

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 Refunding 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 Refunding Bonds is taken into account in determining certain income and earnings, and the Refunding 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 Refunding Bonds is exempt from California personal income taxes. See "TAX MATTERS."

\$7,327,431.25

**MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2014 General Obligation Refunding Bonds**

Dated: Date of Delivery

Due August 1, as shown on inside front cover

Authority and Purpose. The captioned bonds (the "Refunding Bonds") are being issued by the McKinleyville Union School District (the "District") pursuant to certain provisions of the California Government Code and a resolution of the Board of Trustees of the District adopted on August 13, 2014 (the "Bond Resolution"). The Refunding Bonds are being issued to refund, in whole or in part, a series of the District's outstanding general obligation bonds, as described herein. See "THE REFUNDING BONDS – Authority For Issuance" and "THE REFINANCING PLAN" herein.

Security. The Refunding Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied and collected by Humboldt 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 Refunding 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). The County has previously issued, on behalf of the District, General Obligation Bonds, Election of 2008, Series A and General Obligation Bonds, Election of 2008, Series B, which are payable from *ad valorem* taxes on parity with the Refunding Bonds. See "SECURITY FOR THE REFUNDING BONDS."

Book-Entry Only. The Refunding 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 will not receive physical certificates representing their interests in the Refunding Bonds. See "THE REFUNDING BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payments. The Refunding Bonds are being issued as capital appreciation bonds. The Refunding Bonds are dated the date of delivery and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing on February 1, 2015 (each, a "Bond Payment Date"). Payments of Accrued Value on the Refunding Bonds will be paid by U.S. Bank National Association, San Francisco, California, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Refunding Bonds. See "THE REFUNDING BONDS - Description of the Refunding Bonds."

Redemption. The Refunding Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE REFUNDING BONDS - Redemption."

Bond Insurance. The scheduled payment of principal of and interest on the Refunding Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Refunding Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.



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 Refunding Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Refunding 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. It is anticipated that the Refunding Bonds, in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about October 2, 2014.

George K. Baum & Company

MATURITY SCHEDULE

\$7,327,431.25
MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2014 General Obligation Refunding Bonds

Base CUSIP[†]: 581725

Maturity Date (August 1)	Initial Denominational Amount	Price	Yield to Maturity	Maturity Value	CUSIP [†]
2035	\$573,278.40	34.956%	5.110%	\$ 1,640,000	CK2
2036	591,912.00	32.884	5.160	1,800,000	CL0
2037	610,552.80	30.836	5.220	1,980,000	CM8
2038	629,668.60	29.084	5.250	2,165,000	CN6
2039	425,971.00	27.482	5.270	1,550,000	CP1
2042	810,110.00	22.820	5.380	3,550,000	CQ9
2043	825,435.00	21.580	5.390	3,825,000	CR7
2044	839,583.45	20.403	5.400	4,115,000	CS5

\$2,020,920.00 Initial Denomination Term Bonds Maturing to \$12,000,000⁽¹⁾ on August 1, 2047; Yield: 5.500; CUSIP[†]: CT3

(1) Total not paid at maturity; subject to mandatory sinking fund redemption. See "THE REFUNDING BONDS – Redemption."
† CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter is responsible for the accuracy of such data.

MCKINLEYVILLE UNION SCHOOL DISTRICT

BOARD OF TRUSTEES

Brian Mitchell, *President*
Tim Hooven, *Clerk*
Sara Alto, *Representative*
Theresa Grosjean, *Member*
Suzie McCray, *Member*

DISTRICT ADMINISTRATION

Michael Davies-Hughes, *Superintendent*
Jeff Brock, *Business Services*

PROFESSIONAL SERVICES

FINANCIAL ADVISOR

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

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

PAYING AGENT, TRANSFER AGENT, BOND REGISTRAR and ESCROW AGENT

U.S. Bank National Association
San Francisco, California

VERIFICATION AGENT

Causey, Demgen & Moore
Denver, Colorado

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Refunding 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 Refunding 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.

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

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
THE REFINANCING PLAN.....	3
SOURCES AND USES OF FUNDS	4
THE REFUNDING BONDS.....	5
Authority for Issuance	5
Description of the Refunding Bonds.....	5
Redemption	5
Registration, Transfer and Exchange of Bonds	7
Defeasance	7
DEBT SERVICE SCHEDULES.....	9
SECURITY FOR THE REFUNDING BONDS.....	11
<i>Ad Valorem Taxes</i>	11
Debt Service Fund.....	12
Not a County Obligation	12
BOND INSURANCE.....	13
Bond Insurance Policy	13
Build America Mutual Insurance Company.....	13
PROPERTY TAXATION	15
Property Tax Collection Procedures	15
Taxation of State-Assessed Utility Property.....	16
Assessed Valuation.....	16
Appeals of Assessed Value	18
Tax Rates	19
Property Tax Collections	20
Major Taxpayers.....	21
Direct and Overlapping Debt.....	22
TAX MATTERS	23
Tax Exemption	23
Other Tax Considerations	24
CERTAIN LEGAL MATTERS	25
Legality for Investment.....	25
Absence of Litigation.....	25
Compensation of Certain Professionals.....	25
CONTINUING DISCLOSURE	26
ESCROW VERIFICATION.....	27
RATING.....	27
UNDERWRITING.....	27
ADDITIONAL INFORMATION	28
APPENDIX A - MCKINLEYVILLE UNION SCHOOL DISTRICT AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2012-13	
APPENDIX B - GENERAL AND FINANCIAL INFORMATION FOR MCKINLEYVILLE UNION SCHOOL DISTRICT	
APPENDIX C - ECONOMIC AND DEMOGRAPHIC INFORMATION FOR HUMBOLDT COUNTY	
APPENDIX D - PROPOSED FORM OF OPINION OF BOND COUNSEL	
APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE	
APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM	
APPENDIX G - TABLE OF ACCRETED VALUES	
APPENDIX H - SPECIMEN MUNICIPAL BOND INSURANCE POLICY	

[THIS PAGE INTENTIONALLY LEFT BLANK]

\$7,327,431.25
MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2014 General Obligation Refunding Bonds

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 Refunding Bonds captioned above (the “**Refunding Bonds**”) by the McKinleyville Union 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 Refunding Bonds to potential investors is made only by means of the entire Official Statement.

The District. The District provides services to the community of McKinleyville. The District operates two elementary schools and one middle school. Enrollment in the District was 1,179 students in fiscal year 2013-14. For more information regarding the District and its finances, see Appendix B attached hereto. See also Appendix C hereto for demographic and other statistical information regarding the County.

Purpose. The Refunding Bonds are being issued by the District to refund all or a portion of the callable portion of the District’s \$6,999,907.50 General Obligation Bonds, Election of 2008, Series B. See “THE REFINANCING PLAN” herein.

Authority for Issuance of the Refunding Bonds. The Refunding Bonds will be issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “**Bond Law**”) and under a resolution adopted by the Board of Trustees of the District on August 13, 2014 (the “**Bond Resolution**”). See “THE REFUNDING BONDS - Authority for Issuance” herein.

Payment and Registration of the Refunding Bonds. The Refunding Bonds are being issued as capital appreciation bonds. The interest component of the Refunding Bonds is compounded semiannually on each February 1 and August 1, commencing on February 1, 2015 (each, a “**Compounding Date**”) to maturity as shown in the table of Accreted Values attached hereto. See “APPENDIX G – Table of Accreted Values”.

The Refunding Bonds will be dated the Dated Date, and will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 Maturity Value (where the “**Maturity Value**” means the accreted value of a Refunding Bond on the date such Bond matures) and any integral multiple thereof. The Maturity Value of each Refunding Bond is equal to its accreted value (“**Accreted Value**”), being comprised of its initial principal amount (“**Denominational Amount**”) and the compounded interest between the delivery date and its respective maturity or mandatory redemption date, if applicable.

Redemption. The Refunding Bonds are subject to redemption prior to their maturity as described in "THE REFUNDING BONDS - Redemption."

Tax Matters. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Refunding Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also, in the opinion of Bond Counsel, interest on the Series A Bonds will be exempt from State of California (the "**State**") personal income taxes. See "TAX MATTERS" herein.

Bank Qualified. The District has designated the Refunding Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986. Such section provides an exception to the prohibition against the ability of a "financial institution" (as defined in the Internal Revenue Code of 1986) to deduct its interest expense allocable to tax-exempt interest. See "TAX MATTERS" herein.

Security and Sources of Payment for the Refunding Bonds. The Refunding Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes levied 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 Refunding 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). See "SECURITY FOR THE REFUNDING BONDS."

The District has another series of general obligation bonds that is payable from *ad valorem* taxes levied on taxable property in the District. For a schedule of the debt service due on the general obligation bonds issued by the District, see "DEBT SERVICE SCHEDULE." See also "THE REFINANCING PLAN."

Bond Insurance. Concurrently with the issuance of the Refunding Bonds, Build America Mutual Assurance Company ("**BAM**") will issue its Municipal Bond Insurance Policy for the Refunding Bonds (the "**Policy**"). The Policy guarantees the scheduled payment of principal of and interest on the Refunding Bonds when due as set forth in the form of the Policy included as APPENDIX H to this Official Statement. See "BOND INSURANCE."

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 Refunding Bonds are available from the District. The District may impose a charge for copying, mailing and handling.

END OF INTRODUCTION

THE REFINANCING PLAN

Prior Bonds Authorized. At an election held on June 3, 2008, the District received authorization, by a requisite majority vote of the qualified electors, to issue general obligation bonds in a principal amount not to exceed \$14,000,000 (the “**2008 Authorization**”). Pursuant to the 2008 Authorization, on March 17, 2009 the County, on behalf of the District, issued \$7,000,000 General Obligation Bonds, Election of 2008, Series A (the “**Series A Bonds**”). The Series A Bonds are currently outstanding in the aggregate principal amount of \$6,735,000.

On April 29, 2011, pursuant to the Authorization, the County, on behalf of the District, issued \$6,999,907.50 General Obligation Bonds, Election of 2008, Series B (the “**Series B Bonds**”). The Series B Bonds, which were issued as capital appreciation bonds and convertible capital appreciation bonds, are currently outstanding in the aggregate principal amount of \$6,999,907.50.

Refunded Bonds. The Refunding Bonds are being issued by the District to refund on an advanced basis certain maturities of the Series B Bonds as identified in the following table.

MCKINLEYVILLE UNION DISTRICT Identification of Refunded Series B Bonds

Maturities to be Refunded	CUSIP†	Principal Amount Redeemed	Redemption Date	Redemption Price (% of Accreted Value Redeemed)
2035	581725 BT4	\$247,120.50	8/1/2021	100%
2036	581725 BU1	248,965.50	8/1/2021	100
2039**	581725 BX5	665,811.30	8/1/2021	100
2046**	581725 CE6	1,408,778.20	8/1/2021	100
2050**	581725 CJ5	1,037,462.40	8/1/2021	100
TOTAL		\$3,608,137.90		

** Term Bonds.

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

Escrow Fund. The District will deliver a portion of the proceeds of the Refunding Bonds to U.S. Bank National Association, as escrow agent (the “**Escrow Bank**”), for deposit in an escrow fund (the “**Escrow Fund**”) established under an Escrow Deposit and Trust Agreement (the “**Escrow Agreement**”), entered into by and between the District and the Escrow Bank.

On the Closing Date, the Escrow Agent will deposit net proceeds of the Refunding Bonds in the Escrow Fund, and will apply such funds to pay interest due on the Refunded Bonds through and including the redemption date of August 1, 2021, on which date the Refunded Bonds will be redeemed at a price equal to the principal amount thereof, plus the redemption premium identified above.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Causey, Demgen & Moore, certified public accountants, Denver, Colorado (the “**Verification Agent**”). See “**ESCROW VERIFICATION**” herein.

The amounts held by the Escrow Bank in the Escrow Fund are pledged solely to the payment of the Refunded Bonds. The funds deposited in the Escrow Fund will not be available for the payment of debt service with respect to the Refunding Bonds.

SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Refunding Bonds	<u>\$7,327,431.25</u>
Total Sources	<u>\$7,327,431.25</u>

Uses of Funds

Costs of Issuance*	\$ 231,382.12
Deposit to Escrow Fund	<u>7,096,049.13</u>
Total Uses	<u>\$7,327,431.25</u>

** All estimated costs of issuance including, but not limited to, Underwriter's discount, municipal bond insurance premium, printing costs and fees of Bond Counsel, Disclosure Counsel, the Financial Advisor, Escrow Bank, verification agent and the rating agency.*

THE REFUNDING BONDS

Authority for Issuance

The Refunding Bonds will be issued under the Bond Law and the Bond Resolution.

Description of the Refunding Bonds

Book-Entry Form. The Refunding 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 Refunding Bonds (the “**Beneficial Owners**”) will not receive physical certificates representing their interest in the Refunding Bonds. Payments of principal of and interest on the Refunding Bonds will be paid by U.S. Bank National Association (the “**Paying Agent**”) to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Refunding Bonds.

As long as DTC’s book-entry method is used for the Refunding 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 Refunding 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 Refunding 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 Refunding Bonds.

Bond Payments. The Refunding Bonds will be dated the Dated Date and will accrete interest from such date, compounded semiannually each February 1 and August 1 (each, a “**Bond Payment Date**”), commencing February 1, 2015, at the interest rates shown on the inside front cover page of this Official Statement. The Refunding Bonds will mature on August 1 in each of the years and in the principal amounts shown on the inside front cover page of this Official Statement. Interest on the Refunding Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Bond authenticated on or before January 15, 2015, shall bear interest from the date of the Refunding Bonds. Each Bond authenticated during the period between the 15th day of the month preceding any Bond Payment Date (the “**Record Date**”) and that Bond Payment Date shall bear interest from that Bond Payment Date. Any other Bond shall bear interest from the Bond Payment Date immediately preceding the date of its authentication. If a Payment Date does not fall on a business day, the interest, principal or redemption payment due on such Payment Date will be paid on the next business day. The Refunding Bonds will be issued in the denomination of \$5,000 principal amount each or any integral multiple thereof.

See the maturity schedules on the inside cover page of this Official Statement and “DEBT SERVICE SCHEDULE” herein.

Redemption

Optional Redemption. The Refunding Bonds maturing on or after August 1, 2022, are subject to redemption prior to their respective maturity dates, from moneys provided at the

option of the District, in each case on any date on and after August 1, 2021, at a redemption price equal to the Accreted Value of the Refunding Bonds to be redeemed, without premium.

Mandatory Sinking Fund Redemption. The Refunding Bonds maturing on August 1, 2047 (the "Term Bonds"), are subject to mandatory sinking fund redemption on August 1 of each years in accordance with the respective schedules set forth below at a redemption price equal to 100% of the Accreted Value thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption. The Term Bonds so called for mandatory sinking fund redemption shall be redeemed in the sinking fund payments amounts and on the dates set forth below, without premium.

Term Bonds Maturing August 1, 2047

Redemption Date (August 1)	Sinking Fund Redemption
2045	\$4,431,970.40
2046	4,773,787.20
2047 (maturity)	2,020,000.00

If some but not all of the Term Bonds have been optionally redeemed as described in the preceding section, the aggregate Accreted Value of Term Bonds to be redeemed pursuant to mandatory sinking fund redemption shall be reduced on a pro rata basis in integral multiples of \$5,000, or on such other basis as designated pursuant to written notice filed by the District with the Paying Agent.

Notice of Redemption. The Paying Agent will cause notice of any redemption to be mailed, by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to (i) one or more of the Information Services, and (ii) to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books; but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Bonds.

The redemption notice will state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, will designate the Refunding Bonds to be redeemed, and will require that any redeemed Bonds be surrendered at the Principal Office of the Paying Agent for redemption, giving notice that further interest on such Bonds will not accrue from and after the redemption date.

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

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

Right to Rescind Notice of Redemption. The District has the right to rescind any notice of the optional redemption of Refunding 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 Refunding Bonds then called for redemption. The District and the Paying Agent shall have no liability to the Refunding 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, except that the time period for giving the original notice of redemption shall not apply to any notice of rescission thereof.

