.

The District has no component units that meet the criteria of GASB Statement No. 14 to be included in the financial statements of the District.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial 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 revenues, and other nonexchange transactions.

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

Fund Financial Statements
The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - *governmental*, *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 and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Governmental Funds
The District maintains the following major governmental funds:

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

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds
The District maintains the following non-major governmental funds:

Special Revenue Funds:

Adult Education Fund: This fund is used to account for resources committed to adult education programs maintained by the District.

Child Development Fund: This fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Deferred Maintenance Fund: This fund is used to account for resources committed to major repair or replacement of District property.

Capital Projects Fund:

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

Proprietary Funds
Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

Internal Service Funds are used to account for services rendered to the District's other organizational units and funds on a cost-reimbursement basis. The District maintains the following internal service funds:

Dental Insurance Fund: This fund is used to account for the insurance costs of providing employee dental benefits.

Vision Insurance Fund: This fund is used to provide self-insurance for employee vision benefits.

Staywell Foundation Employee Health Benefit Trust Fund: This fund is used to account for an employee side-benefit fund in which the employee may earn a vested interest.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fiduciary Funds
Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary fund:

Agency Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

2. Measurement Focus, Basis of Accounting

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements
The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and 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. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements
Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

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

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Land Improvements	20 years
Vehicles	8-20 years

3. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

4. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Fund Balances
The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

6. Deferred Outflows/Inflows of Resources
In addition to assets, the statement of net position 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 statement of net position 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 will not be recognized as an inflow of resources (revenue) until that time. The District has no deferred inflows of resources.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

G. New GASB Pronouncements

During the 2013-14 fiscal year, the following GASB Pronouncement became effective:

Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Due to the implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2013 by $313,286, which is the amount of unamortized debt issuance costs at July 1, 2013.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements (continued)

Statement No. 65 (continued)
Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

NOTE 2 - CASH

Cash at June 30, 2014 was reported at fair value and consisted of the following:

	Governmental Activities			
	Governmental Funds	Proprietary Fund	Total	Fiduciary Funds
Pooled Funds:				
Cash in County Treasury	$ 2,718,827	$ 151,830	$ 2,870,657	$ -
Total Pooled Funds	2,718,827	151,830	2,870,657	-
Deposits:				
Cash on hand and in banks	-	-	-	28,338
Cash in revolving fund	5,000	-	5,000	-
Total Deposits	5,000	-	5,000	28,338
Total Cash	$ 2,723,827	$ 151,830	$ 2,875,657	$ 28,338

Pooled Funds
In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

NOTE 2 – CASH (continued)

Pooled Funds (continued)

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2014, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public 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, 2014, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2014 consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal Government:			
Categorical aid programs	$ 124,462	$ 94,095	$ 218,557
State Government:			
LCFF sources	411,474	-	411,474
Lottery	14,473	-	14,473
Categorical aid programs	17,529	4,125	21,654
Local:			
Special education	84,339	-	84,339
Interagency services	105,171	-	105,171
Miscellaneous	8,661	7,539	16,200
Total	$ 766,109	$ 105,759	$ 871,868

NOTE 4 - INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2014 consisted of the following:

General Fund due to Adult Education Fund for LCFF funding that rolled up into the unrestricted resource	$	39,017
Adult Education Fund due to General Fund for indirect costs		2,127
Total	$	41,144

B. Transfers To/From Other Funds

Transfers to/from other funds for the year ended June 30, 2014 consisted of the following:

General Fund transfer to Cafeteria Fund for cafeteria manager's salary and benefits	$	52,339
General Fund transfer to Building Fund for repayment of salary and benefits as a result prior year audit finding		8,204
Total	$	60,543

NOTE 5 – FUND BALANCES

Minimum Fund Balance Policy

Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

Fund balance of the District may be committed for a specific source by formal action of the Board of Trustees. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Trustees. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

The Board of Trustees recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of 4% of the District's general fund annual operating expenditures. If a fund balance drops below 4%, it shall be recovered at a rate of 1% minimally, each year.

The Deferred Maintenance Fund is committed for facility upgrades and maintenance while the Building Fund is restricted to modernization projects as specified in Measure A, passed by voters in June of 2010.

NOTE 5 – FUND BALANCES (continued)

At June 30, 2014, fund balances of the District's governmental funds are classified as follows:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	$ 5,000	$ -	$ -	$ 5,000
Total Nonspendable	5,000	-	-	5,000
Restricted:				
Categorical programs	304,857	-	68,333	373,190
Food services	-	-	58	58
Capital projects	-	1,045,711	48,355	1,094,066
Debt service	-	-	348,041	348,041
Total Restricted	304,857	1,045,711	464,787	1,815,355
Committed:				
Deferred maintenance program	-	-	78,023	78,023
Total Committed	-	-	78,023	78,023
Assigned:				
Child development program	-	-	3,092	3,092
Adult education program	-	-	25,725	25,725
Total Assigned	-	-	28,817	28,817
Unassigned:				
Reserve for economic uncertanties	625,000	-	-	625,000
Remaining unassigned balances	771,289	-	-	771,289
Total Unassigned	1,396,289	-	-	1,396,289
Total	$ 1,706,146	$ 1,045,711	$ 571,627	$ 3,323,484

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance, July 1, 2013	Additions	Retirements	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	$ 69,300	$ -	$ -	$ 69,300
Construction in progress	6,612,524	1,087,844	5,996,243	1,704,125
Total capital assets not being depreciated	6,681,824	1,087,844	5,996,243	1,773,425
Capital assets being depreciated:				
Improvement of sites	453,971	-	-	453,971
Buildings	3,860,810	5,996,243	-	9,857,053
Equipment	548,067	-	-	548,067
Total capital assets being depreciated	4,862,848	5,996,243	-	10,859,091
Accumulated depreciation for:				
Improvement of sites	(453,971)	-	-	(453,971)
Buildings	(3,135,474)	(312,840)	-	(3,448,314)
Equipment	(242,784)	(24,064)	-	(266,848)
Total accumulated depreciation	(3,832,229)	(336,904)	-	(4,169,133)
Total capital assets being depreciated, net	1,030,619	5,659,339	-	6,689,958
Governmental activities capital assets, net	$ 7,712,443	$ 6,747,183	$ 5,996,243	$ 8,463,383

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 312,840
Pupil services:	
Home-to-school transportation	24,064
Total depreciation expense	$ 336,904

NOTE 7 – LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2014 were as follows:

	Balance, July 1, 2013	Additions	Deductions	Balance, June 30, 2014	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	$ 6,283,485	$ -	$ 97,216	$ 6,186,269	$ 104,633
Accreted interest	73,314	37,939	2,784	108,469	5,367
Issuance premium	251,418	-	11,428	239,990	11,428
Subtotal	6,608,217	37,939	111,428	6,534,728	121,428
Compensated absences	6,098	-	4,417	1,681	-
Total	$ 6,614,315	$ 37,939	$ 115,845	$ 6,536,409	$ 121,428

Payments for general obligation bonds are made by the Bond Interest and Redemption fund. Compensated absences will be paid for by the fund for which the employee worked.

NOTE 7 – LONG-TERM DEBT (continued)

General Obligation Bonds - Measure A

Bonds were authorized at an election of the registered voters of the District held on June 8, 2010 at which more than 55 percent of the voters authorized the issuance and sale of general obligation bonds not to exceed $15,250,000. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest and principal of the bonds. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of the issuance of the bonds.

Following is a summary of bonds issued by the District:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2013	Additions	Deductions	Balance, June 30, 2014
Series A	10/13/10	8/1/2027	1.3%-5.6%	$ 2,200,000	$ 2,085,000	$ -	$ 90,000	$ 1,995,000
Series B-1	10/13/10	8/1/2035	2.0%-6.06%	4,223,485	4,198,485	-	7,216	4,191,269
				$ 6,423,485	$ 6,283,485	$ -	$ 97,216	$ 6,186,269
				Accreted Interest:				
				Series B-1	$ 73,314	$ 37,939	$ 2,784	$ 108,469

The District has designated the Series A Bonds as "New Clean Renewable Energy Bonds" under Section 54C of the Tax Code and intends that the Series A Bonds be "Specified Tax Credit Bonds" under Section 6431(f) of the Tax Code which makes the District eligible for the credit payable from the United States Treasury. Such credit payments received by the District are referred to herein as "Refundable Credit Payments." The District has covenanted to deposit the Refundable Credit Payments with the County to be credited to the Debt Service Fund for the Series A Bonds.

The amounts required to amortize outstanding bonds at June 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2014-15	$ 104,633	$ 268,486	$ 373,119
2015-16	114,289	271,072	385,361
2016-17	125,260	271,675	396,935
2017-18	130,846	271,946	402,792
2018-19	138,131	274,848	412,979
2019-24	860,308	1,370,541	2,230,849
2024-29	1,670,000	873,768	2,543,768
2029-34	1,737,802	1,301,324	3,039,126
2034-36	1,305,000	89,325	1,394,325
Total	$ 6,186,269	$ 4,992,985	$ 11,179,254

NOTE 8 – JOINT POWERS AGREEMENTS

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During the fiscal year ending June 30, 2014, the District participated in several joint powers agreements (JPAs) to manage these risks. There were no significant reductions in coverage during the year. Settled claims have not exceeded coverage in any of the past three years.

NOTE 8 – JOINT POWERS AGREEMENTS (continued)

The various JPAs and the services they provide the District are as follows:

The Schools Insurance Group Northern Alliance (SIGNAL and SIGNAL II), the Schools Excess Liability Fund (SELF), and the Mendocino Stay Well Joint Powers Authority (MSJPA). SIGNAL provides workers' compensation, SIGNAL II provides property and liability insurance, SELF provides for self-funding and risk management, and MSJPA provides self-insurance for medical claims to member districts.

The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. The JPAs are governed by boards consisting of representatives from the member agencies. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board. Each member district pays premiums commensurate with the level of coverage or service requested, and shares surpluses and deficits proportionate to its participation in the JPA.

	SIGNAL II June 30, 2013 Audited	SELF June 30, 2013 Audited
Total Assets	$ 1,036,792	$ 166,243,000
Total Liabilities	155,739	129,963,000
Net Position	$ 881,053	$ 36,280,000
Total Operating Revenues	$ 405,097	$ 10,829,000
Total Operating Expenses	363,885	14,165,000
Operating Income (Loss)	41,212	(3,336,000)
Total Non-Operating Revenues	3,116	760,000
Change in Net Position	$ 44,328	$ (2,576,000)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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

B. Construction Commitments
As of June 30, 2014, the District had commitments with respect to unfinished capital projects of $0.7 million to be paid from a combination of State and local funds.

NOTE 10 - EMPLOYEE RETIREMENT PLANS

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

NOTE 10 - EMPLOYEE RETIREMENT PLANS (continued)

Plan Description and Provisions

Public Employees' Retirement System (PERS)

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 Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy
Active plan members are required to contribute 7.0% of their salary 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 the CalPERS Board of Administration. The required employer contribution for fiscal year 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution		Percent of Required Contribution
2013-14	$	170,003	100%
2012-13	$	160,074	100%
2011-12	$	140,274	100%

State Teachers' Retirement System (STRS)

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, disability 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 comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at www.calstrs.com.

Funding Policy
Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution		Percent of Required Contribution
2013-14	$	183,301	100%
2012-13	$	185,307	100%
2011-12	$	176,359	100%

NOTE 10 - EMPLOYEE RETIREMENT PLANS (continued)

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately $95,000 to STRS (4.267% of salaries subject to STRS in 2013-14).