Registration, Transfer and Exchange of Bonds

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

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

Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

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

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

Defeasance

The Refunding 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 Refunding 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 Refunding Bonds; or
- (c) by delivering such Refunding 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 Refunding 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 Refunding Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption price of such Refunding Bonds and all unpaid interest thereon to the redemption date; or
- (ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Refunding Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Refunding Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Bond Resolution or provision satisfactory to the Paying Agent has been made for the giving of such notice.

Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount (as described above) to pay or redeem any outstanding Refunding Bond (whether upon or prior to its maturity or the redemption date of such Refunding Bond), then all liability of the County and the District in respect of such Refunding 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 Refunding 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 (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

DEBT SERVICE SCHEDULES

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

MCKINLEYVILLE UNION SCHOOL DISTRICT Refunding Bonds Debt Service Schedule

Date (August 1)	Principal	Interest	Annual Total
2015	--	--	--
2016	--	--	--
2017	--	--	--
2018	--	--	--
2019	--	--	--
2020	--	--	--
2021	--	--	--
2022	--	--	--
2023	--	--	--
2024	--	--	--
2025	--	--	--
2026	--	--	--
2027	--	--	--
2028	--	--	--
2029	--	--	--
2030	--	--	--
2031	--	--	--
2032	--	--	--
2033	--	--	--
2034	--	--	--
2035	\$573,278.40	\$1,066,721.60	\$1,640,000.00
2036	591,912.00	1,208,088.00	1,800,000.00
2037	610,552.80	1,369,447.20	1,980,000.00
2038	629,668.60	1,535,331.40	2,165,000.00
2039	425,971.00	1,124,029.00	1,550,000.00
2040	--	--	--
2041	--	--	--
2042	810,110.00	2,739,890.00	3,550,000.00
2043	825,435.00	2,999,565.00	3,825,000.00
2044	839,583.45	3,275,416.55	4,115,000.00
2045	831,945.40	3,600,025.00	4,431,970.40
2046	848,786.40	3,925,000.80	4,773,787.20
2047	340,188.20	1,679,811.80	2,020,000.00
Total	\$7,327,431.25	\$24,523,326.35	\$31,850,757.60

Aggregate General Obligation Bond Debt Service Schedule. The following table shows combined annual debt service for outstanding general obligation bonds of the District (assuming no optional redemptions). See also Appendix B under the heading “ - Existing Debt Obligations.”

MCKINLEYVILLE UNION SCHOOL DISTRICT
Annual Debt Service for Outstanding General Obligation Bonds

Period Ending (August 1)	Series A Bonds	Series B Bonds	2014 Refunding GO Bonds	Total
2015	\$447,587.50	--	--	\$447,587.50
2016	470,150.00	--	--	470,150.00
2017	491,650.00	--	--	491,650.00
2018	511,962.50	--	--	511,962.50
2019	460,962.50	\$ 185,000.00	--	645,962.50
2020	431,762.50	265,000.00	--	696,762.50
2021	513,562.50	235,000.00	--	748,562.50
2022	541,550.00	267,900.00	--	809,450.00
2023	567,050.00	302,900.00	--	869,950.00
2024	600,300.00	337,900.00	--	938,200.00
2025	626,300.00	382,900.00	--	1,009,200.00
2026	660,300.00	427,900.00	--	1,088,200.00
2027	701,800.00	470,343.76	--	1,172,143.76
2028	736,000.00	525,343.76	--	1,261,343.76
2029	771,600.00	585,343.76	--	1,356,943.76
2030	858,300.00	605,343.76	--	1,463,643.76
2031	742,800.00	830,343.76	--	1,573,143.76
2032	1,006,800.00	690,343.76	--	1,697,143.76
2033	932,800.00	895,343.76	--	1,828,143.76
2034	--	1,965,343.76	--	1,965,343.76
2035	--	2,120,343.76	\$1,640,000.00	3,760,343.76
2036	--	2,280,343.76	1,800,000.00	4,080,343.76
2037	--	2,460,117.16	1,980,000.00	4,440,117.16
2038	--	2,646,622.81	2,165,000.00	4,811,622.81
2039	--	2,850,343.76	1,550,000.00	4,400,343.76
2040	--	3,071,712.50	--	3,071,712.50
2041	--	3,307,845.00	--	3,307,845.00
2042	--	3,563,817.35	3,550,000.00	7,113,817.35
2043	--	3,838,486.45	3,825,000.00	7,663,486.45
2044	--	4,129,872.00	4,115,000.00	8,244,872.00
2045	--	4,447,799.60	4,431,970.40	8,879,770.00
2046	--	4,790,000.00	4,773,787.20	9,563,787.20
2047	--	5,159,796.10	2,020,000.00	7,179,796.10
2048	--	5,557,163.15	--	5,557,163.15
2049	--	5,984,817.75	--	5,984,817.75
2050	--	6,445,000.00	--	6,445,000.00
TOTAL	\$12,073,237.50	\$71,626,331.23	\$31,850,757.60	\$115,550,326.33

SECURITY FOR THE REFUNDING BONDS

Ad Valorem Taxes

Bonds Payable from Ad Valorem Property Taxes. The Refunding Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Refunding 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).

Other Bonds Payable from Ad Valorem Property Taxes. The District has other outstanding bonded indebtedness payable from *ad valorem* taxes. See Appendix B under the heading "Existing Debt Obligations." Such indebtedness, together with debt service payable on the Refunding Bonds, is all payable from *ad valorem* taxes on a parity basis.

In addition to the general obligation bonds issued by the District, 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 Refunding Bonds, which is maintained by the County Office of Education and which is irrevocably pledged for the payment of principal of and interest on the Refunding 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. As described below, the County has adopted the Teeter Plan so secured tax revenues do not reflect the county-wide delinquency rates.

Annual Tax Rates. The amount of the annual *ad valorem* tax levied by the County to repay the Refunding 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 Refunding Bonds. Fluctuations in the annual debt service on the Refunding 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 Office of Education will establish a Debt Service Fund (the “**Debt Service Fund**”) for the Refunding 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 Office of Education for the payment of the principal of and interest and premium (if any) on the Refunding 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 Refunding Bonds when and as the same become due. The District 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 Refunding Bonds as the same becomes due and payable.

If, after payment in full of the Refunding Bonds, any amounts remain on deposit in a 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 Refunding 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 Refunding Bonds. Although the County is obligated to collect the *ad valorem* tax for the payment of the Refunding Bonds, the Refunding Bonds are not a debt of the County.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Refunding Bonds, Build America Mutual Assurance Company (“**BAM**”) will issue its Municipal Bond Insurance Policy for the Refunding Bonds (the “**Policy**”). The Policy guarantees the scheduled payment of principal of and interest on the Refunding Bonds when due as set forth in the form of the Policy included as APPENDIX H to this Official Statement.

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

Build America Mutual Insurance Company

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

The address of the principal executive offices of BAM is: 1 World Financial Center, 27th Floor, 200 Liberty Street, New York, New York 10281; its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM. BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$477.8 million, \$17.9 million and \$459.9 million, respectively.

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

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

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

Additional Information Available from BAM.

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/.

Obligor Disclosure Briefs. Subsequent to closing, BAM posts an Obligor Disclosure Brief on every issue insured by BAM, including the Refunding Bonds. BAM Obligor Disclosure Briefs provide information about the gross par insured by CUSIP, maturity and coupon; sector designation (e.g. general obligation, sales tax); a summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. The Obligor Disclosure Briefs are also easily accessible on BAM's website at buildamerica.com/obligor/.

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

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

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 property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

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

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

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

Taxation of State-Assessed Utility Property

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

Assessed Valuation

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

**MCKINLEYVILLE UNION SCHOOL DISTRICT
Assessed Valuations of All Taxable Property
Fiscal Years 2005-06 through 2014-15**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2005-06	\$893,361,248	\$0	\$42,051,862	\$935,413,110
2006-07	1,005,830,998	0	41,164,448	1,046,995,446
2007-08	1,103,523,150	0	46,866,724	1,150,389,874
2008-09	1,178,798,060	0	52,117,184	1,230,915,244
2009-10	1,223,003,494	0	56,649,075	1,279,652,569
2010-11	1,236,444,401	0	48,389,576	1,284,833,977
2011-12	1,257,737,780	0	48,410,526	1,306,148,306
2012-13	1,282,465,162	0	35,122,598	1,317,587,760
2013-14	1,291,237,442	0	36,342,044	1,327,579,486
2014-15	1,306,781,337	0	36,041,331	1,342,822,668

Source: California Municipal Statistics, Inc., County Auditor (2014-15)

Assessed Valuation by Land Use. The following table shows the land use of parcels in the District, according to County records for fiscal year 2013-14. As shown, the majority of land in the District is used for residential purposes.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use
Fiscal Year 2013-14

	2013-14 Assessed Valuation (1)	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural/Timber	\$ 37,028,988	2.87%	277	4.59%
Commercial	124,368,137	9.63	121	2.00
Vacant Commercial	8,679,478	0.67	56	0.93
Industrial	789,760	0.06	1	0.02
Government/Social/Institutional	<u>275,012</u>	<u>0.02</u>	<u>17</u>	<u>0.28</u>
Subtotal Non-Residential	\$171,141,375	13.25%	472	7.81%
Residential:				
Single Family Residence	\$ 855,750,516	66.27%	3,919	64.88%
Rural Residential	93,861,470	7.27	297	4.92
Mobile Home	36,994,592	2.87	641	10.61
Mobile Home Park	4,632,685	0.36	7	0.12
2-4 Residential Units	85,934,518	6.66	284	4.70
5+ Residential Units/Apartments	<u>14,379,474</u>	<u>1.11</u>	<u>22</u>	<u>0.36</u>
Vacant Residential	<u>28,542,812</u>	<u>2.21</u>	<u>398</u>	<u>6.59</u>
Subtotal Residential	\$1,120,096,067	86.75%	5,568	92.19%
Total	\$1,291,237,442	100.00%	6,040	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, according to fiscal year 2013-14 assessed valuation.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Per Parcel 2013-14 Assessed Valuation
of Single Family Homes

	<u>No. of Parcels</u>	2013-14 <u>Assessed Valuation</u>		<u>Average Assessed Valuation</u>	Median <u>Assessed Valuation</u>	
		<u>Total</u>	<u>% of Total</u>		<u>Total</u>	<u>% of Total</u>
Single Family Residential	3,919	\$855,750,516		\$218,359	\$201,534	
2013-14 Assessed Valuation	No. of Parcels (1)					
\$0 - \$24,999	20	0.510%	0.510%	\$ 367,328	0.043%	0.043%
\$25,000 - \$49,999	111	2.832	3.343	4,544,814	0.531	0.574
\$50,000 - \$74,999	194	4.950	8.293	12,003,668	1.403	1.977
\$75,000 - \$99,999	254	6.481	14.774	22,559,538	2.636	4.613
\$100,000 - \$124,999	272	6.941	21.715	30,878,251	3.608	8.221
\$125,000 - \$149,999	362	9.237	30.952	50,083,703	5.853	14.074
\$150,000 - \$174,999	412	10.513	41.465	66,921,440	7.820	21.894
\$175,000 - \$199,999	310	7.910	49.375	58,033,498	6.782	28.676
\$200,000 - \$224,999	296	7.553	56.928	62,782,605	7.337	36.012
\$225,000 - \$249,999	367	9.365	66.292	86,528,008	10.111	46.124
\$250,000 - \$274,999	331	8.446	74.738	86,418,522	10.099	56.222
\$275,000 - \$299,999	238	6.073	80.811	68,146,996	7.963	64.186
\$300,000 - \$324,999	154	3.930	84.741	47,907,545	5.598	69.784
\$325,000 - \$349,999	136	3.470	88.211	45,783,227	5.350	75.134
\$350,000 - \$374,999	88	2.245	90.457	31,807,929	3.717	78.851
\$375,000 - \$399,999	64	1.633	92.090	24,747,289	2.892	81.743
\$400,000 - \$424,999	57	1.454	93.544	23,524,259	2.749	84.492
\$425,000 - \$449,999	55	1.403	94.948	24,013,657	2.806	87.298
\$450,000 - \$474,999	47	1.199	96.147	21,640,405	2.529	89.827
\$475,000 - \$499,999	45	1.148	97.295	21,886,979	2.558	92.384
\$500,000 and greater	106	2.705	100.000	65,170,855	7.616	100.000
Total	3,919	100.000%		\$855,750,516	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 XIII A 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 XIII A 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 XIII A.

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 Refunding Bonds to increase accordingly, so that the fixed debt service on the Refunding 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 Tax Rate Area 115-2 (a typical tax rate area in the District) for fiscal years 2004-05 through 2013-14. The 2013-14 AV of Tax Rate Area 5-011 is approximately \$1.27 billion which is 95.7% of the District's total assessed valuation

MCKINLEYVILLE UNION SCHOOL DISTRICT
Summary of *Ad Valorem* Tax Rates
\$1 per \$100 of Assessed Valuation
Fiscal Years 2004-05 through 2013-14
(Tax Rate Area 115-2)

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General	1.0000	1.0000	1.0000	1.0000	1.0000
Northern Humboldt Union High School District	-	-	-	-	-
Redwoods Joint Community College District	-	.0130	.0100	.0200	.0120
McKinleyville Union School District	-	-	-	-	.0290
Total	1.0000	1.0130	1.0100	1.0200	1.0410
	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General	1.0000	1.0000	1.0000	1.0000	1.0000
Northern Humboldt Union High School District	-	-	.0180	.0190	.0180
Redwoods Joint Community College District	.0130	.0130	.0120	.0110	.0110
McKinleyville Union School District Bond	.0300	.0270	.0290	.0290	.0320
Total	1.0430	1.0400	1.0590	1.0590	1.0610

Source: California Municipal Statistics, Inc.

Property Tax Collections

The District's total secured tax collections and delinquencies are apportioned on a County-wide basis, according to the District's designated tax rate amount. Therefore, the total secured tax levies, as well as collections and delinquencies reported, do not represent the actual secured tax levies, collections and delinquencies of tax payers within the tax areas of the District. In addition, the District's total secured tax levy does not include special assessments, supplemental taxes or other charges which have been assessed on property within the District or other tax rate areas of the County.

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**") as provided for in the State Revenue and Taxation Code, which requires the County to pay 100% of secured property taxes due to local agencies in the fiscal year such taxes are due. Under these provisions, each county operating under the Teeter Plan establishes a delinquency reserve and assumes responsibility for all secured delinquencies, assuming that certain conditions are met.

Because of this method of tax collection, the K-12 districts located in counties operating under the Teeter Plan and participating in the Teeter Plan are assured of 100% collection of their secured tax levies if the conditions established under the applicable county's Teeter Plan are met. However, such districts are no longer entitled to share in any penalties due on delinquent payments or in the interest which accrues on delinquent payments.

The Teeter Plan is to remain in effect unless the Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors has received a petition for its discontinuance joined in by resolutions adopted by two thirds of the participating revenue districts in the County, in which event the Board of Supervisors is required to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year.

The Board of Supervisors may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency. In the event that the Teeter Plan was terminated, the amount of the levy of *ad valorem* 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.

So long as the Teeter Plan remains in effect with respect to the District, 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.