NOTE 11 - FUTURE GASB PRONOUNCEMENT

The following statement issued by the Governmental Accounting Standards Board (GASB) will become effective in 2014-15 and is expected to have a significant impact on the District's financial reporting:

Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27 (Issued 06/12)*
The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Cost-Sharing Employers
In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

Required Supplementary Information

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ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
LCFF Sources	$ 5,332,844	$ 6,467,522	$ 4,670,184	$ (1,797,338)
Federal	672,865	879,715	773,146	(106,569)
Other State	1,075,886	427,713	440,329	12,616
Other Local	480,816	616,783	598,845	(17,938)
Total Revenues	7,562,411	8,391,733	6,482,504	(1,909,229)
Expenditures				
Current:				
Certificated Salaries	2,404,239	2,435,307	2,469,417	(34,110)
Classified Salaries	1,227,229	1,285,153	1,206,184	78,969
Employee Benefits	1,730,852	1,731,511	1,710,873	20,638
Books and Supplies	327,394	630,763	437,243	193,520
Services and Other Operating Expenditures	566,062	700,567	631,029	69,538
Other Outgo	-	-	77,029	(77,029)
Total Expenditures	6,255,776	6,783,301	6,531,775	251,526
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,306,635	1,608,432	(49,271)	(1,657,703)
Other Financing Sources and Uses				
Interfund Transfers Out	(165,715)	(154,560)	(60,543)	94,017
Total Other Financing Sources and Uses	(165,715)	(154,560)	(60,543)	94,017
Net Change in Fund Balance	1,140,920	1,453,872	(109,814)	(1,563,686)
Fund Balances, July 1, 2013	1,815,960	1,815,960	1,815,960	-
Fund Balances, June 30, 2014	$ 2,956,880	$ 3,269,832	$ 1,706,146	$ (1,563,686)

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.

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2014, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

General Fund:		
Certificated salaries	$	34,110
Other Outgo		77,029

Supplementary Information

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Anderson Valley Unified School District was established on July 1, 1963 and is located in Mendocino County. There were no changes in the boundaries of the District during the current year. The District currently operates one elementary school, one intermediate and one high school. The District also maintains a continuation high school, an adult education school and an independent study program along with a state-funded preschool.

GOVERNING BOARD

Member	Office	Term Expires
Ms. Martha Bradford	President	November, 2015
Mr. Richard Browning	Clerk	November, 2015
Ms. Patti Wilson	Member	November, 2015
Ms. Erica Lemons	Member	November, 2017
Ms. Stacey Soboleski	Member	November, 2017

DISTRICT ADMINISTRATORS

Mr. James "J.R." Collins,
Superintendent

Ms. Jennifer Ryun,
Business Manager

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2014

Second Period Report - Certificate No. (AC2B5169)

	TK/K-3	Grades 4-6	Grades 7-8	Grades 9-12	Total
Regular ADA	167.39	91.34	87.75	169.58	516.06

Other (included in Regular ADA amounts):

Full-Time Independent Study	5.36
Transitional Kindergarten	2.52
Continuation Education	5.15

Annual Report - Certificate No. (2DD40AC4)

	TK/K-3	Grades 4-6	Grades 7-8	Grades 9-12	Total
Regular ADA	167.25	91.72	88.22	169.39	516.58

Other (included in Regular ADA amounts):

Full-Time Independent Study	6.87
Transitional Kindergarten	2.37
Continuation Education	5.57

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2014

Grade Level	1986-87 Minutes Previously Required	1986-87 Minutes Reduced*	2013-14 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	35,000	50,220	180	Complied
Grade 1	50,400	49,000	54,910	180	Complied
Grade 2	50,400	49,000	54,820	180	Complied
Grade 3	50,400	49,000	54,670	180	Complied
Grade 4	54,000	52,500	54,720	180	Complied
Grade 5	54,000	52,500	55,330	180	Complied
Grade 6	54,000	52,500	55,380	180	Complied
Grade 7	54,000	52,500	65,635	180	Complied
Grade 8	54,000	52,500	65,635	180	Complied
Grade 9	64,800	63,000	65,260	180	Complied
Grade 10	64,800	63,000	65,260	180	Complied
Grade 11	64,800	63,000	65,260	180	Complied
Grade 12	64,800	63,000	65,260	180	Complied

* Amounts reduced as permitted by Education Code Section 46201.2 (a).

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2014

General Fund	(Budget)[2] 2015	2014	2013	2012
Revenues and other financing sources	$ 6,402,250	$ 6,482,504	$ 6,144,610	$ 5,944,374
Expenditures	6,476,615	6,531,775	6,465,316	6,107,284
Other uses and transfers out	135,304	60,543	86,584	56,800
Total Outgo	6,611,919	6,592,318	6,551,900	6,164,084
Change in fund balance (deficit)	(209,669)	(109,814)	(407,290)	(219,710)
Ending fund balance	$ 1,496,477	$ 1,706,146	$ 1,815,960	$ 2,223,250
Available Reserves [1]	$ 1,311,456	$ 1,396,289	$ 1,452,732	$ 1,772,315
Available Reserves as a percentage of Total Outgo	19.8%	21.2%	22.2%	28.8%
Total Long-Term Debt	$ 6,414,981	$ 6,536,409	$ 6,614,315	$ 6,672,777
Average Daily Attendance at P-2[3]	514	516	520	523

The General Fund balance has decreased by $517,104 over the past two years. The fiscal year 2014-15 adopted budget projects a decrease of $209,669. For a district of this size, the state recommends available reserves of at least the greater of $60,000 or 4% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in each of the past three years, and the District anticipates incurring an operating deficit during the 2014-15 fiscal year. Total long-term debt has decreased by $136,368 over the past two years.

Average daily attendance has decreased by 7 over the past two years. A decrease of 2 ADA is anticipated during fiscal year 2014-15.

[1] Available reserves consist of all unassigned fund balances in the General Fund.

[2] As of October, 2014.

[3] Excludes Adult Education ADA.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	$ 37,876	
National School Lunch Program	10.555	13523	257,805	
USDA Donated Foods	10.555	N/A	18,345	
Total Child Nutrition Cluster				$ 314,026
Fresh Fruit and Vegetable Program	10.582	14968		10,021
Total U.S. Department of Agriculture				324,047
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Adult Basic Education (ABE) Cluster:				
Adult Basic Education & ESL	84.002A	14508	9,592	
English Literacy & Civics Education Local Grant	84.002A	14109	9,592	
Total Adult Basic Education (ABE) Cluster				19,184
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		176,574
Title II, Part A, Teacher Quality Local	84.367	14341		21,741
Title III, Limited English Proficiency	84.365	14346		23,956
Title IV, Part A, Safe & Drug Free Schools and Communities, Formula Grants	84.186	14347		5,035
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14681		158,710
Title VI, Part B, Rural & Low Income School Program	84.358	14356		35,194
Title I, Migrant Education Summer Program	84.011	10005		20,774
Carol M. White Physical Education Program	84.215	N/A		218,390
Individuals with Disabilities Education Act (IDEA):				
Local Assistance Entitlement	84.027	13379		82,654
Total U.S. Department of Education				762,212
U.S. Department of Health & Human Services:				
Medi-Cal Billing Option	93.778	10013		2,810
Total U.S. Department of Health & Human Services				2,810
Total Expenditures of Federal Awards				$ 1,089,069

There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements in any funds.

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

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirement as reduced by Education Code Section 46201.2(a).

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States of America Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

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Other Independent Auditors' Reports

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

Board of Trustees
Anderson Valley Unified School District
Boonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Anderson Valley Unified School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Anderson Valley Unified School District's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Anderson Valley 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 the Anderson Valley Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Anderson Valley Unified School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Anderson Valley Unified School District's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-1 and 2014-2.

Anderson Valley Unified School District's Responses to Findings
Anderson Valley Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Anderson Valley Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Nigro + Nigro, PC

Murrieta, California
November 19, 2014

NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Anderson Valley Unified School District
Boonville, California

Report on Compliance for State Programs

We have audited Anderson Valley Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14,* published by the Education Audit Appeals Panel, for the year ended June 30, 2014. Anderson Valley Unified School District's state programs are identified below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Anderson Valley Unified School District's State programs based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. 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 below occurred. An audit includes examining, on a test basis, evidence about Anderson Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each State program. However, our audit does not provide a legal determination of Anderson Valley Unified School District's compliance.

Description	Procedures in Audit Guide	Procedures Performed
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	No (see below)
Instructional Time for School Districts	10	Yes
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable

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Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No (see below)
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Not applicable
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	4	Not applicable
Charter School Facility Grant Program	1	Not applicable

We did not perform testing for independent study or continuation education because the ADA was under the level that requires testing. We did not perform testing for California Clean Energy Jobs Act because there were no expenditures for the program.

Opinion on Compliance with State Programs
In our opinion, Anderson Valley Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above, which are required to be reported in accordance with *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14,* and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-1 and 2014-2.

District's Responses to Findings
Anderson Valley Unified School District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Anderson Valley Unified School District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14.* Accordingly, this report is not suitable for any other purpose.

Nigro + Nigro, PC

Murrieta, California
November 19, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
Anderson Valley Unified School District
Boonville, California

Report on Compliance for Each Major Federal Program
We have audited Anderson Valley Unified School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Anderson Valley Unified School District's major federal programs for the year ended June 30, 2014. Anderson Valley Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Anderson Valley Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Anderson Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Anderson Valley Unified School District's compliance.

Opinion on Each Major Federal Program
In our opinion, Anderson Valley Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Report on Internal Control Over Compliance
Management of Anderson Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Anderson Valley Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nigro + Nigro, PC

Murrieta, California
November 19, 2014

Findings and Questioned Costs

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ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes

State Awards

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for state programs:	Unmodified

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2013-14.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2013-14.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2014-1: CALPADS Unduplicated Pupil Counts (40000)

Criteria: In order to be counted in CALPADS report 1.17 a student must have an open primary or short-term enrollment in CALPADS over Census Day (the first Wednesday in October) and meet one or more of the following criteria:

- Have a program record with an education program code of Homeless, Migrant, Free Meal Program, or Reduced-Price Meal Program, that is open over Census Day
- Have an English Language Acquisition Status (ELAS) of "English learner" (EL) that is effective over Census Day
- Be directly certified in July through November as being eligible for free meals based on a statewide match conducted by CALPADS
- Be identified as a foster youth based on a statewide match conducted by CALPADS
- Be identified as a foster youth through a local data matching process and submitted to and validated by CALPADS (functionality will be implemented fall 2014)

Condition: During our testing of the free and reduced price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student who was reported as free or reduced priced meal eligible who had an invalid application on file for the 2013-14 fiscal year.

Context: The error appears isolated and does not appear to be representative of the population as a whole. We noted the error in one of the two schools tested.

Questioned Costs: $420. This amount was determined by calculating the difference between the District's original total LCFF revenues and the LCFF revenues adjusted for the decrease in the unduplicated pupil count.

Effect: The unduplicated pupil count reported in the CALPADS 1.17 and 1.18 reports should be adjusted for the following change as a result of the procedures performed:

		Adjusted based on eligibility for:		
School Site	CALPADS Reported	FRPM	EL Funding	Adjusted Total
Anderson Valley Junior/Senior High	207	(1)	-	206
Aggregate remaining school sites	250	-	-	250
District-wide	457	(1)	-	456

The enrollment count of 548 was not impacted as a result of the procedures performed.

Recommendation: The District should implement procedures that include a reconciliation of CALPADS data to the underlying records prior to the submission of the CALPADS report.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2014-1: CALPADS Unduplicated Pupil Counts (40000) (continued)

District Response: The District agrees with the audit recommendation and will implement the following procedure. Prior to the CALPADS Fall 1 certification, CALPADS reports 1.17 and 1.18 will be provided to the employee responsible for entering the FRPM into our student database from which CALPADS pull from. This employee will provide written verification to the employee responsible for the certification of CALPADS data.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2014- 2: School Accountability Report Card (72000)

Criteria: In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Ed Code §17002. In addition, according to Education Code §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.

Condition: It was noted that the School Facility Repair Status on the SARC for Anderson Valley Junior-Senior High School did not match the FIT form.

Question Costs: None.

Context: The error was noted for one of the two schools selected.

Cause: The SARC reported the "Systems" in fair condition while the FIT form stated a good rating.

Effect: Without proper compliance, the public will be misinformed on the status of the school's facilities.

Recommendation: We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public. In addition, the SARCs should be published on an annual basis by February 1st.

District Response: The District agrees with the audit recommendation and the need to verify the information. The District currently contracts the creating of our SARC with an outside company. Upon the receipt of the completed SARC, an employee will be responsible for verification of the accuracy of the information. The employee will provide written verification before annual publication.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2013-1: Sports Boosters Account	During our review of revenue accounts we identified an account titled "AV Boosters." Upon further review we learned that this account is used to charge membership fees to students for involvement and operation of the sports program. The California Constitution mandates that public education, including extracurricular, be provided to students free of charge, unless a charge is specifically authorized by law for a particular program or activity. PTAs and boosters should be setup as legally separate organizations that obtain their own tax identification numbers, open their own bank accounts, perform their own accounting functions, and refrain from fundraising on school premises during the school day without board approval.	30000	We recommend that the sites discontinue charging membership fees for participation within District sporting activities. We recommend that the Booster Club seek approval and become recognized under a non-profit public-benefit corporation under Section 501 (c)(3) of the Internal Revenue Code and begin tracking and accounting for their own funds.	Implemented.
Finding 2013-2: National School Lunch Program Application Verifications	Prior to the start of the 2012-13 year, the District opted to operate its food program under Provision 2 for determining eligibility for free and reduced price meals. The United States Department of Agriculture requires all LEA's receiving funding under the School Nutrition Program Provision 2 to verify the lesser of 3 percent or 3,000 of the approved free and reduced meal applications on file as of October 1st by November 15th during the first year, which is known as the base year. The District did not perform the required verification of applications during the 2012-13 fiscal year by the November 15th deadline. The District was not aware of the above base year requirement.	50000	The District should work with the United States Department of Agriculture to determine whether they will need to complete the required administrative requirements	Implemented.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2013-2: National School Lunch Program Application Verifications (continued)	The District did not become aware of the verification requirement until April 2013 and subsequently performed the verification process. National School Lunch: Free 59,238; Reduced 8,639; Paid 9,133 Especially Needy School Breakfast: Free 11,519; Reduced 1,760; Paid 2,291			
Finding 2013- 3: School Accountability Report Card	California Education Code §33126 requires LEAs to complete a school accountability report card for each site with the most recent facility inspection information included. Additionally, facility inspections are required to be performed annually. Upon review of the Facilities Inspection Tool and School Accountability Report Card (SARC), it was determined that the information reported on the SARC, for both of the schools selected, did not match to any supporting facilities records.	72000	The District should develop procedures to ensure that all schools are inspected on an annual basis. Additionally, the District should utilize the most current annual facilities inspection to prepare and publish future school accountability report cards to ensure that the most current and accurate information is used, pursuant to California Education Code §33126.	Not Implemented. See Finding 2014-2.
Finding 2013-4: Instructional Materials Hearing	California Education Code Section 60119 requires that school districts conduct a public hearing regarding the sufficiency of textbooks and instructional materials. Furthermore, the District must provide 10-day notice of the public hearing. The notice must include the time, place, and purpose of the hearing and must be posted at a minimum of three public locations within the District. The notice posted at one of the three sites by the District did not provide for 10-day notice of the public hearing regarding the sufficiency of textbooks and instructional materials.	70000	We recommend that the District contact the County Office of Education to seek a waiver from this penalty.	Implemented.

To the Board of Trustees
Anderson Valley Unified School District
Boonville, California

In planning and performing our audit of the basic financial statements of Anderson Valley Unified School District for the year ending June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 19, 2014 on the financial statements of Anderson Valley Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: During our review of the meeting minutes, we found that the minutes were inadequate. Meeting minutes are an imperative record of operations and provide vital evidence in the event of fraud, improper spending, and accusations of improper club administration. Items that were lacking and that need to be included in the ASB meeting minutes are documentation and results of votes and the approvals of purchase orders.

Recommendation: We recommend that the sites emphasize the importance of complete minutes and perhaps utilize the sample templates which are available in the FCMAT ASB Accounting Manual.

Observation: Our inquiry indicated that revenue potentials are not being prepared for major fundraisers.

Recommendation: It is important for student organizations to have adequate internal controls over their fundraising events, properly evaluate the effectiveness of those events and account for a fundraiser's financial activity. Revenue potentials are used as a budgeting and planning tool. The form serves as a sales plan that includes expected sales levels, sale prices per unit, expected cost, and net income. We recommend that revenue potentials be prepared for all major fundraising activities.

Observation: During our testing of cash receipts, we found that four of the ten deposits lacked sufficient supporting documentation.

Recommendation: We recommend that all cash receipts which are prepared for deposit should be evidenced by additional documentation showing an itemization of the item being included in the total bank deposit. This provides an audit trail from the initial cash receipt to the final deposit of the funds into the bank account and evidence that the funds have been deposited intact. Without proper documentation procedures in place, there is an opportunity for misappropriation of funds to go undetected.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE
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ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: During our testing of cash disbursements, we noted several that were not approved prior to incurring the expenditure. Education Code 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal). As a "best practice", those approvals should be obtained prior to purchase.

Recommendation: We recommend the approval of expenditures be obtained from all required individuals before the actual purchase of the items. This will help reduce the likelihood of unauthorized expenses from ASB funds.

DISTRICT OFFICE

Observation: During our testing of credit card use, we determined through inquiry that the District has a credit card policy but it is not being enforced. The credit card statements are paid by the District without receiving proper supporting documentation such as receipts to verify that expenditures are appropriate and within budgetary guidelines. Reimbursement forms are being provided to the District as documentation for expenses pending reimbursement.

Recommendation: We recommend that the District enforce its credit card policy to ensure that employees are spending in accordance with the policy dictated by the Board of Trustees.

Observation: During our review of the cash disbursement cycle, we noted 38 of 75 disbursements reviewed did not have a purchase order or other pre-approval prior to the expense being incurred.

Recommendation: We recommend that an approval by the required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of District funds and falls within budgetary guidelines.

We will review the status of the current year comments during our next audit engagement.

Nigro + Nigro, PC

Murrieta, California
November 19, 2014

APPENDIX B

GENERAL AND FINANCIAL INFORMATION
FOR THE ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

The information in this and other sections concerning the District's operations and operating budget 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 C Bonds is payable from the general fund of the District. The Series C 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 C BONDS" in the front half of the Official Statement.

The District

The District was established on July 1, 1963 and serves the areas in and around the City of Boonville in Mendocino County. The District currently operates one elementary school, one junior/senior high school and one preschool. Enrollment for fiscal year 2014-15 is 540 students.

Anderson Valley is located approximately 150 miles north of San Francisco, between the City of Cloverdale on the U.S. Highway 101 corridor to the southeast, and U.S. Highway 1 to the West. Highway 128 parallels the Navarro River and travels through the tiny towns of Yorkville, Boonville, Philo and Navarro. Only about fifteen miles long, this valley is filled with panoramic views of apple orchards, olive groves, grazing sheep, vineyards and rolling hills studded with giant oaks in the southern portion of the valley, giving way to the redwoods in the north.

Historically, the valley's economy has been dominated by the lumber industry, the raising of sheep, and farming. In recent years, the addition of many wineries has been a growing source of economy for the valley.

Administration

Board of Education. The District is governed by a five-member Governing Board, with each member elected to a four-year term in alternate slates of two and three. Current members of the Governing Board, together with their office and the date their current term expires, are listed below.

Name	Office	Current Term Expires
Martha Bradford	President	November, 2015
Richard Browning	Clerk	November, 2015
Erica Lemons	Member	November, 2017
Stacey Soboleski	Member	November, 2017
Patti Wilson	Member	November, 2015

Superintendent and Administrative Personnel. The day-to-day operations are managed by a board-appointed Superintendent of Schools. James R. Collins is currently serving as Superintendent. District finances are managed by Jennifer Ryun, the Business Manager.

Recent Enrollment Trends

The following table shows historical enrollment, with projected figures through fiscal year 2015-16.

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
Annual Enrollment
Fiscal Years 2004-05 through 2015-16

School Year	Enrollment	Percent Change
2004-05	586	--
2005-06	607	3.6%
2006-07	568	(6.4)
2007-08	544	(4.2)
2008-09	546	0.4
2009-10	535	(2.0)
2010-11	540	0.9
2011-12	550	1.9
2012-13	556	1.1
2013-14	548	(1.4
2014-15	540	(1.5)
2015-16(1)	524	(3.0)

(1) Projected.
Source: State Department of Education; the District.

Employee Relations

The California Teacher's Association has been selected as the bargaining agent for certificated personnel and the California Schools Employee's Association has been selected as the bargaining agent for classified personnel. Both contracts will expire on June 30, 2016.

Risk Management

During fiscal year 2013-14, the District participated in several joint powers agreements ("**JPAs**") to mange risks related to theft, damage and destruction of assets; errors and omissions, injuries to employees and certain natural disasters.

The Schools Insurance Group Northern Alliance provides workers' compensation and property/liability insurance to member districts. The Schools Excess Liability Fund provides self-funding and risk management to member districts. The Mendocino Stay Well Joint Powers Authority provides self-insurance for medical claims to member districts.

The JPAs are governed by boards consisting of representatives from the member agencies. The boards control the operations of the JPAs, including selection of management and approval of operating budgets. Each member district pays premiums commensurate with the level of coverage or service requested, and shares in surpluses and deficits in proportion to participation in the JPA.

DISTRICT FINANCIAL INFORMATION

The information in this and other sections concerning the District's operations and operating budget 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 B Bonds is payable from the general fund of the District. The Series B Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

Education Funding Generally

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

From 1973-74 to 2012-13, California school districts operated under general purpose revenue limits established by the State Legislature. In general, revenue limits were calculated for each school district by multiplying (1) the 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 package (the **"2013-14 State 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 will be phased in gradually. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to each district's proportionate share of the appropriations included in the State budget (based on the percentage of each district's students who are low-income, English learners, and foster youth ("**Targeted Students**"), to close the gap between the prior-year funding level and the target allocation at full implementation of LCFF. In each year, districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

Based on revenue projections, districts will reach what is referred to as "full funding" in eight years, being fiscal year 2020-21. This projection assumes that the State's economy will improve each year; if the economy falters it could take longer to reach full funding.

The target LCFF amounts for State school districts and charter schools based on grade levels and Targeted Students is shown below.