Major Taxpayers

The following table shows the 20 largest taxpayers in the District as determined by their secured assessed valuations in fiscal year 2013-14:

MCKINLEYVILLE UNION SCHOOL DISTRICT Largest 2013-14 Local Secured Taxpayers

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>Assessed Valuation</u>	<u>2013-14</u>	<u>% of Total (1)</u>
1. Timber Ridge at McKinleyville LLC	Assisted Living Facility	\$ 13,182,552		1.02%
2. Reneson Hotels Inc.	Hotel/Motel	9,245,310		0.72
3. Azalea Gardens Apartments LP	Apartments	8,649,027		0.67
4. L&A Enterprises LLC	Commercial Store	7,443,257		0.58
5. Coast Central Credit Union	Financial Building	6,444,882		0.50
6. Stephen A. Moser, Trust	Office Building	5,746,968		0.45
7. Sears Roebuck and Co.	Commercial Store	4,900,000		0.38
8. BDC Crestline LP	Commercial Store	4,800,786		0.37
9. Ronald J. Harris, Trust	Mini-Warehouse	4,708,522		0.36
10. John C. Schweiger, Trust	Movie Theater	4,485,637		0.35
11. Murray Storage LP	Mini-Warehouse	3,947,521		0.31
12. Archee L. and John A. Pettlon	Rural Residential	3,541,002		0.27
13. Opie L. and Imogene Hendricks, Trust	Commercial Store	3,481,833		0.27
14. D & R Miller Family LLC	Commercial Store	3,359,934		0.26
15. Domingo and Mary L. Santos	Rural Residential	3,187,868		0.25
16. Swanlund Properties LP	Mobile Home Park	3,104,272		0.24
17. Green Diamond Resource Company	Timber	3,013,524		0.23
18. Lisa C. and William F. Landis, Jr., Trust	Rural Residential	2,941,426		0.23
19. Michael and Sheril Jones, Trust	Office Building	2,891,009		0.22
20. J.L. Furtado Inc.	Office Building	<u>2,646,405</u>		<u>0.20</u>
		<u>\$101,721,735</u>		<u>7.88%</u>

(1) 2013-14 Local Secured Assessed Valuation: \$1,291,237,442.
Source: California Municipal Statistics, Inc.

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 September 1, 2014. 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.

MCKINLEYVILLE UNION SCHOOL DISTRICT Statement of Direct and Overlapping Bonded Debt (Debt Issued as of September 1, 2014)

2013-14 Assessed Valuation: \$1,327,579,486

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 9/1/14</u>	
Redwoods Joint Community College District	8.208%	\$ 2,645,438	
Northern Humboldt Union High School District	33.709	4,255,836	
McKinleyville Union School District	100.	13,734,908	⁽¹⁾
Humboldt Bay Harbor Recreation and Conservation District	11.602	<u>252,924</u>	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$20,889,106	
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
Humboldt County Certificates of Participation	11.602%	\$1,803,531	
Humboldt County Office of Education Certificates of Participation	11.602	390,987	
Redwoods Joint Community College District Certificates of Participation	8.208	19,798	
Northern Humboldt Union High School District Certificates of Participation	33.709	<u>262,930</u>	
TOTAL OVERLAPPING GENERAL FUND DEBT		\$2,477,246	
COMBINED TOTAL DEBT		\$23,366,352	⁽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 2013-14 Assessed Valuation:

Direct Debt (\$13,734,908).....	1.03%
Total Direct and Overlapping Tax and Assessment Debt	1.57%
Combined Total Debt	1.76%

Source: California Municipal Statistics, Inc.

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 Refunding 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 Refunding 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 Refunding Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Refunding Bonds. 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 Refunding Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Refunding Bonds.

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 Refunding 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 2014, and (b) designated the Refunding 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 Refunding 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 Refunding 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 Refunding 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 Refunding Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Refunding Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Refunding Bonds who purchase the Refunding Bonds after the initial offering of a substantial amount of such maturity. Owners of such Refunding Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Refunding 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 Refunding 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 Refunding Bond (said term being the shorter of the Refunding 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 Refunding Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Refunding Bond is amortized each year over the term to maturity of the Refunding 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 Refunding 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 Refunding Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Refunding 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 Refunding Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Refunding 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 Refunding Bonds other than as expressly described above.

Future legislation, if enacted into law, or clarification of the Tax Code may cause interest on the Refunding Bonds to be subject to, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Refunding 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 Refunding Bonds. Prospective purchasers of the Refunding 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 Refunding Bonds are legal investments for commercial banks in California to the extent that the Refunding 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 Refunding 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 Refunding Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Refunding 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 Refunding 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, and Isom Advisors, A Division of Urban Futures, Inc., as financial advisor to the District, is contingent upon issuance of the Refunding Bonds.

CONTINUING DISCLOSURE

The District will execute a Continuing Disclosure Certificate in connection with the issuance of the Refunding Bonds in the form attached hereto as Appendix D. The District has covenanted therein, for the benefit of holders and beneficial owners of the Refunding Bonds to provide certain financial information and operating data relating to the District (an “**Annual Report**”) to the Municipal Securities Rulemaking Board (the “**MSRB**”) not later than nine months after the end of the District’s fiscal year (which currently would be March 31), commencing March 31, 2015 with the report for the 2013-14 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 D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter of the Refunding Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the “**Rule**”).

The District has existing disclosure undertakings that have been made pursuant to the Rule in connection with the issuance of the District’s outstanding general obligation bonds (see information in Appendix B under the heading “DISTRICT FINANCIAL INFORMATION – Existing Debt Obligations”). Specific instances of non-compliance with such undertakings in the previous five years include (but may not be limited to) the following:

- (i) the annual report, including the audited financial statements, for the fiscal year ended June 30, 2009 was filed with the MSRB, but such filing was late and was missing certain required information or was not filed in the proper form;
- (ii) the annual report, including the audited financial statements, for the fiscal year ending June 30, 2012 was filed with the MSRB, but such filing was missing certain required information or was not filed in the proper form;
- (iii) the District failed to file its annual report for the fiscal year ended June 30, 2013; and
- (iv) the District did not file certain event notices, such as rating changes for bond insurers, and may not have filed certain other event notices on a timely basis.

The preceding instances of noncompliance by the District with its continuing disclosure undertakings should not be construed as an acknowledgement that any such noncompliance was material. The District will continue to analyze and evaluate its compliance with prior disclosure obligations to provide any required additional filings to the MSRB.

In order to assist it in complying with its disclosure undertakings for its outstanding bonds and the Refunding Bonds, the District has engaged Isom Advisors, A Division of Urban Futures, Inc., its financial advisor, to serve as its dissemination agent with respect to its each of its disclosure undertakings, including the Continuing Disclosure Certificate to be executed in connection with the Refunding Bonds.

ESCROW VERIFICATION

Causey, Demgen & Moore (the “**Verification Agent**”), upon delivery of the Refunding Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the District, relating to the sufficiency of the anticipated amount of proceeds of the Refunding Bonds and other funds available to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Refunded Bonds.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying mathematical accuracy, of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

RATING

Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“**S&P**”) is expected to assign its rating of “AA” to the Refunding Bonds, with the understanding that BAM will issue the Policy with respect to the Refunding Bonds at closing. For an explanation of BAM’s rating, see “BOND INSURANCE.”

In addition, S&P has assigned a rating of “A+” to the Refunding Bonds. The District has provided certain additional information and materials to such rating agencies (some of which may not appear in this Official Statement). Such rating reflects only the views of S&P and an explanation of the significance of such rating and outlook may be obtained only from S&P. There is no assurance that any credit rating given to the Refunding Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Refunding Bonds.

UNDERWRITING

The Refunding Bonds are being purchased by George K. Baum & Company, Inc. (the “**Underwriter**”). The Underwriter has agreed to purchase the Refunding Bonds at a price of \$7,268,811.80 which is equal to the initial principal amount of the Refunding Bonds of \$7,327,431.25, less an Underwriter’s discount of \$58,619.45. The purchase contract relating to the Refunding Bonds provides that the Underwriter will purchase all of the Refunding Bonds (if any are purchased), and provides that the Underwriter’s obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

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

ADDITIONAL INFORMATION

The discussions herein about the Bond Resolution, the Escrow Agreement 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 Refunding Bonds will be on file at the offices of the Paying Agent in Humboldt, 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 Refunding Bonds.

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

By: _____ /s/ Michael Davies-Hughes
Superintendent

APPENDIX A

MCKINLEYVILLE UNION SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2012-13

[THIS PAGE INTENTIONALLY LEFT BLANK]

**McKINLEYVILLE UNION
SCHOOL DISTRICT**

**County of Humboldt
State of California
Audit Report
June 30, 2013**

May, Abrahamsen & Barsanti
CERTIFIED PUBLIC ACCOUNTANTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

**MCKINLEYVILLE UNION SCHOOL DISTRICT
COUNTY OF HUMBOLDT**

Financial Statements

and

Supplementary Information

with the

Independent Certified Public Accountant's

Report Upon Examination

For The Fiscal Year Ended June 30, 2013

MCKINLEYVILLE UNION SCHOOL DISTRICT
TABLE OF CONTENTS

	Page Number
FINANCIAL SECTION:	
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of net position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of net position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Statement of Fiduciary Assets and Liabilities - Fiduciary Funds	20
Notes to the Basic Financial Statements	21 - 42
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP) General Fund	43
Other Post-Employment Benefits - Schedule of Funding Progress	44

MCKINLEYVILLE UNION SCHOOL DISTRICT
TABLE OF CONTENTS (Continued)

	Page Number
SUPPLEMENTARY INFORMATION SECTION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP) Building Fund	45
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP) Capital Outlay Reserve	46
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP) Capital Facility Fund	47
Combining Statements - Nonmajor Funds:	
Combining Balance Sheet - Nonmajor Special Revenue Funds	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds (By Object)	49
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Nonmajor Special Revenue Funds (By Object)	50- 51
Balance Sheet - Nonmajor Debt Service Fund	52
Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Debt Service Fund	53
Organization	54
Schedule of Average Daily Attendance	55
Schedule of Instructional Time	56
Schedule of Financial Trends and Analysis	57
Schedule of Expenditures of Federal Awards	58
Notes to the Schedule of Expenditures of Federal Awards	59
Reconciliation of Annual Financial and Budget Report (J-200) with Audited Financial Statements	60
Notes to Supplementary Information	61

**MCKINLEYVILLE UNION SCHOOL DISTRICT
TABLE OF CONTENTS (Continued)**

	Page Number
OTHER INDEPENDENT AUDITOR'S REPORT:	
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	62- 63
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	64- 65
Auditor's Report on State Compliance	66- 68
FINDINGS AND RECOMMENDATIONS SECTION:	
Auditor's Schedule of Findings and Questioned Cost	69
Findings and Recommendations	70
Prior Year Findings and Recommendations	71

FINANCIAL SECTION

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

3103 Concorde Drive
McKinleyville, CA 95519
Phone: (707) 839-9444
Fax: (707) 839-9445

INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKinleyville Union School District, as of and for the year ended June 30, 2013, which collectively comprise the district's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America and Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13, issued by the Education Audit Appeals Panel as regulations. 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 the McKinleyville School District as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 43 through 44 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 McKinleyville School District's basic financial statements. The table of contents listing of the supplementary section, including the combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the basic financial statement as a whole.

The supplementary section, including the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the

schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2013, on our consideration of McKinleyville School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 McKinleyville Union School District's internal control over financial reporting and compliance.

May, Abrahamson + Bersanti

December 16, 2013
McKinleyville, California

McKinleyville Union School District
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2013

Introduction

The Management's Discussion and Analysis section is included in the audit for the McKinleyville Union School District (District) as management's view of the district's financial condition, and provides an opportunity to discuss important fiscal issues with the Governing Board and the public. Accounting rules require this discussion and analysis. These rules make reporting of district's finances similar to that of private business.

The mission of the McKinleyville Union School District, a family-centered, educational community on the Redwood Coast, is to develop ethical, lifelong learners living successfully in a constantly changing global society. We guarantee all students challenging, progressive, academic programs, innovative learning experiences, technological competence and community involvement. The District serves the residents of this community in Humboldt County

Using This Annual Report

This section of the District's annual financial report presents our discussion and analysis of our financial performance during the fiscal year that ended on June 30, 2013. It should be read in conjunction with the Independent Auditor's Report immediately proceeding and the financial statements that follow this section. This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

Financial Highlights

- Ø The District's total cash increased by \$546,660 over the prior year. This is primarily due to the reduction in inter-year deferrals (cash receivables for current year received in subsequent year).
- Ø Accumulated depreciation increased by \$460,144.
- Ø California Basic Education Data System (CBEDS) enrollment in October 2013 was reported at 1,147 which is a gain of 14 over the prior year.
- Ø The average daily attendance (ADA) as reported at the second period was 1086.48 with additional 9.59 ADA for our Special Education Master Plan students that are served by Humboldt County Office of Education programs. ADA for students receiving services out-of-county is received through Special Education CASEMIS counts like other Glen Paul students.
- Ø The District exceeds the State required minimum reserves for economic uncertainty of three percent (3%). The reserve serves as a source of funds for uninsured losses, possible mid year cuts, as well as cash flow issues associated with deferred revenue. This calculation is based upon the combined General Fund expenditures, transfers out and other uses (total outgo). For fiscal year 2012-2013, expenditures and other uses totaled \$8,277,647 for the General Fund. Available reserves were \$988,426 which is 11.94%.
- Ø The District has \$14,921,129 in long-term debt due to the general obligation bonds and is outlined in the statements as due after one year.
- Ø The District does maintain a separate fund to provide a reserve for future retiree health benefit costs. The fund balance at June 30, 2013 was \$355,506.

The Financial Report

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- o Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- o Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ✓ Basic services funding is described in the government funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ✓ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary fund statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A budgetary comparison of the District's General Fund and major Special Reserve Funds is included.

Reporting the District as a Whole

The District as a whole is reported in the Government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Position. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is providing or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

Information included in the Statement of Net Position and the Statement of Activities, consists solely of the governmental activities of the District.

Governmental Activities are the basic services provided by the District, such as regular and special education, administration, and transportation are included here, and are primarily financed by state apportionments, property taxes, impact aid, and other state and federal aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of state and federal contracts, grants, and local revenues.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law, while other funds have been established to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of the District are the General Fund, Capital Outlay Reserve, Capital Facility Fund, Cafeteria Fund, and Bond Fund. Governmental reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Fiduciary Funds:

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Fiduciary Statements. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the School District As a Whole

Comparative Statement of Net Position

	Governmental Activities		Difference
	2013	2012	
<u>Assets:</u>			
Cash	\$ 4,734,334	\$ 4,187,674	\$ 546,660
Receivables	\$ 855,820	\$ 1,268,985	\$ (413,165)
Stores Inventory	\$ 5,796	\$ 5,984	\$ (188)
Capital Assets, net	\$ 13,750,006	\$ 14,208,529	\$ (458,523)
Total Assets	<u>\$ 19,345,956</u>	<u>\$ 19,671,172</u>	<u>\$ (325,216)</u>
<u>Liabilities:</u>			
Accounts Payable	\$ 254,079	\$ 232,509	\$ 21,570
Unearned Income	\$ 2,842	\$ 21,722	\$ (18,880)
General Obligation Bonds (due w/in 1 yr)	\$ 25,000	\$ 10,000	\$ 15,000
Net OPEB Obligation	\$ 1,281	\$ 18,453	\$ (17,172)
Compensated Absences Payable	\$ 69,008	\$ 62,544	\$ 6,464
General Obligation Bonds (due after 1 yr)	\$ 14,921,129	\$ 14,330,775	\$ 590,354
Total Liabilities	<u>\$ 15,273,339</u>	<u>\$ 14,676,003</u>	<u>\$ 597,336</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	\$ 817,779	\$ 1,858,430	\$ (1,040,651)
Restricted	\$ 911,042	\$ 912,854	\$ (1,812)
Unrestricted	\$ 2,343,796	\$ 2,223,885	\$ 119,911
Total Net Position	<u>\$ 4,072,617</u>	<u>\$ 4,995,169</u>	<u>\$ (922,552)</u>

Table includes financial data of combined governmental funds

Bond cash is included in cash assets (\$4,734,334) and receivables (\$855,820).