Grade Span Funding at Full LCFF Implementation (Target Amount)

Grade Span	Base Grant[(1)]	K-3 Class Size Reduction and 9-12 Adjustments	Average Assuming 0% Targeted Students	Average Assuming 25% Targeted Students	Average Assuming 50% Targeted Students	Average Assuming 100% Targeted Students
K-3	$6,845	$712	$7,557	$7,935	$8,313	$10,769
4-6	6,947	N/A	6,947	7,294	7,642	9,899
7-8	7,154	N/A	7,154	7,512	7,869	10,194
9-12	8,289	$216	8,505	8,930	9,355	12,119

(1) Does not include adjustments for cost of living.
Source: California Department of Education.

The new legislation included a "hold harmless" provision which provided that a district or charter school would maintain total revenue limit and categorical funding at least equal to its fiscal year 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 State 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.

District Accounting Practices

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

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

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

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

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's Audited Financial Statements for the fiscal year ending fiscal year 2013-14 were prepared by Nigro & Nigro, A Professional Accountancy Corporation, Murrieta, California (the "**Auditor**"). Audited financial statements for the District for the fiscal year ended June 30, 2014, 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 2013-14 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.

General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited income and expense statements for the District for the 2011-12 through 2013-14 fiscal years.

REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Years 2011-12 through 2013-14 (Audited)
Anderson Valley Unified School District

Revenues	Audited 2011-12	Audited 2012-13	Audited 2013-14
Revenue Limit Sources/LCFF (1)	$3,418,735	$3,460,270	$4,670,184
Federal Revenues	694,165	781,818	773,146
Other state revenues	1,135,780	1,165,845	440,329
Other local revenues	695,450	736,677	598,845
Total Revenues	5,944,130	6,144,610	6,482,504
Expenditures			
Instruction	3,804,977	3,879,811	4,086,957
Instruction-related services:			
Supervision of instruction	71,257	61,683	29,582
Library, media and technology	172,427	152,029	192,658
School site administration	491,812	546,471	511,205
Pupil services:			
Home-to-school transportation	221,045	253,039	240,698
Food services	3,835	10,137	30,794
All other pupil services	165,766	289,128	148,583
Ancillary services	44,762	51,899	75,324
Community services	102,207	105,899	989
General administration services			
Data processing	20,750	27,763	30,881
Other general administration	413,973	500,217	520,274
Plant services	594,473	609,269	615,376
Transfers of indirect costs	--	(22,029)	(28,575)
Other outgo	--	--	77,029
Total Expenditures	6,107,284	6,465,316	6,531,775
Excess of Revenues Over/(Under) Expenditures	(163,154)	(320,706)	(49,271)
Other Financing Sources (Uses)			
Transfers in	244	--	--
Transfers out	(56,800)	(86,584)	(60,543)
Total Other Financing Sources (Uses)	(56,556)	(86,584)	(60,543)
Net change in fund balance	(219,710)	(407,290)	(109,814)
Fund Balance, July 1 (2)	2,442,960	2,223,250	1,815,960
Fund Balance, June 30	$2,223,250	$1,815,960	$1,706,146

(1) LCFF commenced in fiscal year 2013-14.
(2) The District's prior year fund balance for the General Fund has been restated as of June 30, 2011, to conform to GASB Statement No. 54's definition of governmental funds.
Source: District Audit Reports for fiscal years 2011-12 through 2013-14.

District Budget and Interim Financial Reporting

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

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

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

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at Anderson Valley Unified School District, 12300 Anderson Valley Way, Boonville, CA 95415; (707) 895-3774. The District may impose charges for copying, mailing and handling.

District's 2014-15 Figures. The following table shows the income and expense statements (Adopted Budget and Second Interim Report) for the District for fiscal year 2014-15.

REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE(1)
Fiscal Year 2014-15 (Adopted Budget and Second Interim Budget)
Anderson Valley Unified School District

Revenues	Adopted Budget 2014-15	Second Interim Report 2014-15
LCFF Sources	$4,884,285	$44,889,411
Federal Revenues	723,004	783,072
Other state revenues	255,299	286,385
Other local revenues	539,662	697,403
Total Revenues	6,402,250	6,656,271
Expenditures		
Certificated salaries	2,556,012	2,364,514
Classified salaries	1,158,940	1,154,694
Employee benefits	1,740,310	1,686,563
Books and supplies	439,931	405,882
Services; other operating expenditures	573,899	617,763
Capital outlay	--	--
Other outgo	(20,276)	(20,276)
Total Expenditures	6,448,816	6,209,140
Excess of Revenues Over/(Under) Expenditures	(46,566)	447,132
Other Financing Sources (Uses)		
Transfers in	--	--
Transfers out	(135,304)	(121,595)
Total Other Financing Sources (Uses)	(135,304)	(121,595)
Net change in fund balance	(181,870)	325,536
Fund Balance, July 1	1,453,873	1,706,146
Fund Balance, June 30	$1,272,003	$2,031,682

Source: The District.

Assumptions Used with Respect to 2014-15 Budget. The District's fiscal year 2014-15 Budget was adopted on June 25, 2014. The budget development takes into account the Governor's May Revision of the proposed 2015-16 State Budget. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."

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 3% of expenditures, plus any other allocation or reserve which might be approved as an expenditure by the District in the future. Pursuant to a resolution adopted by the Board, a formal economic reserve policy established a minimum 4% reserve level for the District. Consequently, the District maintains an unrestricted reserve which exceeds the State's minimum requirements.

In connection with legislation adopted in connection with the State's fiscal year 2014-15 Budget (**"SB 858"**), the Education Code was amended to provide that, beginning in fiscal year 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, the governing board must provide the information for review at the annual public hearing on its proposed budget. In addition, SB 858 included a provision which limits the amount of reserves which may be maintained at the District level. This proposed reserve fund "cap" was conditioned on the success of Proposition 2 on the November 4, 2014 statewide ballot, which was approved by voters. The District cannot predict how this legislation will impact its reserves and future spending. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS- 2014-15 State Budget."

Attendance - Revenue Limit and LCFF Funding

As described herein, prior to fiscal year 2013-14, school districts in California derived most State funding based on a formula which considered a revenue limit per unit of average daily attendance (**"ADA"**). With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following two tables set forth historical revenue limit funding for the District through fiscal year 2012-13, and LCFF funding for the District for fiscal year 2013-14 through 2015-15 (Budgeted).

AVERAGE DAILY ATTENDANCE AND FUNDED REVENUE LIMIT
Fiscal Years 2008-09 through 2012-13
Anderson Valley Unified School District

Fiscal Year	P-2 ADA	Funded [1] Revenue Limit Per ADA
2008-09	502	$6,117.56
2009-10	500	5,633.72
2010-11	504	5,807.35
2011-12	523	5,572.36
2012-13	520	5,619.94

(1) Funded figures reflect actual funding after application of deficit factor.
Source: Anderson Valley Unified School District.

The LCFF was implemented beginning in fiscal year 2013-14. The following table sets forth LCFF funding for the District for fiscal year 2013-14 through 2015-16 (Budgeted).

AVERAGE DAILY ATTENDANCE AND LCFF
Fiscal Years 2013-14 through 2015-16
Anderson Valley Unified School District

Fiscal Year	ADA(1)	LCFF "Phase-In" Entitlement Per ADA(2)	% of Target Student Enrollment Under LCFF
2013-14	516.04	$8,808.00	83.4%
2014-15	505.96	9,550.00	83.5
2015-16	489.87	9,491.00	83.5

(1) Unaudited actuals.
(2) An average across grade spans. Includes anticipated supplemental and concentration grant funds.
Source: Anderson Valley Unified School District.

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 under the LCFF. Generally, the State apportionments will amount to the difference between the District's LCFF funding entitlement and its local property tax revenues.

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

The principal component of local revenues is the school district's property tax revenues, i.e., the district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. Historically, the more local property taxes a district received, the less State equalization aid it is entitled to.

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

Other State Revenues. As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives other State revenues.

The District receives State aid from the California State Lottery (the "**Lottery**"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over fiscal year 1997-98 levels must be restricted to use on instruction material.

For additional discussion of State aid to school districts, see "-State Funding of Education."

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

District Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System ("**STRS**") and classified employees are members of the Public Employees' Retirement System ("**PERS**").

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. 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 Teacher's Retirement Law. Due to the implementation of the Public Employee Pension Reform Act of 2013 ("PEPRA") (see below summary), new members must pay at least 50% of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0%. "Classic" plan members are also required to contribute 8.0% of their salary. 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the past three and current budgeted fiscal years are set forth in the following table. These contributions represent 100% of the required contribution for each year.

STRS Contributions
Anderson Valley Unified School District
Fiscal Years 2011-12 through 2014-15 (Projected)

Fiscal Year	Amount
2011-12	$176,359
2012-13	185,307
2013-14	183,301
2014-15†	183,945

†Second interim report.
Source: Anderson Valley Unified School District.

New Legislation Regarding STRS Contributions Implemented in FY 2014-15. 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 address the unfunded liabilities of the STRS pension plan (see below section entitled "State Pension

Trusts"). AB 1469 addresses the funding gap by increasing contributions of plan members, employers (including the District) and the State commencing in fiscal year 2014-15. Pursuant to AB 1469, employer contribution rates to the STRS plan will increase over the next seven years, from the contribution rate of 8.25% 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. STRS employer contribution rates under AB 1469 for fiscal years 2014-15 through 2020-21 are summarized in the following table.

AB 1469 STRS Employer Contribution Rates

Fiscal Year	% Increase From FY 2013-14 Rate* Under AB 1469	Total Contribution Rate
2014-15	0.63%	8.88%
2015-16	2.48	10.73
2016-17	4.33	12.58
2017-18	6.18	14.43
2018-19	8.03	16.28
2019-20	9.88	18.13
2020-21	10.85	19.10

**Fiscal year 2013-14 rate of 8.25%.*

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 of California. The District is part of a "cost-sharing" pool within PERS. 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. For 2013-14, the normal cost is 11.85%, which rounds to a 6.0% contribution rate. "Classic" plan members continue to contribute 7.0%. 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 PERS Board of Administration. The required employer contribution rate for fiscal year 2013-14 was 11.442% of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to PERS for the past three and current projected fiscal years are set forth in the following table. These contributions represent 100% of the required contribution for each year

PERS Contributions
Anderson Valley Unified School District
Fiscal Years 2011-12 through 2014-15 (Projected)

Fiscal Year	Amount
2011-12	$140,274
2012-13	160,074
2013-14	170,003
2014-15†	147,012

†Second interim report.
Source: Anderson Valley Unified School District.

PERS Board Adopts New Employer Contribution Rates. On April 16, 2014, the Board of Administration of PERS (the **"PERS Board"**) approved new contribution rates beginning on July 1, 2014. School district employer contribution rates will reflect new demographic assumptions and other changes in actuarial assumptions which were adopted by the PERS Board in February 2014. The new assumptions, which are aimed 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 twenty years and the increases phased in over the first five years. These new employer contribution rates continue to recognize asset losses from prior years. Projected employer contribution rates for school districts are as follows:

Projected PERS Contribution Rates for California School Districts

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.7%	12.6%	15.0%	16.6%	18.2%	19.9%	20.4%

Source: California Public Employees' Retirement System

State Pensions Trusts. Both the PERS and STRS systems are operated on a statewide basis. District contribution rates to PERS can vary annually depending on changes in actuarial assumptions and other factors, such as liability. Contributions to STRS can only be changed legislatively. Both PERS and STRS have substantial State unfunded actuarial liabilities, being $49.5 billion for PERS as of June 30, 2013 (the date of the last actuarial valuation for PERS) and $73.7 billion for STRS as of June 30, 2013 (the date of the last actuarial valuation for STRS). As described above, AB 1469 was enacted in connection with the State's 2014-15 Budget in an attempt to reduce and eliminate the unfunded liability of the STRS pension plan, and the PERS Board has recently taken actions to increase contribution rates in order to address unfunded liabilities.