Comparative Statement of Changes in Net Position

	Governmental Activities		Difference
	2013	2012	
Program Revenues:			
Charges for Services	\$ 144,440	\$ 154,655	\$ (10,215)
Operating Grants and Contributions	\$ 1,626,939	\$ 2,368,538	\$ (741,599)
Capital Grants and Contributions	\$ -	\$ -	\$ -
General Revenues			
Taxes Levied/General Purpose	\$ 3,917,278	\$ 3,812,153	\$ 105,125
Taxes Levied/Debt Service	\$ 391,727	\$ 388,790	\$ 2,937
Federal and State Aid	\$ 2,654,444	\$ 2,690,358	\$ (35,914)
Interest and Investment Earnings	\$ 11,180	\$ 18,865	\$ (7,685)
Interagency Revenues	\$ 109,254	\$ 153,495	\$ (44,241)
Miscellaneous	<u>\$ 42,941</u>	<u>\$ 60,662</u>	<u>\$ (17,721)</u>
Total Revenues	<u><u>\$ 8,898,203</u></u>	<u><u>\$ 9,647,516</u></u>	<u><u>\$ (749,313)</u></u>
Program Expenses:			
Instruction	\$ 5,539,663	\$ 5,930,238	\$ (390,575)
Instruction-Related Services	\$ 749,927	\$ 861,278	\$ (111,351)
Pupil Services	\$ 953,904	\$ 1,090,603	\$ (136,699)
General Administration	\$ 619,495	\$ 604,971	\$ 14,524
Plant Services	\$ 603,920	\$ 658,078	\$ (54,158)
Ancillary Services	\$ 98,821	\$ 98,973	\$ (152)
Community Services	\$ 3,579	\$ 4,500	\$ (921)
Other Outgo	\$ 260,357	\$ 224,248	\$ 36,109
Interest on Long-Term Debt	<u>\$ 991,089</u>	<u>\$ 896,785</u>	<u>\$ 94,304</u>
Total Expenses	<u><u>\$ 9,820,755</u></u>	<u><u>\$ 10,369,674</u></u>	<u><u>\$ (548,919)</u></u>
Change in Net Position	<u><u>\$ (922,552)</u></u>	<u><u>\$ (722,158)</u></u>	<u><u>\$ (200,394)</u></u>

Table includes financial data of combined governmental funds

Total District Expenses exceeded total District Revenue by \$922,552 during fiscal year 2012-2013.

Comparative Statement of Changes in Net Position

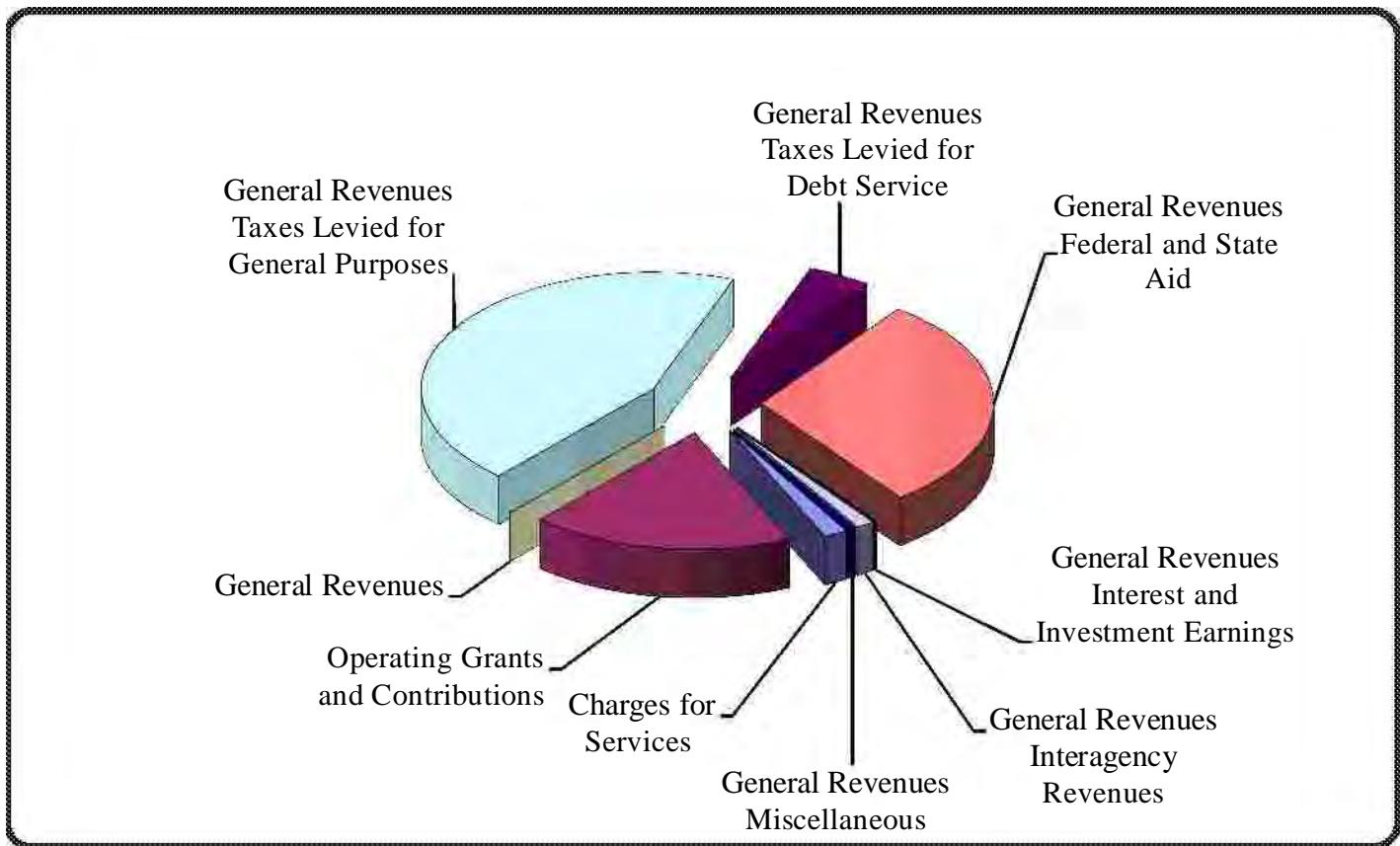
	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2013	2012		2013	2012	
Program Expenses:						
Instruction	\$ 5,539,663	\$ 5,930,238	-6.59%	\$ 4,721,498	\$ 4,836,836	-2.38%
Instruction-Related Services	\$ 749,927	\$ 861,278	-12.93%	\$ 635,540	\$ 618,279	2.79%
Pupil Services	\$ 953,904	\$ 1,090,603	-12.53%	\$ 265,705	\$ 50,355	427.66%
General Administration	\$ 619,495	\$ 605,241	2.36%	\$ 588,387	\$ 580,550	1.35%
Plant Services	\$ 603,920	\$ 658,078	-8.23%	\$ 581,393	\$ 634,737	-8.40%
Ancillary Services	\$ 98,821	\$ 98,973	-0.15%	\$ 96,232	\$ 96,108	0.13%
Community Services	\$ 3,579	\$ 4,500	-20.47%	\$ 3,579	\$ 4,500	-20.47%
Other Outgo	\$ 260,357	\$ 224,248	16.10%	\$ 165,953	\$ 128,331	29.32%
Interest on Long Term Debt	\$ 991,089	\$ 896,785	10.52%	\$ 991,089	\$ 896,785	10.52%
Total Expenses	\$ 9,820,755	\$ 10,369,944	-5.30%	\$ 8,049,376	\$ 7,846,481	2.59%

Table includes financial data of combined governmental funds

The table presented above shows the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and state and federal aid provided for the specific programs). The net cost shows the financial burden that was placed on the District's general fund revenues. The financial burden placed on the District's General Fund for providing the services was \$8,049,376.

Summary of Revenues For Governmental Functions

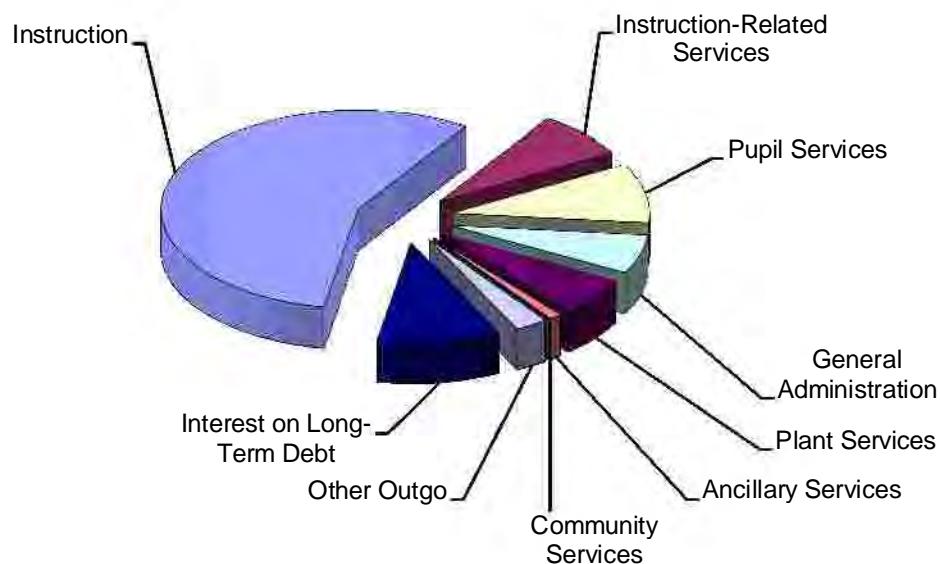
	FYE 2013 Amount	Percent of Total	FYE 2012 Amount	Percent of Total
Program Revenues:				
Charges for Services	\$ 144,440	1.62%	\$ 154,655	1.60%
Operating Grants and Contributions	\$ 1,626,939	18.28%	\$ 2,368,538	24.55%
General Revenues				
Taxes Levied for General Purposes	\$ 3,917,278	44.02%	\$ 3,812,153	39.51%
Taxes Levied for Debt Service	\$ 391,727	4.40%	\$ 388,790	4.03%
Federal and State Aid	\$ 2,654,444	29.83%	\$ 2,690,358	27.89%
Interest and Investment Earnings	\$ 11,180	0.13%	\$ 18,865	0.20%
Interagency Revenues	\$ 109,254	1.23%	\$ 153,495	1.59%
Miscellaneous	\$ 42,941	0.48%	\$ 60,662	1.73%
Total Revenues	<u><u>\$ 8,898,203</u></u>	<u><u>100.00%</u></u>	<u><u>\$ 9,647,516</u></u>	<u><u>100.00%</u></u>



Schedule of Expenses for Governmental Functions

	FYE 2013 Amount	Percent of Total	FYE 2012 Amount	Percent Inc/(Dec)
Program Expenses:				
Instruction	\$ 5,539,663	56.41%	\$ 5,930,238	57.19%
Instruction-Related Services	\$ 749,927	7.64%	\$ 861,278	8.31%
Pupil Services	\$ 953,904	9.71%	\$ 1,090,603	10.52%
General Administration	\$ 619,495	6.31%	\$ 605,241	6.00%
Plant Services	\$ 603,920	6.15%	\$ 658,078	6.35%
Ancillary Services	\$ 98,821	1.01%	\$ 98,973	0.95%
Community Services	\$ 3,579	0.04%	\$ 4,500	0.04%
Other Outgo	\$ 260,357	2.65%	\$ 224,248	2.16%
Interest on Long-Term Debt	\$ 991,089	10.09%	\$ 896,785	8.65%
Total Expenses	<hr/> <hr/> \$ 9,820,755	<hr/> <hr/> 100.00%	<hr/> <hr/> \$ 10,369,944	<hr/> <hr/> 100.00%

Expenses by Program decreased by \$549,189.



Comparative Schedule of Capital Assets

	Governmental Activities		Difference
	2013	2012	
Land	\$ 56,024	\$ 56,024	\$ -
Buildings and Improvements	\$ 18,696,012	\$ 18,696,012	\$ -
Furniture and Equipment	\$ 1,642,116	\$ 1,642,116	\$ -
Works-In-Progress	\$ 139,334	\$ 137,713	\$ 1,621
Subtotals	\$ 20,533,486	\$ 20,531,865	\$ 1,621
Less: Accumulated Depreciation	\$ (6,783,480)	\$ (6,323,336)	\$ (460,144)
Capital Assets, net	<u>\$ 13,750,006</u>	<u>\$ 14,208,529</u>	<u>\$ (458,523)</u>

Comparative Schedule of Fund Balances

	Fund Balances June 30, 2013	Fund Balances June 30, 2012	Increase (Decrease)
General Fund	\$ 1,026,266	\$ 1,107,143	\$ (80,877)
Cafeteria Fund	\$ 89,200	\$ 82,600	\$ 6,600
Deferred Maintenance Fund	\$ -	\$ -	\$ -
Special Reserve Fund	\$ 988,423	\$ 820,272	\$ 168,151
Retiree Benefit Fund	\$ 355,506	\$ 371,428	\$ (15,922)
Building Fund	\$ 2,013,902	\$ 1,996,219	\$ 17,683
Capital Facilities Fund	\$ 693,425	\$ 647,727	\$ 45,698
Capital Outlay Reserve Fund	\$ 77,693	\$ 87,189	\$ (9,496)
Bond Interest & Redemption Fund	<u>\$ 250,796</u>	<u>\$ 252,100</u>	<u>\$ (1,304)</u>
Totals	<u>\$ 5,495,211</u>	<u>\$ 5,364,678</u>	<u>\$ 130,533</u>

The total of all fund balances increased by \$130,533 between June 2012 and June 2013. The General Fund decrease was due to an increase in expenditures. The Cafeteria Fund increase was due to an increase in revenue primarily as a result of increased participation in school meals. The Special Reserve increase was due to interest earned during the year. The Retiree Benefit Fund decreased slightly due to expenses exceeding contributions. The District will increase the contribution in the future to exceed the expense. The Building Fund increase was due to interest earned during the year. The Capital Facilities Fund increased due to receipt of Developer Fees. The Capital Outlay Reserve Fund decrease was a result of improvements on portable buildings to meet code requirements. Bond Interest and Redemption Fund increase reflects requirement of Measure C Bond Sales to meet annual bond repayment.

General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revised its annual operating budget at various times to reflect the most recent financial information available. The most significant budget adjustments made during the year fall into the following categories: revisions to the adopted budget required after approval of the State budget and revisions to adjust program revenues and expenditures to final awards for state and federal categorical programs.

Economic Factors Bearing on the District's Future

The forecast for the State budget has improved significantly as compared to prior budget years for K-12 Education. As of July 1, 2013, California schools have experienced the most significant education funding reform within the last 40 years under the new Local Control Funding Formula (LCFF). For the first time since the 2007-2008 school year, California closed the 2012-2013 fiscal year with a reserve of \$1.1 billion. State revenue projections are currently higher than projections included in the Governor's 2013-2014 Budget, which will result in additional funding for schools under the Prop 98 guarantee.

Negotiations with the Classified bargaining group are settled for 2013-2014, while the District is continuing negotiations with the Certificated Bargaining Unit. The continued demands on the unrestricted general fund revenues to meet the mandates surrounding special education services must be monitored very carefully. The dollars associated with providing these required services are increasing at an alarming rate. There is the potential for a significant impact on the fiscal health of the District.

Enrollment is showing signs of growth with much larger than expected kindergarten enrollment of the past two years. The District is projecting that enrollment will remain relatively stable of the next two budget years.

On June 3, 2008, Measure C was approved by the voters in the District. This measure provides for a \$14,000,000 bond issuance for capital projects. The third phase is completed and provided improvements at Morris, Dow's Prairie, and McKinleyville Middle Schools. The McKinleyville Middle School gym is set to begin at the end of the 2013-2014 school year, provided the District is able to reduce the scope of the project through value engineering.