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; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. More information regarding STRS and PERS can also be obtained at their websites, www.calstrs.com and www.calpers.ca.gov, respectively. However, information in the financial reports and on the websites is not incorporated in this Official Statement by reference. See also the following paragraph on recent pension reform legislation.

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, enacting the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**") and amending various sections of the California Education and Government Codes. AB 340 (i) increased the retirement age for new State, school, and city and local agency employees depending on job function, (ii) capped the annual PERS and STRS pension benefit payouts, (iii) addressed numerous abuses of the system, and (iv) required State, school, and certain city and local agency employees to pay at least half of the costs of their PERS pension benefits. PEPRA applies to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with PERS.)

The provisions of AB 340 went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the Districts, have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of PERS pension benefits, up to 8% of pay for civil workers and 11% or 12% for public safety workers.

PERS has predicted that the impact of AB 340 on employees and employers, including the Districts and other employers in the STRS system, will vary, based on each employer's current level of benefits. 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. Additionally, PERS has noted that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

With respect to STRS, the provisions of AB 1469 effective as of July 1, 2014 effectively addressed the contribution requirements of STRS members, employers and the State.

More information about AB 340 can be accessed through the PERS's web site at www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST and through the STRS web site at http://www.calstrs.com/Newsroom/whats_new/AB340_detailed_impact_analysis.pdf. *The references to these internet websites 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.*

Other Post-Employment Retirement Benefits

The District does not currently provide other post-employment benefits to retirees.

Long-Term Debt

***General Obligation Bonds*.** Pursuant to the Authorization received at the June 8, 2010 election, the District has outstanding:

- $2,200,000 Taxable Direct-Pay New Clean Renewable Energy General Obligation Bonds, 2010 Election, Series A (the "**Series A Bonds**"), currently outstanding in the aggregate principal amount of $1,900,000, and

- $4,223,484.70 General Obligation Bonds, 2010 Election, Series B-1 (the "**Series B-1 Bonds**") currently outstanding in the aggregate principal amount of $4,181,635.90 (not including accrued interest).

The Series A Bonds and the Series B-1 Bonds are payable from *ad valorem* taxes levied on taxable parcels in the District. In addition, the Series A Bonds are further secured by and payable from the "Refundable Credit Payments" described in this paragraph. The District has designated the Series A Bonds as "New Clean Renewable Energy Bonds" under Section 54C of the Tax Code and intends that the Series A Bonds be "Specified Tax Credit Bonds" under Section 6431(f) of the Tax Code which makes the District eligible for the credit payable from the United States Treasury. Although the District has pledged the Refundable Credit Payments to the Series A Bonds, the District has covenanted to cause the County to levy sufficient *ad valorem* taxes in the District to provide for the payment of principal of and interest on the Series A Bonds. Therefore, in the event the Refundable Credit Payments are not received and deposited in the Debt Service Fund, the County will be required to levy *ad valorem* taxes in an amount sufficient to pay the full amount of debt service on the Series A Bonds.

For the remaining debt service due on the Series A Bonds and the Series B-1 Bonds, see "DEBT SERVICE SCHEDULES" in the body of this Official Statement.

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 H - MENDOCINO COUNTY INVESTMENT POLICY."

Effect of State Budget on Revenues

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

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

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. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is funding under the LCFF, which is a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION – Education Funding Generally" above). State funds typically make up the majority of a district's LCFF entitlement

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.

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 County, nor the Underwriter 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 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 heading "Subject Area – Budget (State)".

Prior Years' Budgeting Techniques. Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2014-15 State Budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 30 at the November 2, 2012 statewide election, 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.

2014-15 Adopted State Budget

On June 20, 2014, Governor Brown approved the 2014-15 Budget Act (the **"2014-15 Budget"**), projecting $108 billion in general fund revenues, which is $7.3 million more in general fund revenues than in fiscal year 2013-14. The 2014-15 Budget is balanced and projects paying down more than $10 billion in unprecedented amounts of budgetary debt from past years, including paying down deferral of payments to schools by $5 billion, paying off Economic Recovery Bonds, repaying various special fund loans, and funding $100 million in mandate claims that have been owed to local governments since 2004. The budgetary deficit is projected to be reduced to below $5 billion by the end of fiscal year 2016-17. The fiscal year begins with a 2014-15 State Budget reserve of $2 billion dollars, including $1.6 billion in the State's Budget Stabilization Account, also known as the State's rainy day fund. Temporary revenues provided by the passage of Proposition 30 (Sales and Income Tax Revenue Increase approved by State voters at an election held on November 6, 2012) and spending cuts have allowed for continued economic growth in the State. The 2014-15 State Budget also contains triggers allowing for additional spending, if various revenue benchmarks are exceeded. If revenues surpass certain estimates, then the 2014-15 Budget calls for more funds to be applied to higher education and to pay down debt. Certain highlights of the 2014-15 Budget are described below.

Plan for Reducing STRS Unfunded Liability. The California State Teachers' Retirement System ("**STRS**") has funded significant unfunded liability. Without changes to how the system is funded, STRS is expected to run out of money in about 33 years. To prevent this, the 2014-15 Budget sets forth a plan that shares responsibility among the school districts, the State, and teachers to better fund STRS. Increased contributions for the first year from all three of these sources will total $275 million. Contributions will increase in subsequent years, reaching more than $5 billion annually. This plan is projected to eliminate unfunded liability by 2046.

Constitutional Amendment on November, 2014 Ballot: Rainy Day Fund. The 2014-15 State Budget included a proposed constitutional amendment which was placed before State voters on November 4, 2014. The measure was approved by voters, resulting in a change to the State's previously existing requirements for the Budget Stabilization Account, the State's existing rainy day account. This amendment:

- Requires deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues, and would set the maximum size of the Rainy Day Fund at 10% of State general fund revenues.

- Requires half of each year's deposit for the next 15 years be used for supplemental payments of debt or other long-term liabilities.

- Allows for withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years. The maximum amount that could be withdrawn in the first year of a recession would be limited to half of the Rainy Day Fund's balance.

- Requires that the State provide a multiyear budget forecast to better manage the State's long-term finances.

- Creates a Proposition 98 reserve, known as the Public School System Stabilization Account, where spikes in funding would be saved for future years. This is intended to smooth school spending and minimize future cuts to education funding.

In addition, approval of this amendment had the effect of enacting a related trailer bill (SB 858), which imposes a cap on the amount school districts may maintain in reserves. Specifically, the legislation, among other things, enacts Education Code Section 42127.01, operative December 15, 2014, and provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the Public School System Stabilization Account (referenced in the last bullet point above), 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. AB 146 is currently pending in the California legislature, which would repeal Education Code Section 42127.01.

K - 12 Budget Adjustments. The 2014-15 State Budget includes total funding of $76.6 billion ($45.3 billion general fund and $31.3 billion other funds) for all K-12 education programs. Proposition 98 funding has contributed $10 billion to the total funding amount and the fiscal year 2014-15 State Budget provides $1,954 more per K-12 student in 2014-15 than was provided in fiscal year 2011-12. The 2014-15 State Budget also provides $4.7 billion for the second year of implementing the LCFF and continues to commit most new funding to districts serving English language learners, students from low-income families, and youth in foster care. The Education Budget Trailer Bill ("**SB 858**") is included in the 2014-15 State Budget and contains two separate provisions that have the potential to affect district reserve funds. In addition, the 2014-15 State Budget includes the following:

- Local Control Funding Formula. The 2014-15 State Budget contains an increase of $4.75 billion in the Proposition 98 funding to continue the State's transition to the LCFF. This increase will close the remaining funding implementation gap by more than 29%. Additionally, the 2014-15 State Budget addresses an administrative problem related to the collection of income eligibility forms that are used to determine student eligibility for free or reduced-price meals.

- K-12 Deferrals. The 2014-15 State Budget repays nearly $4.7 billion in Proposition 98 funding for K-12 expenses that had been deferred from one year to the next during the past few years. This repayment will leave an outstanding balance of less than $900 million in K-12 deferrals. The 2014-15 State Budget also contains a trigger mechanism that will appropriate any additional funding resources attributable to the 2013-14 and 2014-15 fiscal years subsequent to the enactment of the 2014-15 State Budget for the purpose of retiring the remaining $900 million in K-12 deferrals.

- Independent Study. The 2014-15 State Budget reduces administrative burdens and frees up time for teachers to spend on student instruction and support, making it easier for schools to offer and expand instructional opportunities available to students through non-classroom based instruction.

- K-12 Mandates. The 2014-15 State Budget provides $400.5 million in one-time Proposition 98 funding to reimburse K-12 local educational agencies for the costs of state-mandated programs. These funds will make a significant down payment on outstanding mandate debt, while providing school districts, county offices of education, and charter schools with discretionary resources to support critical investments such as Common Core implementation.

- K-12 High-Speed Internet Access. The 2014-15 State Budget increases the one-time Proposition 98 funding for the K-12 High Speed Network by $26.7 million. This fund provides technical assistance and grants to local educational agencies to address the technology requirements necessary for Common Core implementation.

- Career Technical Education Pathways Program. The 2014-15 State Budget increases by $250 million the one-time Proposition 98 funding to support a second cohort of competitive grants for participating K-12 local educational agencies. Established in the 2013 Budget Act, the Career Pathways Trust Program provides grant awards to improve career technical programs and linkages between employers, schools and community colleges.

Higher Education and Healthcare. The 2014-15 State Budget includes total funding of $26.2 billion ($14.7 billion general fund and local property tax and $11.5 billion other funds). It also provides for up to a 20% increase in general fund appropriations over a four-year period. The 2014-15 Budget includes a 5% increase in 2014-15 for each university system, which equals $284 million total. Regarding healthcare, the State's adoption of the optional expansion of Medi-Cal under the federal law known as the Affordable Care Act created major new spending commitments. The 2014-15 Budget assumes an additional Medi-Cal caseload of 2.5 million individuals and a rise in costs of $2.4 billion over fiscal year 2012-13.

Emergency Drought Response. On January 17, 2014, Governor Brown proclaimed a state of emergency due to the severe drought conditions faced by the State. Legislation was enacted in February which provided $687.4 million to support drought relief. The 2014-15 State Budget includes additional one-time resources to continue immediate drought-related efforts started in 2014, such as an increase of $53.8 million from the State's general fund and $12.2 million other funds for firefighting efforts, and an increase of $18.1 million from the State's general fund to aid in assessing water conditions and provide public outreach regarding water conservation.

Numerous Factors Affecting Budget and Projections. The execution of the 2014-15 State Budget may be affected by numerous factors, including but not limited to: (i) shifts of costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risk associated with spending reductions, including the elimination of redevelopment agencies, (iv) rising health care costs (v) large unfunded liabilities for retired State employee's pensions and healthcare, (vi) deferred maintenance of State's critical infrastructure and (vii) other factors, all or any of which could cause the revenue and spending projections made in 2014-15 State Budget to be unattainable. The District cannot predict the impact that the 2014-15 State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the District cannot predict the accuracy of any projections made in the State's 2014-15 State Budget.

The complete 2014-15 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated in this Official Statement by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Series C Bonds.

California Spending Plan. In October 2014 the Legislative Analyst's Office released its *California Spending Plan* (a publication summarizing the State's current spending plan, including legislative and gubernatorial action through October 2014). The Spending Plan reports, among other things:

- The State General Fund and Education Protection Fund are $107 billion in 2014-15 (an increase of nearly 5% over the prior year's levels).