Contacting the District's Financial Management

The financial report is designed to provide our citizens, taxpayers, students, 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 questions regarding this report or need additional financial information, contact the Superintendent, McKinleyville Union School District, 2275 Central Avenue, McKinleyville, CA 95519.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Statement of Net Position

June 30, 2013

	Governmental Activities
ASSETS	
Cash in county treasury	\$ 4,731,759
Cash in revolving fund/banks	2,575
Accounts receivable	855,820
Stores inventories	5,796
Land	56,024
Buildings and improvements	18,696,012
Equipment	1,642,116
Work in progress	139,334
Less accumulated depreciation	<u>(6,783,480)</u>
Total assets	<u>19,345,956</u>
LIABILITIES	
Accounts payable	254,079
Unearned income	2,842
Long-term liabilities:	
Due within one year:	
General obligation bonds	25,000
Compensated absences payable	<u>69,008</u>
Total due within one year	<u>94,008</u>
Due after one year:	
General obligation bonds	14,921,129
Net OPEB obligation	<u>1,281</u>
Total due after one year	<u>14,922,410</u>
Total liabilities	<u>15,273,339</u>
NET POSITION	
Net investment in capital assets	817,779
Restricted for:	
Capital projects	771,118
Debt service	94,613
Educational programs	45,311
Unrestricted	<u>2,343,796</u>
Total net position	<u>\$ 4,072,617</u>

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 5,539,663	\$ 25,462	\$ 792,703	\$ 0	\$ (4,721,498)
Instruction-related services:					
Supervision of instruction	38,711	10	9,570	0	(29,131)
Instructional library, media and technology	133,154	16,040	48,913	0	(68,201)
School site administration	578,062	0	39,854	0	(538,208)
Pupil services:					
Home-to-school transportation	321,139	774	182,486	0	(137,879)
Food services	388,711	88,632	292,703	0	(7,376)
All other pupil services	244,054	3,020	120,584	0	(120,450)
General administration:					
Centralized data processing	20,312			0	(20,312)
All other general administration	599,183	4,268	26,840	0	(568,075)
Plant services					
603,920	5,140	17,387	0	0	(581,393)
Ancillary services					
98,821	12	2,577	0	0	(96,232)
Community services					
3,579		0	0	0	(3,579)
Other outgo					
260,357	1,082	93,322	0	0	(165,953)
Interest on long-term debt					
991,089	0	0	0	0	(991,089)
Total governmental activities	<u>\$ 9,820,755</u>	<u>\$ 144,440</u>	<u>\$ 1,626,939</u>	<u>\$ 0</u>	<u>\$ (8,049,376)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					3,917,278
Taxes levied for debt service					391,727
Federal and state aid not restricted to specific purposes					2,654,444
Interest and investment earnings					11,180
Interagency revenues					109,254
Miscellaneous					42,941
Total general revenues, special and extraordinary items, and transfers					<u>7,126,824</u>
Change in net position					<u>(922,552)</u>
Net position beginning - July 1, 2012					<u>4,995,169</u>
Net position ending - June 30, 2013					<u>\$ 4,072,617</u>

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2013

ASSETS	General	Building Fund	Capital Outlay Reserve	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
Cash in county treasury	\$ 1,681,954	\$ 2,011,621	\$ 77,611	\$ 692,649	\$ 267,924	\$ 4,731,759
Cash in revolving fund	2,500	0	0	0	75	2,575
Accounts receivable	780,614	2,281	82	776	72,067	855,820
Stores inventories		0	0	0	5,796	5,796
Total assets	\$ 2,465,068	\$ 2,013,902	\$ 77,693	\$ 693,425	\$ 345,862	\$ 5,595,950
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 92,029	\$ 0	\$ 0	\$ 0	\$ 5,867	\$ 97,896
Unearned income	2,842	0	0	0	0	2,842
Total liabilities	\$ 94,871	0	0	0	5,867	100,738
Fund balances:						
Nonspendable:						
Revolving fund	2,500	0	0	0	75	2,575
Stores inventories		0	0	0	5,796	5,796
Restricted:						
School construction	0	2,013,902	0	693,425	0	2,707,327
Economic Impact Aid	27,886	0	0	0	0	27,886
Medi-Cal billing option	1,883	0	0	0	0	1,883
Lottery: Instructional materials	10,524	0	0	0	0	10,524
Debt service		0	0	0	250,796	250,796
Food service		0	0	0	83,328	83,328
Other	5,018	0	0	0	0	5,018
Assigned:						
Program Sustainability	874,809	0	0	0	0	874,809
Retiree Benefit Reserve	355,506	0	0	0	0	355,506
Capital outlay		0	77,693	0	0	77,693
Other	103,648	0	0	0	0	103,648
Unassigned:						
Reserve for Economic Uncertainty	988,423	0	0	0	0	988,423
Total fund balances	2,370,197	\$ 2,013,902	\$ 77,693	\$ 693,425	\$ 339,995	\$ 5,495,212
Total liabilities and fund balances	\$ 2,465,068	\$ 2,013,902	\$ 77,693	\$ 693,425	\$ 345,862	\$ 5,595,950

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2013

Total fund balances - governmental funds	\$ 5,495,212
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$20,533,486 and the accumulated depreciation is \$(6,783,480).	13,750,006
To recognize accrued interest at year end.	(1,292,404)
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	\$ 13,809,908
Net OPEB obligation	1,281
Compensated absences (vacation)	<u>69,008</u> <u>(13,880,197)</u>
Total net position - governmental activities	\$ 4,072,617

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
June 30, 2013

	General	Building Fund	Capital Outlay Reserve	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Revenue limit sources:						
State apportionments	\$ 1,584,109	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,584,109
Local sources	3,917,278	0	0	0		3,917,278
Federal revenues	544,886	0	0	0	296,072	840,958
Other state revenues	1,373,070	0	0	0	24,120	1,397,190
Other local revenues	608,617	19,904	584	45,698	483,866	1,158,669
Total revenues	8,027,960	19,904	584	45,698	804,058	8,898,204
Expenditures:						
Instruction	5,170,998				0	5,170,998
Instruction-related services:						
Supervision of instruction	38,711				0	38,711
Instructional library, media and technology	130,885					130,885
School site administration	575,389				0	575,389
Pupil services:						
Home-to-school transportation	271,262				0	271,262
Food services	8,691				375,338	384,029
All other pupil services	244,054				0	244,054
General administration:						
Data processing services	20,312				0	20,312
All other general administration	570,941				18,047	588,988
Plant services	562,606	600	10,080		19,560	592,846
Facilities construction		1,621			0	1,621
Ancillary services	98,821				0	98,821
Community services	3,579				0	3,579
Other outgo - transfers between agencies	260,357				0	260,357
Debt service:						
Principal					10,000	10,000
Interest	0	0	0	0	375,818	375,818
Total expenditures	7,956,606	2,221	10,080	0	798,763	8,767,670
Excess (deficiency) of revenues over (under) expenditures	71,354	17,683	(9,496)	45,698	5,295	130,534
Other financing sources (uses):						
Operating transfers in	0	0	0	0	0	0
Operating transfers out	0	0	0	0	0	0
Total other financing sources (uses)	0	0	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	71,354	17,683	(9,496)	45,698	5,295	130,534
Fund balances, July 1, 2012	2,298,843	1,996,219	87,189	647,727	334,700	5,364,678
Fund balances, June 30, 2013	\$ 2,370,197	\$ 2,013,902	\$ 77,693	\$ 693,425	\$ 339,995	\$ 5,495,212

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Year Ended June 30, 2013

Total net change in fund balance - governmental funds	\$ 130,534
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$1,621 exceeds depreciation expense \$(460,144) in the period.	(458,523)
In the statement of activities, OPEB cost are recognized on the accrual basis. In government funds, OPEB costs are recognized when actually paid	17,172
Debt service repayments in governmental funds are reported as expenditures. In government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Repayments long-term debt were:	10,000
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by \$6,464	(6,464)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(615,271)
Total change in net position of governmental activities	<u>\$ (922,552)</u>

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>Agency Funds</u>	
	Student	
	Body	
	Funds	
ASSETS:		
Cash in bank	\$ 50,925	
Total assets	<u>\$ 50,925</u>	
LIABILITIES:		
Due to student groups	\$ 50,925	
Total liabilities	<u>\$ 50,925</u>	

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

C. Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the district and its components units. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The district does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the district.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Basis of Presentation (Cont.)

Fund financial statements report detailed information about the district. The focus of governmental fund financial statements is on major funds rather than reporting funds by Type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

Fund Financial Statements:

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund net position for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Basis of Accounting (Cont.)

Revenues - Exchange and Non-Exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the district, "available" means collectible within one year.

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

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Basis of Accounting (Cont.)

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.

E. Fund Accounting

The accounts of the district are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The district's accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

- * The General 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 is used to account for the acquisition of major governmental capital facilities and buildings from bond proceeds.
- * Capital Facilities Fund is used to account for revenues received from the assessment of developer fees.
- * The Capital Outlay Reserve is used to account for acquisition and/or construction of all major governmental fixed assets.

Non-Major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district maintains one non-major special revenue fund:

- * The Cafeteria Fund is used to account for revenues received and expenditures made to operate the district's cafeterias.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Fund Accounting (Cont)

Capital Projects Funds:

Capital Projects Funds are used to account for the acquisition and construction of all major governmental general fixed assets. The district maintains three capital project funds - the Building Fund, the Capital Outlay Reserve Fund and the Capital Facility Fund.

Debt Service Fund:

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs. The district maintains one debt service fund.

* The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of district bonds, interest and related costs.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the district acts as an agent. The district maintains an agency fund for the student body accounts. The district maintains three student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the district.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the district's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund in the financial statements.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Budgets and Budgetary Accounting (Cont)

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

G. 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 on June 30.

H. Assets, Liabilities, and Equity

1. Deposits and Investments:

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

In accordance with Education Code Section 41001, the district maintains substantially all of its cash in the county treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

2. Stores Inventories and Prepaid Expenditures:

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The district's central warehouse and cafeteria inventories are valued at average cost using the First-In-First-Out (FIFO) method.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont)

The district has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The district has chosen to report the expenditure when incurred. On the government-wide statements, the district reports un-amortized debt issuance cost as prepaid expense, if material.

3. Unearned Revenue:

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

4. Compensated Absences:

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured for example, as a result of employee resignations and retirements.

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

5. Capital Assets:

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

5. Capital Assets (Cont.):

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.).

6. Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of net position. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method, if material. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt, if material.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Classifications

The District implemented Governmental Accounting Standard Board Statement (GASB) #54 - Fund Balance Reporting and Governmental Fund Type Definitions in 2010-11. GASB 54 implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are:

1) Nonspendable Fund Balance

The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment. The District has no permanent endowments.

2) Restricted Fund Balance

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.).

7. Fund Balance Classifications (Cont.)

2) Restricted Fund Balance (Cont.)

of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide financial statements.

3) Committed Fund Balance

The Governing Board, as the District's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specific use through the same type of formal action taken to establish the commitment. Governing Board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined subsequent to the release of the financial statements. At June 30, 2013, the District does not have any reserves that meet this component of fund balance.

4) Assigned Fund Balance

Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the District Superintendent or Designee for the purpose of reporting these amounts in the annual financial statements.

5) Unassigned Fund Balance

These are residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories. There are some reserves that do not meet the requirements of the fore mentioned components of fund balance. For financial statement reporting purposes these reserves are included in unassigned fund balance. This includes:

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

7. Fund Balance Classifications (Cont.)

5) Unassigned Fund Balance (Cont.)

Reserve for Economic Uncertainty Reserve

The District will maintain an economic uncertainty reserve of at least 5% of total General Fund operating expenditures (including other financing). The primary purpose of this reserve is to avoid the need for service level reductions in the event of an economic downturn causing revenues to come in lower than budget. This reserve may be increased from time to time in order to address specific anticipated revenue shortfalls (state actions, etc.)

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The above policy is in place to provide a measure of protection for the District against unforeseen circumstances.

8. Revenue Limit/Property Tax:

The district's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.).

8. Revenue Limit/Property Tax (Cont.):

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

The County Auditor reports the amount of the district's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the district.

The California Department of Education reduces the district's entitlement by the district's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The district's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the district is entitled to by law. This amount is multiplied by the second period ADA to derive the district's total entitlement.

9. Estimates:

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

NOTE 2 - CASH AND INVESTMENTS

Cash on Hand, in Banks and in Revolving Funds:

Cash balances on hand, in banks, and in revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). These accounts are held within various financial institutions. As of June 30, 2013, the carrying amount of the district's accounts was \$2,500.

Cash in County Treasury:

In accordance with Education Code Section 41001, the district maintains substantially all of its cash with the county treasury as part of the common investment pool, which totaled \$4,731,759 as of June 30, 2013. The fair market value of this pool as of that date, as provided by the pool sponsor, was \$4,714,251. The district is considered to be an involuntary participant in the external investment pool. Interest is deposited into participating funds, except for the payroll clearing fund,

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (Cont.)

Cash in County Treasury (Cont.):

which is credited to the General Fund. The county is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, state treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. As of June 30, 2013, the County's investment pool was not rated.

Governmental Accounting Standards Board (GASB) statement number 31 requires that investments in external investment pools be stated at fair value. The district's policy of reporting these funds at cost does not result in a material misstatement of the financial statements. Fair value was based on quoted market prices. There were no investments that were reported at amortized cost. There is no formal regulatory oversight of the pool.

The district does not have a formal investment policy that limits its exposure to losses arising from increasing interest rates.

A summary of deposits as of June 30, 2013, is as follows:

	Bank	Carrying
Deposits:		
Cash in county treasury	\$ 4,714,251	\$ 4,731,759
Cash on hand	75	75
Cash in revolving fund	2,500	2,500
	<hr/>	<hr/>
	\$ 4,716,826	\$ 4,734,334

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The district has no fund deficits.

As of June 30, 2013, expenditures exceeded appropriations in individual funds as follows:

Appropriations Category	Excess Expenditures
General Fund:	
Certificated salaries	\$ 1,189
Capital Outlay Reserve Fund:	
Other operating expenses	9,615
Building Fund:	
Books and supplies	600
Cafeteria Fund:	
Classified salaries	641
Employee benefits	2,100
Books and supplies	636
Capital outlay	237

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013, consist of the following:

	General Fund	Other Major Funds	All Other Governmental Funds	Totals
Federal government:				
Categorical aid programs	\$ 138,064	\$ 0	\$ 57,812	\$ 195,876
State government:				
Categorical aid programs	398,331	0		398,331
Revenue limit	133,149	0	4,807	137,956
Lottery	89,604	0	0	89,604
Total state government	<u>621,084</u>	<u>0</u>	<u>4,807</u>	<u>625,891</u>
Local government:				
Interest	1,650	3,139	9,448	14,237
Other	19,816			19,816
Total local government	<u>21,466</u>	<u>3,139</u>	<u>9,448</u>	<u>34,053</u>
Total accounts receivable	\$ 780,614	\$ 3,139	\$ 72,067	\$ 855,820

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To):

As of June 30, 2013, there were no interfund receivables and payables.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2013

NOTE 5 - INTERFUND TRANSACTIONS (Cont.)

Interfund Transfers:

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers from fiscal year 2012 - 2013 were as follows:

There were no interfund transfers for the year.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013, is shown below:

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 56,024	\$	0	\$ 56,024
Work in progress	137,713	1,621	0	139,334
Total capital assets, not being depreciated	<u>193,737</u>	<u>1,621</u>	<u>0</u>	<u>195,358</u>
Capital assets, being depreciated:				
Buildings	17,615,157		0	17,615,157
Improvements of sites	1,080,855	0	0	1,080,855
Equipment	1,642,116			1,642,116
Total capital assets, being depreciated	<u>20,338,128</u>	<u>0</u>	<u>0</u>	<u>20,338,128</u>
Less accumulated depreciation for:				
Buildings	4,420,588	362,220	0	4,782,808
Improvements of sites	883,047	18,726	0	901,773
Equipment	1,019,701	79,198		1,098,899
Total accumulated depreciation	<u>6,323,336</u>	<u>460,144</u>	<u>0</u>	<u>6,783,480</u>
Total capital assets, being depreciated, net	<u>14,014,792</u>	<u>(460,144)</u>	<u>0</u>	<u>13,554,648</u>
Governmental activities capital assets, net	<u>\$ 14,208,529</u>	<u>\$ (458,523)</u>	<u>\$ 0</u>	<u>\$ 13,750,006</u>

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (Cont).

Depreciation Expense was charged to governmental activities as follows:

Governmental activities:

Instruction	\$ 385,839
Instructional library, media and technology	1,316
School site administration	2,673
Home-to-school transportation	49,249
Food services	4,601
All other general administrative	7,065
Plant services	<u>9,401</u>
 Total Depreciation Expense	 <u>\$ 460,144</u>

NOTE 7 - LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2013, is shown below:

	<u>Balance</u>		<u>Additions</u>		<u>Deductions</u>	<u>Balance</u>		<u>Due within</u>
	<u>July 1, 2012</u>					<u>June 30, 2013</u>		<u>One Year</u>
General obligation bonds	\$ 13,819,908		\$ 10,000		\$ 13,809,908		\$ 25,000	
Accrued interest	520,867		615,354		1,136,221		0	
Net OPEB obligation	18,453			17,172		1,281		0
Compensated absence	62,544		6,464			69,008		69,008
 Total	 <u>\$ 14,421,772</u>		<u>\$ 621,818</u>		<u>\$ 27,172</u>	<u>\$ 15,016,418</u>		<u>\$ 94,008</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. The accrued vacation will be paid by the fund for which the employee worked.