- The State's 2014-15 fiscal year is projected to end with $2.1 billion in total reserves.

- The 2014-15 Proposition 98 minimum guarantee is up $2.6 billion over the revised 2013-14 levels.

- In 2014-15, $5.2 billion in outstanding K-14 deferrals and $450 million in outstanding education mandates are expected to be paid down.

- An expected $4.7 billion in additional funding for LCFF implementation (12% higher than the 2013-14 level, and sufficient to close 29% of the funding gap).

These gains are largely due to modest revenue growth assumed in 2014-15 from personal income taxes, sales and use taxes, and corporation taxes. The complete California Spending Plan may be accessed at the following link: http://lao.ca.gov/Publications/Detail/3049, although the information available through such site is not incorporated herein by reference.

2015-16 Proposed State Budget

On January 9, 2015, Governor Brown presented his proposed budget for the 2015-16 Fiscal Year (the "**2015-16 Proposed State Budget**"). The 2015-16 Proposed State Budget proposes a multiyear plan that is balanced, maintains a $3.4 billion reserve, and pays down budgetary debt from past years. Under the 2015-16 Proposed State Budget, funding levels for the K-12 [Local Control Funding Formula ("**LCFF**")] will increase by $4 billion to $13,462 per pupil, and funding levels for workforce education and training will increased by $876 million. Funding is also increased for the University of California and California State University higher education systems. The 2015-16 Proposed State Budget includes a $115 million allocation from the State's General Fund to address the drought, and addresses deferred maintenance issues with $500 million from the State's General Fund.

The complete 2015-16 Proposed State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated in this Official Statement by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Series C Bonds.

The execution of 2015-16 Proposed State Budget may be affected by numerous factors, including but not limited to: (i) shifts of costs from the federal government to the State, (ii) national, State and international economic conditions, (ii) litigation risk associated with proposed spending reductions, (iii) rising health care costs and (iv) other factors, all or any of which could cause the revenue and spending projections made in the 2015-16 Proposed State Budget to be unattainable. The District cannot predict the impact that the 2015-16 Proposed State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the District cannot predict the accuracy of any projections made in the 2015-16 Proposed State Budget.

2015-16 May Revision. On May 14, 2015 Governor Brown released the 2015-16 May Revision (the "**May Revision**"). Overall, the May Revision reflects a $6.7 billion increase in

General Fund revenues compared to the 2015-16 Proposed State Budget. Due to higher expected revenues, the May Revision reflects:

- Increased State general fund spending by $5.5 billion for K-12 schools and community colleges due to Proposition 98 requirements.

- An additional $633 million saved in the Rainy Day Fund and an additional $633 million used to pay down State debts and liabilities due to Proposition 2 requirements

- Creation of a California Earned Income Tax Credit to assist the states lowest income workers.

- Holding tuition flat at the State's universities for California undergraduate students for two more years by providing increased ongoing funding to California State Universities and temporary assistance to the Universities of California to pay down unfunded pension liabilities.

- Providing health care and other safety net services to currently undocumented immigrants who gain Permanent Residence Under Color of Law status under the United States President's executive actions.

However, the Governor cautions that the 2015-16 Budget remains precariously balanced and could face deficits in succeeding years. The State has hundreds of billions of dollars in existing liabilities, such as deferred maintenance on roads and other infrastructure, and an unfunded liability for future retiree health care benefits for state employees and various pension benefits.

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or 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 budgets.

The State has not entered into any contractual commitment with the District, the County, or the Owners of the Series C Bonds to provide State budget information to the District or the owners of the Series C Bonds. Although they believe the State sources of information listed above are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein. However, the Series C 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.

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 recent years, and is likely to be further challenged in the future. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "-State Funding of Education" and "-Recent State Budgets" above.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Series C 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, 187 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 C Bonds. The tax levied by the County for payment of the Series C 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.

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

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

Inflationary Adjustment of Assessed Valuation. As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home’s taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIIIA, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year’s assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the “recapture” provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

Article XIIIB of the California Constitution

Article XIIIB (**“Article XIIIB”**) of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIIIB, as amended.

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

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

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. However, in the event that a school district's revenues exceed its spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

Article XIIIB also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution.

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (**"unitary property"**). Under the State Constitution, such property is assessed by the State Board of Equalization (**"SBE"**) as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Articles XIIIC and XIIID

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

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

Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

While the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the 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% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, community college districts, including the District, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement authorized by Proposition 39 applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for an elementary school district or high school district), or $25 (for a community college district), per $100,000 of taxable property value. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Proposition 30

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 $340,000 but less than $408,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $408,000 but less than $680,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $680,000 for joint 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 schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than $200 per unit of ADA and no community college district will receive less than $100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

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 fiscal year 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, a constitutional initiative entitled the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," approved on November 2, 2010, superseded many of the provisions of Proposition 1A. This initiative amends the State constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Proposition 22 did not prevent the California State Legislature from dissolving State redevelopment agencies pursuant to AB 1X26, as confirmed by the decision of the California Supreme Court decision in *California Redevelopment Association v. Matosantos* (2011).

Because Proposition 22 reduces the State's authority to use or reallocate certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 98, 111, 1A, 22, 26, 30 and 39 were each adopted as measures that qualified for the ballot under the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

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APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION FOR MENDOCINO COUNTY

The following information concerning the County of Mendocino is included only for the purpose of supplying general information regarding the area of the District. The Series C Bonds are not a debt of the County, the State or any of its political subdivisions, other than the District, and none of the County, the State or any of its political subdivisions, other than the District, is liable therefor.

General

The County was created in 1850 by the State Legislature and was one of the State's original 27 counties. The County spans an area of over 2 million acres and its coastline runs about 100 miles. The County is located on the north coast of the U.S. state of California. 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 lying 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).

Population

The County's population estimate at January 1, 2014 was 89,029. The following table indicates population growth for the County and the State for the last ten years.

HISTORICAL COUNTY AND STATE POPULATION DATA

Year	Mendocino County	State of California
2005	89,597	36,676,931
2006	89,575	37,087,005
2007	89,513	37,463,609
2008	89,764	37,871,509
2009	89,938	38,255,508
2010	90,289	38,648,090
2011	87,712	37,427,946
2012	87,947	37,668,804
2013	88,493	37,984,138
2014	89,029	38,340,074

Source: State of California, Department of Finance, as of January 1.

Employment and Industry

The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2010 through 2014.

MENDOCINO COUNTY
Annual Average Civilian Labor Force, Employment and Unemployment, Employment by Industry
(March 2014 Benchmark)

	2010	2011	2012	2013	2014
Civilian Labor Force (1)	41,490	40,850	40,920	41,140	41,070
Employment	36,660	36,180	36,810	37,760	38,230
Unemployment	4,830	4,660	4,110	3,380	2,840
Unemployment Rate	11.6%	11.4%	10.0%	8.2%	6.9%
Wage and Salary Employment: (2)					
Agriculture	250	250	300	310	250
Mining and Logging	940	930	960	950	940
Construction	2,190	2,230	2,330	2,420	2,190
Manufacturing	670	690	720	810	670
Wholesale Trade	4,380	4,310	4,360	4,350	4,380
Retail Trade	570	580	610	650	570
Transportation, Warehousing and Utilities	330	310	290	280	330
Information	1,160	1,060	1,080	1,040	1,160
Financial Activities	1,770	1,800	1,700	1,700	1,770
Professional and Business Services	4,710	4,770	5,060	5,690	4,710
Educational and Health Services	3,660	3,590	3,690	4,180	3,660
Leisure and Hospitality	730	730	750	760	730
Other Services	330	290	290	330	330
Federal Government	520	500	520	540	520
State Government	6,450	6,260	6,120	6,140	6,450
Local Government	250	250	300	310	250
Total, All Industries (3)	30,250	29,790	30,280	31,640	32,260

(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.

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Major Employers

The following table lists the major employers in the County, listed alphabetically.

MENDOCINO COUNTY
Major Employers
As of February 2015

Employer Name	Location	Industry
City of Ukiah	Ukiah	Government Offices-City, Village & Twp
Coyote Valley Casino	Redwood Valley	Casinos
Dharma Realm Buddhist Assn	Talmage	Associations
Fetzer Vineyards	Hopland	Wineries (Mfrs)
Forestry & Fire Protection	Willits	Government-Forestry Services
Hillside Health Ctr	Ukiah	Clinics
Hopland Sho Ka Wah Casino	Hopland	Casinos
Mendocino Coast Distict Hosp	Fort Bragg	Hospitals
Mendocino County Coroner	Point Arena	Government Offices-County
Mendocino County Food Stamps	Ukiah	County Government-Social/Human Resources
Mendocino County Office-Edctn	Ukiah	Government Offices-County
Mendocino County Sherrifs Dept	Ukiah	County Govt-Correctional Institutions
Mendocino County Social Svc	Ukiah	County Government-Social/Human Resources
Metalfx	Willits	Sheet Metal Fabricators (Mfrs)
Oak Point Ranch	Potter Valley	Vineyards
Pacific Gas & Electric Co	Ukiah	Electric Companies
Raley's	Ukiah	Grocers-Retail
Redwood Empire Packing Inc	Ukiah	Fruits & Vegetables-Growers & Shippers
Safeway	Fort Bragg	Grocers-Retail
Trinity Youth Svc	Ukiah	Religious Schools
Ukiah Campus	Ukiah	Schools-Universities & Colleges Academic
Ukiah City Civic Ctr	Ukiah	Government Offices-City, Village & Twp
Ukiah High School	Ukiah	Schools
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, 2015 1st Edition.

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Effective Buying income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the County, the State and the United States for the period 2010 through 2014.

MENDOCINO COUNTY, THE STATE OF CALIFORNIA
AND THE UNITED STATES
Effective Buying Income
2010 through 2014

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2010	Mendocino County	$1,588,115	$35,393
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	Mendocino County	$1,634,903	$35,213
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	Mendocino County	$1,395,998	$31,435
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	Mendocino County	$1,702,645	$37,851
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	Mendocino County	$1,679,050	$38,181
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

Source: The Nielsen Company (US), Inc.

Commercial Activity

Total taxable sales during calendar year 2013 in the County were reported to be $1.304 billion, a 7.2% increase over the total taxable sales of $1.217 billion reported during calendar year 2012.

MENDOCINO COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		**Total All Outlets**	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	2,489	$802,668	3,637	$1,056,955
2010	2,539	824,006	3,705	1,075,810
2011	2,468	882,347	3,616	1,158,893
2012	2,537	930,163	3,661	1,216,736
2013	2,629	976,584	3,742	1,304,197

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax).

Construction

The following table shows a five-year summary of the valuation of building permits issued in the County.

COUNTY OF MENDOCINO
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2010	**2011**	**2012**	**2013**	**2014**
Permit Valuation:					
New Single-family	$18,341.3	$12,790.7	$10,836.0	$12,721.4	13,054.7
New Multi-family	3,244.4	399.2	0.0	0.0	537.0
Res. Alterations/Additions	10,885.3	13,659.2	10,610.9	9,159.6	6,504.0
Total Residential	32,471.0	26,849.1	21,446.9	21,880.9	20,095.7
New Commercial	0.0	4,463.0	8,793.0	6,564.1	672.6
New Industrial	0.0	1,845.6	2,067.0	3,484.9	460.7
New Other	6,169.4	1,360.3	157.5	3,122.9	7,460.6
Com. Alterations/Additions	8,997.1	9,280.1	12,476.8	7,071.0	6,023.7
Total Nonresidential	15,166.5	16,949.0	23,494.3	20,242.8	20,095.7
New Dwelling Units:					
Single Family	122	103	70	92	72
Multiple Family	35	4	0	0	7
TOTAL	157	107	70	92	79

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

The Mendocino Transit Authority provides local and intercity bus service within the County. Limited service also connects with transit in Sonoma County. Greyhound Bus Lines currently serves Ukiah. Amtrak's operates connecting bus service to Ukiah, Willits and Laytonville.

The historic Skunk Train is a heritage railway that connects Fort Bragg, California with Willits using steam locomotives.

Ukiah Municipal Airport is a general aviation airport owned by the City of Ukiah. It is located south of downtown Ukiah. Little River Airport is a general aviation airport serving the Mendocino coast.

For commercial air service, passengers in the County need to go to Eureka, one county to the north in Humboldt County, or to Sonoma County Airport in Santa Rosa, Sonoma County, one county to the south. More comprehensive service is available from Sacramento to the east or San Francisco, well to the south.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF JONES HALL]

June 11, 2015

Governing Board
Anderson Valley Unified School District
12300 Anderson Valley Way
Boonville, CA 95415

OPINION: $1,267,414.10 Anderson Valley Unified School District (Mendocino County, California) General Obligation Bonds, Election of 2010, Series C

Members of the Governing Board:

We have acted as bond counsel to the Anderson Valley Unified School District (the "District") in connection with the issuance by the District of $1,267,414.10 principal amount of Anderson Valley Unified School District (Mendocino County, California) General Obligation Bonds, Election of 2010, Series C, dated the date hereof (together, the "Bonds"), under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Act"), and a resolution of the Board adopted on April 22, 2015 (the "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 Resolution and in the certified proceedings and other certifications furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The District is a duly created and validly existing unified school district with the power to issue the Bonds, and to perform its obligations under the Resolution and the Bonds.

2. The Resolution has been duly adopted by the Board, and constitutes a valid and binding obligation of the District enforceable upon the District.

3. The Bonds have been duly authorized, executed and delivered by the District, and are valid and binding general obligations of the District.

4. The Board of Supervisors of Mendocino County is required under the Act to levy an *ad valorem* tax upon the property in the District, unlimited as to rate or amount, for the payment of principal of and interest on the Bonds.

5. 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 imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), such that in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentences are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$1,267,414.10
ANDERSON VALLEY UNIFIED SCHOOL DISTRICT
(Mendocino County, California)
General Obligation Bonds,
Election of 2010, Series C

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "**Disclosure Certificate**") is executed and delivered by the Anderson Valley Unified School District (the "**District**") in connection with the execution and delivery of the captioned bonds (the "**Bonds**"). The Bonds are being executed and delivered pursuant to a resolution adopted by the Governing Board of the District on April 22, 2015 (the "**Resolution**"). The Bank of New York Mellon Trust Company, N.A., is initially acting as paying agent for the Bonds (the "**Paying Agent**").

The District hereby covenants and agrees as follows:

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

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

"*Annual Report*" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Annual Report Date*" means the date not later than nine months after the end of each fiscal year of the District (currently June 30th), or March 31.

"*Dissemination Agent*" means, initially, the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Paying Agent a written acceptance of such designation.

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

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

"*Official Statement*" means the final official statement executed by the District in connection with the issuance of the Bonds.

"*Paying Agent*" means The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, or any successor thereto.

"*Participating Underwriter*" means the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2016 with the report for the 2014-15 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(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 in a timely manner (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide in a timely manner (or cause the Dissemination Agent to provide in a timely manner) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Paying Agent and Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

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

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District, as follows:

(i) the average daily attendance in District schools on an aggregate basis for the preceding fiscal year;

(ii) pension plan contributions made by the District for the preceding fiscal year;

(iii) aggregate principal amount of short-term borrowings, lease obligations and other long-term borrowings of the District as of the end of the preceding fiscal year;

(iv) description of amount of general fund revenues and expenditures which have been budgeted for the current fiscal year, together with audited actual budget figures for the preceding fiscal year;

(v) the District's total revenue limit for the preceding fiscal year;

(vi) prior fiscal year total secured property tax levy and, if the District is no longer on the "Teeter Plan", collections, showing current collections as a percent of the total levy;

(vii) current fiscal year assessed valuation of taxable properties in the District; and

(viii) the amount of proceeds of the Bonds which have not been spent as of June 30 of the fiscal year for which the report is Annual Report is filed, if any.

(ix) In addition to any of the information expressly required to be provided under paragraphs (i) through (ix), of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and

Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the District.

(13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier “if material” and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that 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.

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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District. Any Dissemination Agent may resign by providing 30 days’ written notice to the District and the Paying Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

> (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
>
> (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with

the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent will have no duty or obligation to review any information provided to it by the District hereunder, and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: June 11, 2015

ANDERSON VALLEY UNIFIED SCHOOL DISTRICT

By: ______________________________

Name: ______________________________

Title: ______________________________

ACCEPTANCE OF DUTIES
AS DISSEMINATION AGENT

____

By ______________________________
Name:
Title:

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Anderson Valley Unified School District (the "District")
Name of Bond Issue:	Anderson Valley Unified School District General Obligation Bonds, Election of 2010, Series C
Date of Issuance:	June 11, 2015

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of June 11, 2015. The District anticipates that the Annual Report will be filed by _____________.

Dated:___________________

DISSEMINATION AGENT:

By: ___________________________
Its: ___________________________

cc: Paying Agent and Participating Underwriter

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Series C Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series C 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 C Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Series C Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series C Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (in this Appendix, the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

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

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

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

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

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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APPENDIX G

MENDOCINO COUNTY INVESTMENT POLICY AND QUARTERLY INVESTMENT REPORT

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COUNTY OF MENDOCINO

STATEMENT OF INVESTMENT POLICY

OFFICE OF
SHARI L. SCHAPMIRE
MENDOCINO COUNTY TREASURER
JANUARY 2015

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. Permitted investments under this policy will include:

1. **Municipal Bonds.** These include bonds of the County, the State of California, any other state, and any local County within the State of California. The bonds will be registered in the name of the County or held under a custodial agreement at a bank. The bonds shall be rated at the time of purchase within the four highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.

    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.

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 "A-1" or higher, or the equivalent, by at least two nationally recognized statistical-rating organizations (NRSRO); and have long-term debt obligations which are rated "A" or higher by at least two nationally recognized statistical rating organizations;

   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 "AA" or higher by two nationally recognized statistical rating organizations; 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 "A" or higher by at least two nationally recognized statistical rating organizations; and/or have short term debt obligations rated "A-1" or higher, or the equivalent, by at least two nationally recognized statistical rating organizations; 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 "A-1" or higher, or the equivalent, by at least two nationally recognized statistical rating organizations; and whose long-term obligations are rated "A" or higher by at least two nationally recognized statistical rating organizations; 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 "A" category or better by at least two nationally recognized statistical rating organizations; 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 issued by an issuer having an "A" or higher rating for the issuer's debt as provided by at least two nationally recognized statistical rating organizations; and

    c. be rated in a rating category of "AA" or its equivalent or better by at least two nationally recognized statistical rating organizations; and,

    d. Purchase of securities authorized by this subdivision may not exceed 20% of the portfolio.

16. **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 nationally recognized statistical rating organizations; or,

        2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' 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 securities authorized by this subdivision may not exceed 20% of the portfolio; and,

    c. No more than 10% per fund.

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, other than the US Government, its agencies and enterprises;

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 securities owned by the County are downgraded by either Moody's or Standard & Poor's Rating Agencies 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, 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, 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 as a consent calendar agenda item on a quarterly basis. 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 effective upon approval of the Board of Supervisors, submitted for approval on December 22, 2014.

Policy adopted by the Board of Supervisors on January 6, 2015.

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 listed below.

FDIC. The Federal Deposit Insurance Corporation provides insurance backed by the full faith and credit of the US government to certain bank deposits and debt obligations.

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 institutions of CDARS) while still maintaining FDIC insurance coverage. CDARS are 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 either on 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 (Tbills, discount notes, commercial paper and banker's acceptances) are issued and traded.

Mortgage pass-through securities. A securitized participation in the interest and principal cashflows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

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.

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 (man) 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 (RP, Repo). 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 interest to share in the decision making to promote economic development in the member countries.

Total rate of return. A measure of a portfolio' 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 2/28/2015

PORTFOLIO CHARACTERISTICS

Average Duration	1.10
Average Coupon	0.70 %
Average Purchase YTM	0.60 %
Average Market YTM	0.51 %
Average S&P/Moody Rating	AA+/Aa1
Average Final Maturity	1.19 yrs
Average Life	1.11 yrs

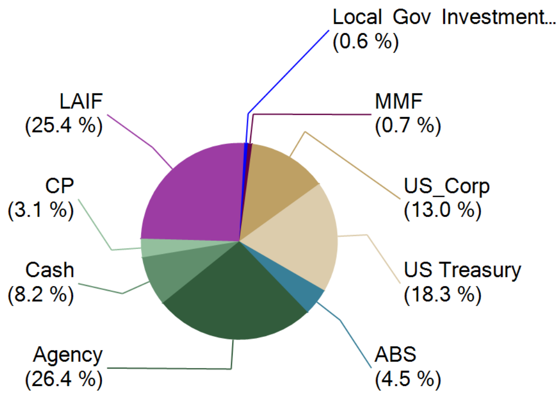
ACCOUNT SUMMARY

	Beg. Values as of 1/31/15	End Values as of 2/28/15
Market Value	192,451,834	177,195,903
Accrued Interest	325,006	292,108
Total Market Value	**192,776,840**	**177,488,011**
Income Earned	96,366	90,192
Cont/WD		
Par	191,814,286	176,853,651
Book Value	191,880,319	176,888,488
Cost Value	192,506,082	177,339,399

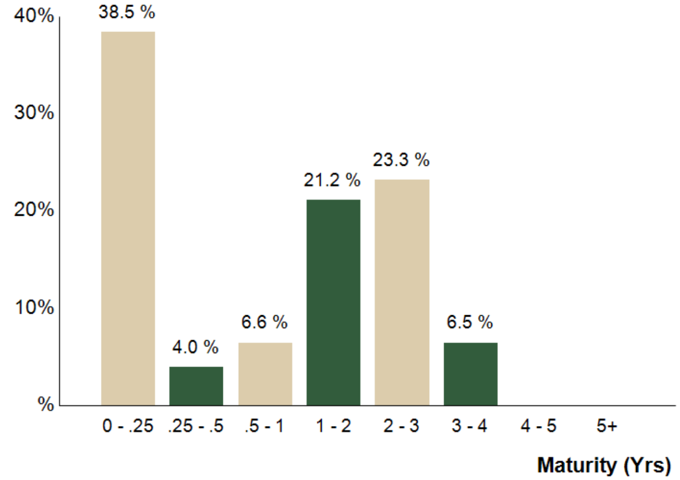
TOP ISSUERS

Issuer	% Portfolio
Local Agency Investment Fund	25.4 %
Government of United States	18.3 %
Federal National Mortgage Assoc	8.8 %
Custodial Checking Account	7.8 %
Federal Home Loan Bank	6.6 %
Federal Home Loan Mortgage Corp	5.4 %
Federal Farm Credit Bank	5.1 %
Honda ABS	1.6 %
	78.9 %