NOTE 8 - JOINT VENTURES - (Joint Powers Agreements)

The district is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The district manages those risks of loss through participation in public entity risk pools. There have been no significant reductions in insurance coverage from the prior year. For each of the past three years settlements did not exceed insurance coverage.

The McKinleyville Union School District participants in two joint ventures under a joint powers agreement (JPA) with the North Coast School Insurance Group. The relationship between the McKinleyville Union School District and the JPA is such that the JPA is not a component unit of the McKinleyville Union School District for financial reporting purposes.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 8 - JOINT VENTURES - (Joint Powers Agreements) (Cont)

Each member district pays a premium commensurate with the level of coverage requested. The district is covered under workers' compensation, liability, medical, vision, and dental insurance.

Condensed financial information for the year end is as follows:

	JPA	
	June 30, 2012	June 30, 2012
Property Liability Workers Comp.	Medical Dental & Vision Programs	
Total assets	\$ 5,461,471	\$ 6,661,477
Total liabilities	1,638,849	3,795,504
net position	\$ 3,822,622	\$ 2,865,973
Total revenues	\$ 5,627,625	\$ 32,083,734
Total expenditures	5,509,241	32,726,358
Net increase (decrease) in net position	\$ 118,384	\$ (642,624)

Complete financial statements for the joint ventures can be obtained at the district office.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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. If the review or audit discloses exceptions, the district may incur a liability to grantor agencies.

Self-Insurance:

The district is liable for any losses that exceed the assets of the Joint Powers Authorities.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 10 - GENERAL OBLIGATION BONDS PAYABLE

In June 2008 voters residing within the district passed Measure C authorizing the district to issue \$14,000,000 in general obligation bonds. The bonds are general obligations of the district, and the county is required to annually levy ad valorem taxes for payment of principal and interest of the bonds. Bond proceeds will be used for modernizing the district's schools.

On March 17, 2009, the district issued \$7,000,000 of Election of 2008, Series A bonds. The interest rate ranges from 2% to 6% with final maturity at August 1, 2033. As a result of the issuance, the district recorded net proceeds of the \$7,008,649; \$7,000,000 in the Building Fund and \$8,649 in the Debt Service Fund.

On April 29, 2011, the district issued \$6,999,908 of Election of 2008, Series B bonds. The interest rate ranges from 7% to 12% with final maturity at August 1, 2050. As a result of the issuance, the district recorded net proceeds of the \$6,999,908 in the Building Fund .

Interest on the 2008 bonds is payable semiannually on each February 1 and August 1, commencing from the date of bond issuance. The annual requirements to amortize the bonds outstanding at June 30, 2013, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 25,000	\$ 374,463	\$ 399,463
2015	50,000	373,338	423,338
2016	75,000	371,368	446,368
2017	100,000	368,400	468,400
2018	125,000	364,305	489,305
2019 - 2023	927,684	2,604,009	3,531,693
2024 - 2028	1,705,882	3,430,009	5,135,891
2029 - 2033	3,306,219	3,949,401	7,255,620
2034 - 2038	1,884,762	8,743,133	10,627,895
2039 - 2043	3,449,535	11,755,630	15,205,165
2044 - 2048	1,385,713	20,980,241	22,365,954
2049 - 2051	775,113	17,211,868	17,986,981
Totals	\$ 13,809,908	\$ 70,526,165	\$ 84,336,073

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

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 benefit, 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 CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy:

Active plan members are required to contribute 7% 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 rate for fiscal year 2012-2013 was 11.42%. The contribution requirements of the plan members are established by state statute. For the fiscal years ending June 30, 2011, 2012, and 2013, the district contributed \$138,094, \$140,301 and \$129,758 respectively and equal 100% of the required contributions for each year.

STRS

Plan Description:

The district contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. 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. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy:

Active plan members are required to contribute 8.00% 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 STRS Teachers' Retirement Board. The required

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

Funding Policy: (Cont.)

employer contribution rate for fiscal year 2012-2013 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 fiscal years ending June 30, 2011, 2012 and 2013, were \$353,593, \$354,053 and \$332,364 respectively, and equal 100% of the required contributions for each year.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

The district provides post-retirement health care benefits for employees who retire between the age of 55 and 65, with certain years of service. On June 30, 2013, 37 retirees met the requirements. The district pays medical premiums and also dental and vision premiums for all employees that meet the eligibility requirements of the collective bargaining agreements or employment contracts. If the premiums exceed certain limits, the retirees are liable for the difference. The benefits are paid for a period up to age 65.

As of the valuation date, the District does not have any funds eligible as plan assets under GASB 45. Under GASB 45, assets cannot be considered as employee contributions or plan assets unless they are segregated for exclusive use for retiree health benefit payments and secured from creditors of the District. The District has set aside \$355,506 in a reserve account for the payment of retiree benefits.

The District's annual other post-employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 158,017
Interest on net OPEB obligation	923
	<hr/>
Annual OPEB cost (expense)	158,940
Contributions made	176,112
	<hr/>
Increase(decrease) in net OPEB obligation	(17,172)
Net OPEB obligation - beginning of year	18,453
	<hr/>
Net OPEB obligation - end of year	\$ 1,281

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (Cont.)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 158,275	89.3%	\$ 22,725
June 30, 2012	\$ 159,153	102.7%	\$ 18,453
June 30, 2012	\$ 158,940	110.8%	\$ 1,281

As of September 1, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$1,352,307, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,352,307. The covered payroll (annual payroll of active employees covered by the Plan) was \$5.6 million, and the ratio of the UAAL to the covered payroll was 24 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate (net of administrative expenses), which is based on assumed long-term investment returns on plan assets or the employer's assets, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2013, was 27 years.

As additional employees retire, the obligation will increase by an undetermined amount in future years. The district will fund this obligation with future revenues.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2013

NOTE 13 - OPERATING LEASES - COPIERS

Future payments under the agreements are as follows:

<u>Year Ended June 30</u>	<u>Lease Payments</u>
2014	\$ 18,572
2015	10,291
2016	3,120
2017	3,120
2018	780
 Total future payments	 <u>\$ 35,883</u>

NOTE 14 - SUBSEQUENT EVENT

On October 20, 2013, the district sold three acres of unimproved real estate for \$128,894.

REQUIRED SUPPLEMENTARY INFORMATION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
General Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive- (Negative)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 5,003,616	\$ 5,479,938	\$ 5,501,387	\$ 21,449
Federal revenues	648,279	580,611	544,886	(35,725)
Other state revenues	1,307,120	1,361,078	1,373,070	11,992
Other local revenues	593,658	610,720	608,617	(2,103)
Total revenues	7,552,673	8,032,347	8,027,960	(4,387)
Expenditures:				
Certificated salaries	4,027,467	4,019,736	4,020,925	(1,189)
Classified salaries	1,084,038	1,207,558	1,166,959	40,599
Employee benefits	1,801,596	1,827,518	1,814,528	12,990
Books and supplies	339,414	281,681	220,126	61,555
Services and other operating expenditures	629,583	618,717	491,758	126,959
Capital outlay	0	0	0	0
Other outgo	224,071	252,306	242,310	9,996
Total expenditures	8,106,169	8,207,516	7,956,606	250,910
Excess (deficiency) of revenues over (under) expenditures	(553,496)	(175,169)	71,354	246,523
Other financing sources (uses):				
Operating transfers in	27,000	0	0	0
Operating transfers out	0	0	0	0
Proceeds from capital leases				0
Total other financing sources (uses):	27,000	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(526,496)	(175,169)	71,354	246,523
Fund balances, July 1, 2012	2,298,843	2,298,843	2,298,843	0
Fund balances, June 30, 2013	\$ 1,772,347	\$ 2,123,674	\$ 2,370,197	\$ 246,523

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT**Required Supplementary Information****Other Post-Employment Benefits****Schedule of Funding Progress**

Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6-30-11	N/A	1,352,307	1,352,307	0%	5,558,372	24.3%
6-30-12	N/A	1,352,307	1,352,307	0%	5,552,444	24.4%
6-30-13	N/A	1,352,307	1,352,307	0%	5,131,875	26.4%

See the accompanying notes to supplementary information.

SUPPLEMENTARY INFORMATION SECTION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
Building Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive- (Negative)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 0	\$ 0	\$ 0	\$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	8,500	8,500	19,904	11,404
Total revenues	8,500	8,500	19,904	11,404
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	8,500	0	600	(600)
Services and other operating expenditures	1,500	2,100	1,621	479
Capital outlay	1,995,105	5,308	0	5,308
Other outgo	0	0	0	0
Total expenditures	2,005,105	7,408	2,221	5,187
Excess (deficiency) of revenues over (under) expenditures	(1,996,605)	1,092	17,683	16,591
Other financing sources (uses):				
Operating transfers out				0
Operating transfers in				0
				0
Total other financing sources (uses):	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(1,996,605)	1,092	17,683	16,591
Fund balances, July 1, 2012	1,996,219	1,996,219	1,996,219	0
Fund balances, June 30, 2013	\$ (386)	\$ 1,997,311	\$ 2,013,902	\$ 16,591

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
Capital Outlay Reserve
Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive- (Negative)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 0	\$ 0	\$ 0	\$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	565	530	584	54
Total revenues	565	530	584	54
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	0	0	0
Services and other operating expenditures	0	465	10,080	(9,615)
Capital outlay	0	0	0	0
Other outgo	0	0	0	0
Total expenditures	0	465	10,080	(9,615)
Excess (deficiency) of revenues over (under) expenditures	565	65	(9,496)	(9,561)
Other financing sources (uses):				
All other financing sources	0	0	0	0
Operating transfers out	(27,000)	0	0	0
Operating transfers in	0	0	0	0
Uses	0	0	0	0
Total other financing sources (uses):	(27,000)	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(26,435)	65	(9,496)	(9,561)
Fund balances, July 1, 2012	87,189	87,189	87,189	0
Fund balances, June 30, 2013	\$ 60,754	\$ 87,254	\$ 77,693	\$ (9,561)

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
Capital Facilities Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive- (Negative)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 0	\$ 0	\$ 0	\$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	50,545	52,975	45,697	(7,278)
Total revenues	50,545	52,975	45,697	(7,278)
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	0	0	0
Services and other operating expenditures	650,704	1,043	0	1,043
Capital outlay	0	0	0	0
Other outgo	0	0	0	0
Total expenditures	650,704	1,043	0	1,043
Excess (deficiency) of revenues over (under) expenditures	(600,159)	51,932	45,697	(6,235)
Other financing sources (uses):				
All other financing sources	0	0	0	0
Operating transfers out	0	0	0	0
Operating transfers in	0	0	0	0
Uses	0	0	0	0
Total other financing sources (uses):	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(600,159)	51,932	45,697	(6,235)
Fund balances, July 1, 2012	647,727	647,727	647,727	0
Fund balances, June 30, 2013	\$ 47,568	\$ 699,659	\$ 693,424	\$ (6,235)

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2013

	Cafeteria Fund
ASSETS	
Cash in county treasury	\$ 17,128
Cash in revolving fund	75
Cash with fiscal agent	0
Accounts receivable	72,067
Due from other funds	0
Stores inventories	<u>5,796</u>
Total assets	<u>95,066</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	5,867
Due to other funds	<u>0</u>
Total liabilities	<u>5,867</u>
Fund balances:	
Nonspendable: stores inventories	5,796
Restricted: food service	<u>83,403</u>
Total fund balances	<u>89,199</u>
Total liabilities and fund balances	\$ <u>95,066</u>

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds (By Object)
June 30, 2013

	Cafeteria Fund
Revenues:	
Revenue limit sources:	
State apportionments	\$ 0
Local sources	0
Federal revenues	296,072
Other state revenues	24,120
Other local revenues	99,352
Total revenues	419,544
Expenditures:	
Certificated salaries	0
Classified salaries	165,688
Employee benefits	81,861
Books & supplies	136,236
Services and other operating expenditures	11,113
Capital outlay	18,047
Other outgo	0
Debt Service:	
Principal	0
Interest	0
Total expenditures	412,945
Excess (deficiency) of revenues over (under) expenditures	6,599
Other financing sources (uses):	
Operating transfers in	0
Operating transfers (out)	0
Total other financing sources (uses)	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	6,599
Fund balances, July 1, 2012	82,600
Fund balances, June 30, 2013	\$ 89,199

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds (By Object)
Year Ended June 30, 2013

	Cafeteria Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Revenue limit sources:			
State apportionments	\$ 0	\$ 0	0
Local sources	0	0	0
Federal revenues	282,866	296,072	13,206
Other state revenues	22,779	24,120	1,341
Other local revenues	104,069	99,352	(4,717)
Total revenues	409,714	419,544	9,830
Expenditures:			
Certificated salaries			
Classified salaries	165,047	165,688	(641)
Employee benefits	79,761	81,861	(2,100)
Books & supplies	135,600	136,236	(636)
Services and other operating expenditures	15,958	11,113	4,845
Capital outlay	17,810	18,047	(237)
Other outgo	0	0	0
Debt Service:			
Principal	0	0	0
Interest	0	0	0
Total expenditures	414,176	412,945	1,231
Excess (deficiency) of revenues over (under) expenditures	(4,462)	6,599	11,061
Other financing sources (uses):			
Operating transfers in	0	0	0
Operating transfers out	0	0	0
Total other financing sources (uses)	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(4,462)	6,599	11,061
Fund balances, July 1, 2012	82,600	82,600	0
Fund balances, June 30, 2013	\$ 78,138	\$ 89,199	\$ 11,061

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds (By Object)
Year Ended June 30, 2013

	Totals		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Revenue limit sources:			
State apportionments	\$ 0	\$ 0	0
Local sources	0	0	0
Federal revenues	282,866	296,072	13,206
Other state revenues	22,779	24,120	1,341
Other local revenues	104,069	99,352	(4,717)
Total revenues	409,714	419,544	9,830
Expenditures:			
Certificated salaries	0	0	0
Classified salaries	165,047	165,688	(641)
Employee benefits	79,761	81,861	(2,100)
Books & supplies	135,600	136,236	(636)
Services and other operating expenditures	15,958	11,113	4,845
Capital outlay	17,810	18,047	(237)
Other outgo	0	0	0
Debt Service:			
Principal	0	0	0
Interest	0	0	0
Total expenditures	414,176	412,945	1,231
Excess (deficiency) of revenues over (under) expenditures	(4,462)	6,599	11,061
Other financing sources (uses):			
Operating transfers in	0	0	0
Operating transfers out	0	0	0
Total other financing sources (uses)	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(4,462)	6,599	11,061
Fund balances, July 1, 2012	82,600	82,600	0
Fund balances, June 30, 2013	\$ 78,138	\$ 89,199	\$ 11,061

The notes to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT**Balance Sheet****Nonmajor Debt Service Fund**

June 30, 2013

	Bond Interest and Redemption Fund
ASSETS	
Cash in county treasury	\$ 250,796
Total assets	\$ 250,796
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 0
Total liabilities	0
Fund balances:	
Restricted: debt service	250,796
Total fund balance	250,796
Total liabilities and fund balances	\$ 250,796

The note to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Debt Service Fund June 30, 2013

	Bond Interest and Redemption Fund
REVENUES:	
Other local revenues	\$ 384,514
	<u>384,514</u>
Total revenues	<u>384,514</u>
EXPENDITURES:	
Debt Service:	
Principal	10,000
Interest and fees	<u>375,818</u>
	<u>375,818</u>
Total expenditures	<u>385,818</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,304)</u>
Total other financing sources (uses)	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	<u>(1,304)</u>
Fund balances, July 1, 2012	<u>252,100</u>
Fund balances, June 30, 2013	<u>\$ 250,796</u>

The note to the financial statements are an integral part of this statement.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Organization
County of Humboldt, McKinleyville, California
June 30, 2013

GOVERNING BOARD

Member	Office	Term Expires
Brian Mitchell	President	2015
Tim Hooven	Clerk	2013
Justin Zabel	Member	2013
Sara Alto	Representative	2015
Don Rosebrook	Member	2015

ADMINISTRATION

DISTRICT SUPERINTENDENT
Michael Davies-Hughes

BUSINESS DIRECTOR
Jeff Brock

The McKinleyville Union School District was established in 1950 and is located in Humboldt County, California. The district operates two elementary schools and one middle school. There were no changes in the boundaries of the district during the current year.

The district has no Charter Schools.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Schedule of Average Daily Attendance

Year Ended June 30, 2013

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	161.12	162.46
Grades 1 through 3	361.36	358.90
Grades 4 through 6	310.35	309.73
Grades 7 through 8	210.79	211.67
Special education master plan	47.25	49.03
Home and hospital	0.46	0.32
Special education, extended year	0.61	0.61
 Totals	1,091.94	1,092.72

<u>Summer School - Hours of Attendance</u>	<u>Hours of Attendance</u>
Elementary	<u>0</u>

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Schedule of Instructional Time

Year Ended June 30, 2013

Grade Level	1986-87 Minutes Requirement	1982-83 Actual Minutes	1982-83 Reduced Minutes	2012-13 Actual Minutes	Number of Days Traditional Calendar	Status
DOWS PRAIRIE SCHOOL						
Kindergarten	36,000	35,500	34,486	49,620	175	Complied
Grade 1	50,400	40,575	39,416	49,620	175	Complied
Grade 2	50,400	40,575	39,416	49,620	175	Complied
Grade 3	50,400	40,575	39,416	49,620	175	Complied
Grade 4	54,000	52,305	50,811	54,170	175	Complied
Grade 5	54,000	52,305	50,811	54,170	175	Complied
MORRIS SCHOOL						
Kindergarten	36,000	35,500	34,486	47,870	175	Complied
Grade 1	50,400	40,575	39,416	49,620	175	Complied
Grade 2	50,400	40,575	39,416	49,620	175	Complied
Grade 3	50,400	40,575	39,416	50,495	175	Complied
Grade 4	54,000	52,305	50,811	54,170	175	Complied
Grade 5	54,000	52,305	50,811	54,170	175	Complied
MCKINLEYVILLE MIDDLE SCHOOL						
Grade 6	54,000	53,240	51,719	59,005	175	Complied
Grade 7	54,000	53,240	51,719	59,005	175	Complied
Grade 8	54,000	53,240	51,719	59,005	175	Complied

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Schedule of Financial Trends and Analysis

Year Ended June 30, 2013

General Fund	(Budget)			
	2014	2013	2012	2011
Revenues and other financial source:	\$ 8,261,822	\$ 8,027,960	\$ 8,807,449	\$ 8,691,311
Expenditures	8,362,441	7,956,606	8,854,133	8,421,422
Other uses and transfers out	158,017	0		
Total outgo	8,520,458	7,956,606	8,854,133	8,421,422
Change in fund balance	(258,636)	71,354	(46,684)	269,889
Ending fund balance	\$ 2,111,561	\$ 2,370,197	\$ 2,298,843	\$ 2,345,527
Available reserves	\$ 995,355	\$ 988,423	\$ 1,321,798	\$ 975,365
Available reserves as a percentage of total outgo	11.68	12.42	15.41	11.37
Total long-term debt	\$ 14,922,410	\$ 15,016,418	\$ 14,421,772	\$ 13,899,180
Average daily attendance at P-2	1,099	1,092	1,080	1,080

For a district this size, the state recommends available minimum reserves of at least 3% of General Fund (Special Reserve) total outgo.

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. Department of Education			
Passed Through California State Department of Education:			
NCLB:Title I - Basis Grants Low Income and Neglected Special Education - IDEA Basic Local Assistance	84.010	14329	\$ 232,699
Special Education - IDEA State Improvement Grant	84.027	03379	214,257
NCLB: Title II, Part A - Improving Teacher Quality	84.323	14,920	6,942
	84.367	04341	77,040
			<u>530,938</u>
U.S. Department of Agriculture - Food and Nutrition			
USDA Food Commodities	10.550		2,267
Passed Through California State Department of Education:			
National School Lunch Act	10.555	11396	236,048
Needy School Breakfast	10.553	03157	60,023
			<u>296,071</u>
U.S. Department of Health and Human Services			
Passed Through California State Department of Education:			
Medi-Cal	93.778	10013	22,595
			<u>22,595</u>
TOTAL FEDERAL PROGRAMS			\$ 851,871

See the accompanying notes to supplementary information and notes to schedule of expenditures of federal awards.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McKinleyville Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, 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 (general-purpose or basic) financial statements.

NOTE 2 - SUBRECIPIENTS AND PAYMENTS

There were no amounts provided to subrecipients.

There were no federal awards expended in the form of any loans or loan guarantees outstanding at year-end and no federal funds were expended for insurance. There was non-cash assistance in the amount of \$2,267.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report
(J-200) with Audited Financial Statements
Year Ended June 30, 2013

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

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT

Notes to Supplementary Information

Year Ended June 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes in the district. The purpose of attendance accounting, from a fiscal standpoint, is to provide the basis on which apportionment 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.

B. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Form J-200 (budgetary basis) to the audited financial statements (GAAP basis).

C. 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.

D. Schedule of Instructional Time

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater as required by Education Code Sections 46201 through 46206 except for audit years 2009-10 through 2014-15 whereas the District may reduce their instructional minutes by up to five days as per Education Code Section 46201.2.

The district has not received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the district and whether the district complied with the provisions of Education Code Sections 46201 through 46206.

OTHER INDEPENDENT AUDITOR'S REPORTS

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

3103 Concorde Drive
McKinleyville, CA 95519
Phone: (707) 839-9444
Fax: (707) 839-9445

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

Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McKinleyville Union School District, as of and for the year ended June 30, 2013, which collectively comprise McKinleyville Union School District's basic financial statements and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McKinleyville Union 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 test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

May, Abrahamson & Borsenick

December 16, 2013
McKinleyville, California

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti
CERTIFIED PUBLIC ACCOUNTANTS

3103 Concorde Drive
McKinleyville, CA 95519
Phone: (707) 839-9444
Fax: (707) 839-9445

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California

Report on Compliance for Each Major Federal Program

We have audited McKinleyville Union 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 McKinleyville Union School District's major federal programs for the year ended June 30, 2013. McKinleyville Union School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of McKinleyville Union 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 McKinleyville Union 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 McKinleyville Union School District's compliance.

Opinion on Each Major Federal Program

In our opinion, McKinleyville Union School District complied, in all material respects, with the type 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, 2013.

Report on Internal Control Over Compliance

Management of McKinleyville Union School District is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit, we considered McKinleyville Union School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 McKinleyville Union School District's internal control over compliance.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

May, Abrahamson + Bersenti

December 16, 2013
McKinleyville, California

William C. May
Tom Abrahamsen
Shel M. Barsanti

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

3103 Concorde Drive
McKinleyville, CA 95519
Phone: (707) 839-9444
Fax: (707) 839-9445

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

**Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California**

We have audited McKinleyville Union School District's compliance with the requirements identified in the Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13, applicable to McKinleyville Union School District's government programs identified below for the year ended June 30, 2013. Compliance with the requirements referred to above is the responsibility of McKinleyville Union School District's management. Our responsibility is to express an opinion on McKinleyville Union School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs identified below occurred. An audit includes examining, on a test basis, evidence about McKinleyville Union 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. Our audit does not provide a legal determination of McKinleyville Union School District's compliance with those requirements.

In our opinion, McKinleyville Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs identified below for the year ended June 30, 2013.

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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	N/A
Continuation Education	10	N/A
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	N/A
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	N/A
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	N/A
Class Size Reduction (including in charter schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	N/A
District or Charter Schools With Only One School Serving K-3	4	N/A
After School Education and Safety Program:		
General Requirements	4	N/A
After School	5	N/A
Before School	6	N/A
Contemporaneous Records of Attendance	1	N/A
Mode of Instruction, for Charter Schools	1	N/A
Nonclassroom-Based Instruction/		
Independent Study, For Charter Schools	15	N/A
Determination of Funding for Nonclassroom-Based		
Instruction, For Charter Schools	3	N/A
Annual Instructional Minutes - Classroom Based, For		
Charter Schools	4	N/A

This report is intended solely for the information and use of the audit committee, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

May, Abrahamson + Boersanti

December 16, 2013
McKinleyville, California

FINDINGS AND RECOMMENDATIONS SECTION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Auditor's Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	No
Significant deficiency(s) identified not considered to be material weaknesses?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	None Reported

Noncompliance material to financial statements noted?

<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	No
--------------------------	-----	-------------------------------------	---	----

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	No
Significant deficiency(s) identified not considered to be material weaknesses?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	None Reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(a)

<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	No
--------------------------	-----	-------------------------------------	---	----

Identification of major programs:

CFDA Number(s)

84.010
84.027
84.323

Name of Federal Program or Cluster

NCLB:Title 1 - Basis Grants Low Income
Special Education - IDEA Basic Local Assistance
Special Education - IDEA State Improvement

Dollar threshold used to distinguish between Type A and Type B programs:

\$ **300,000**

Auditee qualified as low-risk auditee?

<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
-------------------------------------	-----	--------------------------	----

State Awards

Internal control over state programs:

Material weakness(es) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	No
Reporting condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	X	None Reported

Type of auditor's report issued on compliance for state programs:

Unqualified

MCKINLEYVILLE UNION SCHOOL DISTRICT
Findings and Recommendations
Year Ended June 30, 2013

Current Year Findings and Recommendations

There are no current year findings and recommendations

MCKINLEYVILLE UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2013

Finding/Recommendation	Current Status	Explanation if Not Fully Implemented
There are no prior year findings and recommendations		

APPENDIX B

GENERAL AND FINANCIAL INFORMATION FOR THE MCKINLEYVILLE UNION 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 Refunding Bonds is payable from the General Fund of the District. The Refunding 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. See "THE REFUNDING BONDS –Security for the Refunding Bonds" in the front half of the Official Statement.

GENERAL DISTRICT INFORMATION

General Information

The District is situated on the coast of California, about 80 miles south of the Oregon border. The District is located between the Pacific Ocean to the west, and the coastal mountain ranges to the east approximately 4 miles from Arcata and Humboldt State University, 11 miles from Eureka (the county seat) and 275 miles from San Francisco. The District provides services to the community of McKinleyville. The District operates two elementary schools and one middle school.

Administration

Board of Trustees. The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the Board of Trustees are held every two years, alternating between two and three available positions. Current members of the Board of Trustees, together with their office and the date their term expires, are listed below.

Name	Position	Term Expires
Brian Mitchell	President	December 2015
Tim Hooven	Clerk	December 2017
Sara Alto	Representative	December 2015
Theresa Grosjean*	Member	December 2015
Suzie McCray*	Member	December 2015

* Appointed to partial terms until next regular Board election in November 2015.

Superintendent. The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Michael Davies-Hughes is currently serving as Superintendent.

Recent Enrollment Trends

Historically, annual State apportionments of basic and equalization aid to school districts for general purposes have been computed up to a revenue limit per unit of average daily attendance ("ADA"). See "State Funding of Education" below. The following table shows recent enrollment and average daily attendance histories for the District.

MCKINLEYVILLE UNION SCHOOL DISTRICT Annual Enrollment and Average Daily Attendance Fiscal Years 2009-10 through 2015-16

School Year	Enrollment	% Change	Average Daily Attendance	% Change
2009-10	1,165	--	1,106	--
2010-11	1,140	(2.1)%	1,080	(2.4)
2011-12	1,133	(0.6	1,080	0.0
2012-13	1,145	1.1	1,092	1.1
2013-14	1,179	3.0	1,115	2.1
2014-15 ⁽¹⁾	1,180	0.1	1,119	0.4
2015-16 ⁽¹⁾	1,180	0.0	1,119	0.0

(1) District estimate.

Source: California Department of Education, Educational Demographics Unit; District's 2nd Interim Report.

Employee Relations

The District has 68.98 certificated, 49.81 classified, and 10.73 management/confidential full-time equivalent positions

The certificated, office and technical support personnel, and instructional assistants of the District have selected the McKinleyville Teachers Association as their exclusive bargaining agent. They are currently under a contract which expired on June 30, 2014.

The California Service Employees Association, Chapter 144 has been selected as the exclusive bargaining agent for the maintenance and operations, and food service personnel in the District. These personnel are covered by a contract which expired on June 30, 2014. The District is currently negotiating both contracts.

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. Each school district is required by statute to contribute 8.25% of eligible employee's salaries to STRS

on a monthly basis. Employees are required to contribute 8% of eligible salary if enrolled before January 1, 2013. Employees enrolled after January 1, 2013 are required to pay 50% of the annual normal cost of benefits as determined by an actuary. The State is required to contribute as well. The District's contributions to STRS for the past three and current projected fiscal years are set forth in the following table.

STRS Contributions McKinleyville Union School District

Fiscal Year	Amount
2010-11	\$353,593
2011-12	354,053
2012-13	332,364
2013-14 ⁽¹⁾	353,234
2014-15 ⁽²⁾	407,049

⁽¹⁾ Estimated actuals.

⁽²⁾ Budgeted.

Source: McKinleyville Union 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
	AB 1469	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. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined

rate (11.417% for fiscal year 2012-13, 11.442% for 2013-14 and 11.77% for 2014-15). One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each. The District's contributions to PERS for the past three and current projected fiscal years are set forth in the following table.

PERS Contributions
McKinleyville Union School District

Fiscal Year	Amount
2010-11	\$138,094
2011-12	140,301
2012-13	129,758
2013-14 ⁽¹⁾	131,309
2014-15 ⁽²⁾	136,109

⁽¹⁾ Estimated actuals.

⁽²⁾ Budgeted.

Source: McKinleyville Union School District.

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 \$57 billion for PERS as of June 30, 2012 (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).

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, a bill that enacted the California Public Employees' Pension Reform Act of 2013 ("PEPRA") and amends various sections of the California Education and Government Codes. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual PERS and STRS pension benefit payouts, (iii) addresses numerous abuses of the system, and (iv) requires 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 District, will have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no agreement is reached by January 1, 2018, a city, public agency or school district could require employees to pay a portion of the costs of PERS pension benefits.

PERS has predicted that the impact of AB 340 on employers, including the District and other employers in the STRS system, and employees 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 or the Underwriter and is not incorporated herein by reference.*

Other Post-Employment Retirement Benefits

GASB 45. In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions ("GASB 45")*. The pronouncement requires employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement was staggered in three phases based upon the entity's annual revenues, similar to the implementation for GASB Statement No. 34 and 35. GASB 45 was effective for the District for the fiscal year ending June 30, 2008. GASB 45 provides that school districts should establish a reserve fund and annually transfer sufficient funds to this reserve in order to pay for retiree employment benefits other than pensions for the period of time agreed in union contracts.

Plan Description. The District provides post-retirement health care benefits for employees who retire between the age of 55 and 65, with certain years of service. At June 30, 2013, 37 retirees met these requirements. The District pays medical premiums and dental and visions premiums for all employees who meet the eligibility requirements of the collective bargaining agreements or employment contracts. If the premiums exceed certain limits, the retirees are responsible for the difference. The benefits are paid up to age 65.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other post-employment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB 45. GASB 45 requires local government employers who provide OPEB as part of the compensation offered to employees to recognize the expense and related liabilities and assets in their financial statements.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to

cover normal cost each year and amortize any unfunded actuarial accrued liabilities ("UAAL") over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's OPEB obligation to the Plan:

Annual required contribution	\$158,017
Interest on net OPEB obligation	<u>923</u>
Annual pension cost	158,940
Contributions made	<u>176,112</u>
Increase (decrease)in net OPEB asset	(17,172)
Net pension obligation beginning of year	<u>18,453</u>
Net pension asset end of year	\$1,281

Funding Status and Funding Progress. As of September 1, 2010, the date of the most recent actuarial report, the plan was unfunded. The UAAL for was \$1,352,307 and the actuarial value of assets were zero. The District has set aside \$355,506 (as of June 30, 2013) in a reserve account for the payment of retiree benefits.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation was as follows:

Fiscal Year	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$158,275	89.3%	\$22,725
2011-12	159,153	102.7	18,453
2012-13	158,940	110.8	1,281

Source: The District's Audited Financial Statements.