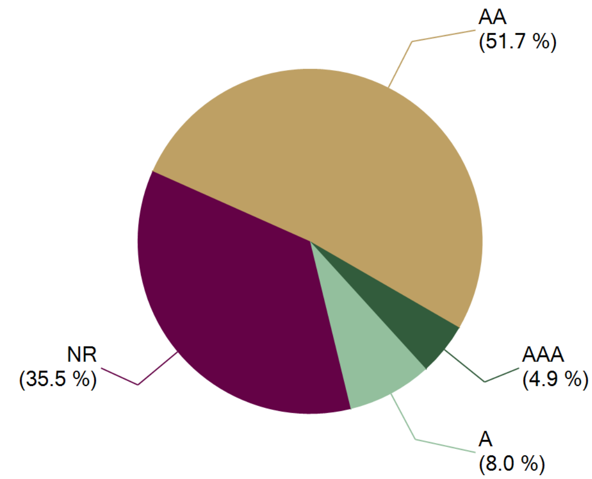
SECTOR ALLOCATION



MATURITY DISTRIBUTION



CREDIT QUALITY (S&P)



County of Mendocino Consolidated

February 28, 2015

COMPLIANCE WITH INVESTMENT POLICY

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	Complies
Treasury Issues	No limitation	Complies
Agency Issues	25% per issuer	Complies
Banker's Acceptances	40% max; 180 days maturity; "A"/"A-1" issuer	Complies
Commercial Paper	40% max; 270 days maturity; "A"/"A-1" issuer	Complies
Negotiable Certificates of Deposit	30% maximum; "A"/"A-1" issuer	Complies
Repurchase Agreements	No limitation; 1-year maximum maturity	Complies
Medium Term Notes	30% maximum; "A" rated	Complies
Money Market Mutual Funds	20% maximum; 10% max per fund; "AAA"-rated or SEC registered adviser	Complies
Federally Insured Time Deposits	No limitation	Complies
Collateralized Certificates of Deposit	20% max (with TDs); "A"/"A-1" issuer	Complies
Time Deposits	20% max (with CDs); "A"/"A-1" issuer	Complies
Asset Backed Securities (ABS) and Mortgage Pass Throughs (MPTs)	20% maximum; "AA"-rated; "A" issuer	Complies
Local Agency Investment Fund	Program limitation	Complies
Prohibited Securities and activities	Reverse repurchase agreements; CMOs; security lending; futures and options; inverse floaters; ranges notes; interest-only strips from mortgaged backed securities; zero interest accrual securities	Complies
Maximum Issuer	5% max (except Treasury, Agency, MMF, ABS and MPT securities)	Complies
Maximum maturity	5 years maximum maturity	Complies

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APPENDIX H

TABLE OF ACCRETED VALUES

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STIFEL

BOND ACCRETED VALUE TABLE

Anderson Valley Unified School District
(Mendocino County, California)
General Obligation Bonds,
Election of 2010, Series C
(Bank Qualified)
Final Numbers

Date	Serial CABs 08/01/2026 3.98%	Serial CABs 08/01/2027 4.2%	Serial CABs 08/01/2029 4.58%	Serial CABs 08/01/2030 4.76%	Serial CABs 08/01/2031 4.92%	Serial CABs 08/01/2032 4.97%	Serial CABs 08/01/2033 5.01%	Serial CABs 08/01/2034 5.05%	Serial CABs 08/01/2035 5.09%	Serial CABs 08/01/2036 5.13%	Serial CABs 08/01/2037 5.16%	Serial CABs 08/01/2038 5.19%	Serial CABs 08/01/2039 5.22%
06/11/2015	3,223.45	3,018.85	2,635.75	2,452.85	2,281.90	2,155.55	2,037.80	1,924.95	1,817.00	1,713.75	1,618.55	1,527.80	1,441.30
08/01/2015	3,241.15	3,036.35	2,652.40	2,468.95	2,297.35	2,170.25	2,051.85	1,938.35	1,829.70	1,725.85	1,630.05	1,538.70	1,451.65
02/01/2016	3,305.65	3,100.10	2,713.15	2,527.70	2,353.85	2,224.20	2,103.25	1,987.30	1,876.30	1,770.10	1,672.10	1,578.65	1,489.50
08/01/2016	3,371.45	3,165.20	2,775.25	2,587.85	2,411.75	2,279.50	2,155.90	2,037.50	1,924.05	1,815.50	1,715.25	1,619.60	1,528.40
02/01/2017	3,438.55	3,231.65	2,838.80	2,649.45	2,471.10	2,336.10	2,209.95	2,088.90	1,973.00	1,862.05	1,759.50	1,661.65	1,568.30
08/01/2017	3,506.95	3,299.55	2,903.80	2,712.50	2,531.90	2,394.20	2,265.30	2,141.65	2,023.20	1,909.85	1,804.90	1,704.75	1,609.25
02/01/2018	3,576.75	3,368.80	2,970.30	2,777.10	2,594.15	2,453.65	2,322.05	2,195.75	2,074.70	1,958.80	1,851.50	1,749.00	1,651.25
08/01/2018	3,647.90	3,439.55	3,038.35	2,843.15	2,658.00	2,514.65	2,380.20	2,251.20	2,127.50	2,009.05	1,899.25	1,794.40	1,694.30
02/01/2019	3,720.50	3,511.80	3,107.90	2,910.85	2,723.35	2,577.15	2,439.85	2,308.05	2,181.65	2,060.60	1,948.25	1,840.95	1,738.55
08/01/2019	3,794.55	3,585.55	3,179.10	2,980.10	2,790.35	2,641.20	2,500.95	2,366.30	2,237.20	2,113.45	1,998.50	1,888.75	1,783.90
02/01/2020	3,870.05	3,660.85	3,251.90	3,051.05	2,859.00	2,706.80	2,563.60	2,426.05	2,294.10	2,167.65	2,050.10	1,937.75	1,830.50
08/01/2020	3,947.10	3,737.70	3,326.35	3,123.65	2,929.35	2,774.10	2,627.80	2,487.30	2,352.50	2,223.25	2,102.95	1,988.00	1,878.25
02/01/2021	4,025.65	3,816.20	3,402.55	3,198.00	3,001.40	2,843.00	2,693.65	2,550.15	2,412.40	2,280.30	2,157.25	2,039.60	1,927.30
08/01/2021	4,105.75	3,896.35	3,480.45	3,274.10	3,075.25	2,913.65	2,761.10	2,614.50	2,473.75	2,338.80	2,212.90	2,092.55	1,977.60
02/01/2022	4,187.45	3,978.20	3,560.15	3,352.05	3,150.90	2,986.05	2,830.30	2,680.55	2,536.75	2,398.75	2,270.00	2,146.85	2,029.20
08/01/2022	4,270.80	4,061.70	3,641.70	3,431.80	3,228.40	3,060.25	2,901.20	2,748.20	2,601.30	2,460.30	2,328.55	2,202.55	2,082.15
02/01/2023	4,355.75	4,147.00	3,725.10	3,513.50	3,307.85	3,136.30	2,973.85	2,817.60	2,667.50	2,523.40	2,388.60	2,259.70	2,136.50
08/01/2023	4,442.45	4,234.10	3,810.40	3,597.10	3,389.20	3,214.25	3,048.35	2,888.75	2,735.40	2,588.15	2,450.25	2,318.35	2,192.30
02/01/2024	4,530.85	4,323.00	3,897.65	3,682.75	3,472.55	3,294.15	3,124.70	2,961.70	2,805.00	2,654.50	2,513.45	2,378.50	2,249.50
08/01/2024	4,621.00	4,413.80	3,986.90	3,770.40	3,558.00	3,376.00	3,203.00	3,036.50	2,876.40	2,722.60	2,578.30	2,440.25	2,308.20
02/01/2025	4,712.95	4,506.50	4,078.20	3,860.10	3,645.55	3,459.90	3,283.25	3,113.15	2,949.60	2,792.45	2,644.85	2,503.55	2,368.45
08/01/2025	4,806.75	4,601.15	4,171.60	3,952.00	3,735.20	3,545.85	3,365.45	3,191.75	3,024.65	2,864.05	2,713.05	2,568.55	2,430.25
02/01/2026	4,902.40	4,697.75	4,267.10	4,046.05	3,827.10	3,634.00	3,449.80	3,272.35	3,101.65	2,937.55	2,783.05	2,635.20	2,493.70
08/01/2026	5,000.00	4,796.40	4,364.85	4,142.35	3,921.25	3,724.30	3,536.20	3,355.00	3,180.60	3,012.90	2,854.85	2,703.55	2,558.80
02/01/2027		4,897.15	4,464.80	4,240.95	4,017.70	3,816.85	3,624.80	3,439.70	3,261.50	3,090.15	2,928.55	2,773.75	2,625.55
08/01/2027		5,000.00	4,567.05	4,341.85	4,116.55	3,911.70	3,715.60	3,526.55	3,344.55	3,169.45	3,004.10	2,845.70	2,694.10
02/01/2028			4,671.65	4,445.20	4,217.80	4,008.90	3,808.65	3,615.60	3,429.65	3,250.75	3,081.60	2,919.55	2,764.40
08/01/2028			4,778.60	4,551.00	4,321.55	4,108.50	3,904.05	3,706.90	3,516.95	3,334.10	3,161.10	2,995.30	2,836.55
02/01/2029			4,888.05	4,659.30	4,427.90	4,210.60	4,001.85	3,800.50	3,606.45	3,419.65	3,242.65	3,073.05	2,910.60
08/01/2029			5,000.00	4,770.20	4,536.80	4,315.25	4,102.10	3,896.45	3,698.20	3,507.35	3,326.30	3,152.80	2,986.55
02/01/2030				4,883.75	4,648.40	4,422.50	4,204.85	3,994.85	3,792.35	3,597.30	3,412.15	3,234.60	3,064.50
08/01/2030				5,000.00	4,762.75	4,532.40	4,310.20	4,095.70	3,888.85	3,689.60	3,500.15	3,318.55	3,144.50
02/01/2031					4,879.95	4,645.00	4,418.15	4,199.15	3,987.85	3,784.20	3,590.50	3,404.65	3,226.60
08/01/2031					5,000.00	4,760.45	4,528.85	4,305.15	4,089.30	3,881.30	3,683.10	3,493.00	3,310.80
02/01/2032						4,878.75	4,642.30	4,413.85	4,193.40	3,980.85	3,778.15	3,583.65	3,397.20
08/01/2032						5,000.00	4,758.60	4,525.30	4,300.10	4,082.95	3,875.60	3,676.65	3,485.85
02/01/2033							4,877.80	4,639.60	4,409.55	4,187.70	3,975.60	3,772.05	3,576.85
08/01/2033							5,000.00	4,756.75	4,521.80	4,295.10	4,078.15	3,869.95	3,670.20
02/01/2034								4,876.85	4,636.85	4,405.25	4,183.40	3,970.35	3,766.00
08/01/2034								5,000.00	4,754.85	4,518.25	4,291.30	4,073.40	3,864.30
02/01/2035									4,875.90	4,634.15	4,402.05	4,179.10	3,965.15
08/01/2035									5,000.00	4,753.00	4,515.60	4,287.55	4,068.65
02/01/2036										4,874.95	4,632.10	4,398.80	4,174.85
08/01/2036										5,000.00	4,751.65	4,512.95	4,283.80
02/01/2037											4,874.20	4,630.10	4,395.60
08/01/2037											5,000.00	4,750.25	4,510.35
02/01/2038												4,873.50	4,628.05
08/01/2038												5,000.00	4,748.85
02/01/2039													4,872.80
08/01/2039													5,000.00

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APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100