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 Refunding Bonds is payable from the General Fund of the District. The Refunding 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.

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 funds, with each group consisting of a separate accounting entity. 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. For more information on the District's basis of accounting and fund accounting, see "APPENDIX A – Audited Financial Statements of the District for the Year ending June 30, 2013 – Note 1 Significant Accounting Policies" herein.

The Governmental Accounting Standards Board ("GASB") Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" was adopted 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. The District implemented Statement No. 34 for the fiscal year 2003-04 audited financial statement.

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 June 30, 2013 Audited Financial Statements were prepared by May, Abrahamsen and Barsanti, McKinleyville, California (the "Auditor"). Audited financial statements for the District for the fiscal year ended June 30, 2013, and prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, McKinleyville Union School District, 2275 Central Avenue, McKinleyville, CA 95519; telephone: (707) 839-1549. See Appendix A hereto for the June 30, 2013 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 general fund income and expense statements for the District for the fiscal years 2010-11 through 2012-13.

MCKINLEYVILLE UNION SCHOOL DISTRICT
General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2010-11 through 2012-13 (Audited)

	2010-11 Audited	2011-12 Audited	2012-13 Audited
Revenues			
Revenue Limit:			
State apportionments	\$1,922,071	\$1,784,026	\$1,584,109
Local sources	3,633,611	3,633,611	3,917,278
Total revenue limit	5,555,682	5,417,637	5,501,387
Federal Revenue	912,470	849,610	544,886
Other State Revenue	1,374,786	1,583,588	1,373,070
Other Local Revenue	697,859	906,009	608,617
Total Revenue	8,540,797	8,756,844	8,027,960
Expenditures			
Instruction	5,640,534	5,618,357	5,170,998
Instruction related services:			
Supervision of instruction	74,239	116,984	38,711
Library, media and technology	121,042	133,969	130,885
School site administration	590,236	606,834	575,389
Pupil services:			
Hone-to-school transportation	280,058	702,713	271,262
Food services	0	0	8,691
All other pupil services	256,023	258,455	244,054
General administration:			
Data processing services	15,965	17,253	20,312
All other general administration	535,686	487,228	570,941
Plant services	567,813	584,619	562,606
Ancillary services	95,398	98,973	98,821
Community services	4,376	4,500	3,579
Other outgo	240,052	224,248	260,357
Total Expenditures	8,421,422	8,854,133	7,956,606
Excess (deficiency) of revenues over (under) expenditures	119,375	(97,289)	71,354
Other Financing Sources (Uses)			
Transfers In	150,000	50,605	0
Transfers Out	0	0	0
Total Other Financing Sources	150,000	50,605	0
Net change in fund balance	269,375	(46,684)	71,354
Beginning Balance	2,075,638	2,345,013	2,298,843 ⁽¹⁾
Ending Balance	<u>\$2,345,013</u>	<u>\$2,298,329</u>	<u>\$2,370,197</u>

⁽¹⁾ As adjusted.
Source: The District's Audited Financial Statements.

The following table shows the General Fund income and expense statements for the District for the fiscal year 2013-14 (estimated actuals), and for the fiscal year 2014-15 (budgeted). The District's budgets and interim reports are not prepared in compliance with GASB Statement No. 34 requirements. Totals may not add due to rounding.

MCKINLEYVILLE UNION SCHOOL DISTRICT
General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Year 2013-14 (Estimated Actuals); Fiscal Year 2014-15 (Budgeted)

	Est. Actuals 2013-14	Budgeted 2014-15
REVENUES		
Revenue Limit Sources/LCFF	\$7,137,532	\$7,811,543
Federal	551,639	554,287
Other State	516,761	290,025
Other Local	668,367	636,626
Total Revenues	8,874,299	9,292,481
EXPENDITURES		
Certificated Salaries	4,353,151	4,526,061
Classified Salaries	1,341,334	1,417,280
Employee Benefits	1,909,684	1,947,851
Books and Supplies	367,590	378,130
Services, other operating expenses	664,859	634,884
Capital Outlay	--	--
Other Outgo (Excl. Indirect Costs)	324,219	465,518
Indirect/Direct support costs	(18,649)	(18,649)
Total Expenditures	8,942,188	9,351,075
Revenues Over (Under) Expends	(67,889)	(58,594)
OTHER FINANCING SOURCES (USES)		
Operating Transfers In	132,240	113,686
Operating Transfers Out	(158,017)	(158,017)
Net Financing Sources (Uses)	(25,777)	(44,331)
Net Change in Fund Balance	(93,666)	(102,925)
Fund Balance, July 1	<u>1,026,266</u>	<u>932,600</u>
Fund Balance, June 30	<u>\$932,600</u>	<u>\$829,675</u>

Source: The District.

Reserve Levels. The District has successfully maintained its reserve for economic uncertainties above the State requirement, with its unrestricted (reserved for economic uncertainties) general fund balance being 12.4% in 2012-13, and 7.2% projected for 2013-14. In connection with the State's fiscal year 2014-15 Budget (Education Trailer Bill (SB 858)), the Education Code has been 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, pursuant to SB 858, a constitutional amendment will be presented to State voters at the November 4, 2014 general election. The amendment establishes a rainy day fund at the State level, as well as Proposition 98 reserve to attempt to minimize large fluctuations from year to year in the State's education spending. If approved by voters, related legislation will become effective could limit the amount of reserves maintained at the District level. 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."

Assumptions Used with Respect to 2013-14 Budget. Legislation adopted in connection with the State's 2013-14 Budget includes the implementation of the Local Control Funding Formula (the "LCFF"), which changes the formula by which school districts in California receive funding from the State. At the time of District Budget preparation, the District included certain assumptions regarding funding in fiscal year 2013-14, including calculating anticipated revenue based on the economic recovery target attributed to the District through the LCFF.

Local Control Funding Formula. As described in more detail herein under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS," the adoption of the 2013-14 State Budget and its related implementing legislation included significant reforms to education finance in the State with the adoption of the LCFF. Under the LCFF, the emphasis shifted from a State-controlled system with funding based largely on ADA and the revenue limit with numerous State-mandated categorical programs, to a locally-controlled system with a funding formula which attempts to better meet the needs of students, particularly those students which come from low-income families or are English language learners which may require more support for success in school, and which provides local school officials with the ability to decide how best to meet the needs of their students.

Funding under the LCFF consists of the following:

1. Base grant equivalent to an average of \$7,643 per ADA, plus
2. 20% supplemental funding for English language learners, students from low-income families and foster youth, plus
3. A concentration grant for districts with enrollment of more than 55% of English learners, students from low-income families and foster youth of up to 22.5% of a local education agency's base grant, based on the number of such students, plus
4. An economic recovery target, to bring local agencies back to pre-recession funding levels.

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

Of the District's 1,179 enrollment in fiscal year 2013-14, 50.13% of the enrolled students represent the unduplicated count of categories for additional funding under the LCFF. As a result, the District expects to receive the base grant funding and supplemental funding. There are many variables which still remain to be finalized with respect to the LCFF model of education finance and the District is unable to predict at this time all of the impacts that this change in education funding will have on its finances.

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. The District adopted its 2010-11 Budget on June 29, 2010.

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. The District has not had a qualified or negative certification on any interim budget report during the past five years. Each of their budgets have been approved during such period, and interim reports have received positive certifications. The District First Interim Report for 2013-14 and Second Interim Report for 2013-14 both were certified by the District Board as positive.

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at McKinleyville Union School District, 2275 Central Avenue, McKinleyville, CA 95519; telephone: (707) 839-1549. The District may impose charges for copying, mailing and handling.

State Funding of Education and Revenue Limitations

Historically, annual State apportionments of basic and equalization aid to school districts for general purposes have been computed up to a revenue limit per unit of average daily attendance ("ADA"). Such apportionments have, generally speaking, amounted to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts. As described in the preceding section and herein under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS," with the implementation of the LCFF, commencing in fiscal year 2013-14, school districts will receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target.

A schedule of the District's ADA and total revenue limit income received by the District during the past five fiscal years is set forth above under "Recent Enrollment Trends."

Revenue Sources

The District categorizes its general fund revenues into four sources:

MCKINLEYVILLE UNION SCHOOL DISTRICT District Revenue Sources

Revenue Source	Audited 2010-11	Audited 2011-12	Audited 2012-13	Est, Actual 2013-14
Revenue limit sources ⁽¹⁾	65.0%	61.9%	68.5%	80.5%
Federal revenues	10.7	9.7	6.8	6.2
Other State revenues	16.1	18.1	17.1	5.8
Other local revenues	8.2	10.3	7.6	7.5
Totals	100.0%	100.0%	100.0%	100.0%

(1) Consists of a mix of State apportionments of basic and equalization aid and local property tax revenues; LCFF for fiscal year 2013-14.

Source: McKinleyville Union School District.

Each of these revenue sources is described below.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, the revenue limits are calculated for each school district by multiplying (1) the ADA for such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations are 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 is accomplished by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amount to the difference between the District's revenue limit and its local property tax revenues. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS" below.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy 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.

As described in this Official Statement, with the implementation of the LCFF in fiscal year 2013-14, the amount of State funding provided to school districts will now be determined with a funding model which attempts to better meet the needs of students, particularly those students which come from low-income families or are English language learners which may require more support for success in school, and which provides local school officials with the ability to decide how best to meet the needs of their students. The LCFF affects how much

funding a district will receive, but generally not the source of such funding, being its share of local property taxes together with the State funding provided in the LCFF.

Federal Revenues. The federal government provides funding for several District programs, including special education programs.

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 substantial other State revenues.

These other State revenues have historically been primarily restricted revenues funding items such as the Special Education Master Plan, home-to-school transportation, Economic Impact Aid, and mandated cost reimbursements. Funds from two existing programs- the Targeted Instructional Improvement Block Grant and Home-to-School Transportation program- are treated as add-ons to the LCFF. Districts, such as the District, that received funding from these programs in 2012–13 will continue to receive that same amount of funding in addition to what the LCFF provides each year. With the implementation of the LCFF, school districts will have more control of how additional State revenues are allocated.

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 1997-98 levels must be restricted to use on instructional materials. Lottery revenues generally comprise approximately 2% of general fund revenues.

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

Existing Debt Obligations

General Obligation Bonds. The District has previously issued general obligation bonds pursuant to its 2008 Authorization as described under the heading "THE REFINANCING PLAN." General obligation bonds and refunding general obligation bonds have been issued pursuant to this authorization, as summarized herein under "DEBT SERVICE SCHEDULES" and in the District's Audited Financial Statement for year Ended June 30, 2013, attached hereto as Appendix A, Note 10.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq.*, the Humboldt 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.

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 and Revenue Limitations” above). State funds typically make up the majority of a district’s revenue limit. School districts also receive substantial 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 LIMITATIONS ON TAXES AND APPROPRIATIONS”), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

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 percent 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.

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 are responsible for the information relating to the State’s budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer’s Office.

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

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

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

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

Recent State Budgets

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

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.
- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current Official Statement, which discusses the State budget and its impact on school districts.
- 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 2013-14 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 8, 2011 election, as well as other spending cuts, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future and if projections included in the budget do not materialize.

Local Control Funding Formula. The 2013-14 State Budget contained the new LCFF, which changed the State funding system for school districts, charter schools and county offices

of education to address inequities in the distribution of education funding, by, among other changes, consolidating most categorical programs with existing revenue limit structure to a new student formula phased in over seven years, implementing supplemental and concentration grants to English learners and economically disadvantaged students. The LCFF consists of base, supplemental and concentration funding based on a school district's student demographics:

- A base grant for each local education agency equivalent to \$7,643 per unit of A.D.A. This base grant is \$2,375 more than the average revenue limit provided prior to LCFF implementation. The actual amount of the base grant varies based on a school district's grade span:
 - An adjustment of 10.4% on the base grant amount for K through 3. As a condition of funding, the district shall progress toward an average class enrollment of no more than 24 pupils in K-3, unless the district has collectively bargained an annual alternative class size in those grades.
 - An adjustment of 2.6% on the base grant for grades 9-12.
- A 20% (of the adjusted base grant) supplemental grant for English learners, students from low-income families and foster youth ("Targeted Students") to reflect increased costs associated with educating these students.
- An additional concentration grant equal to 50% of the adjusted base grant when Targeted Students exceed 55% of a district's 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 Local Control Funding Formula.

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	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

Source: California Department of Education

Accountability under the LCFF. The LCFF moves from a State-controlled system that emphasized inputs (largely in the form of categorical funding which required funds to be spent on specific projects and programs) to a locally-controlled system in which local agencies decide the best way to spend funds, focused instead on improved outcomes. Local school districts will decide the best way to target funds, but will be required to increase or improve services for Targeted Students in proportion to the supplemental grant funding received. In addition, as part of the LCFF, school districts, county offices of education and charter schools are required to

develop, adopt and annually update a three-year Local Control Accountability Plan (“**LCAP**”) beginning on July 1, 2014 using a template developed by the State Board of Education.

County superintendents must review district LCAPs and ensure alignment of projected spending, services, and goals. Charter school LCAPs will be reviewed by the chartering authority. County offices of education are required to provide technical assistance when they disapprove an LCAP. In addition, the 2013-14 Budget creates 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.

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.

2014-15 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 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 8, 2011) 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 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. 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 includes a proposed constitutional amendment which will be placed before State voters in November, 2014. The measure, upon approval, would alter the State’s existing requirements for the Budget Stabilization Account, the State’s existing rainy day account. If approved, this amendment would:

- Require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8 percent of General Fund tax revenues, and would set the

maximum size of the Rainy Day Fund at 10 percent of the General Fund revenues.

- Require half of each year's deposit for the next 15 years be used for supplemental payments of debt or other long-term liabilities.
- Allow 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.
- Require that the state provide a multiyear budget forecast to better manage the state's long-term finances.
- Create 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.

The Education Budget Trailer Bill (SB 858) amends Education Code section 42127 to provide that, beginning in 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, its governing board must provide the following information for review at the annual public hearing on its proposed budget:

The minimum recommended reserve adopted by the State Board of Education;
The district's fund balance in excess of the recommended reserve; and
A statement substantiating the need for the excess reserve level.

This information is to be included in a district's budgetary submission to its county superintendent, and the county superintendent must verify that each district has complied with these requirements. Budgets prepared by county superintendents must also comply with the above requirements. This provision is not contingent on the voters approving the "rainy day fund" in November, discussed in the following sentence. If approved in November, additional legislation will become effective which could limit the amount school districts may maintain in reserves. Specifically, the legislation provides that this bill would, in a fiscal year immediately after which a transfer is made into the Public School System Stabilization Account, which would be created by an Assembly Constitutional Amendment, prohibit a school district's adopted or revised budget from containing a combined assigned or unassigned ending fund balance that is in excess of either two or three times the minimum recommended reserve for economic uncertainties, as established by the state board, depending on the school district's units of average daily attendance. The bill would authorize the county superintendent of schools to waive the prohibition, pursuant to specified conditions, for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances substantiates the need for the balance. The bill would make operation of these provisions contingent on the voter approval of a specified Assembly Constitutional Amendment at the November 4, 2014, statewide general election."

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. Prop. 98 funding has contributed \$10 billion to the total funding amount and the

2014-15 State Budget provides \$1,954 more per K-12 student in 2014-15 than was provided in 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 General Fund to continue the State’s transition to the LCFF. This increase will close the remaining funding implementation gap by more than 29 percent. 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 Proposition 98 General Fund 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 General Fund 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 General Fund 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 General Fund 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 percent increase in General Fund appropriations over a four-year period. The 2014-15 Budget includes a 5 percent 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 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 Budget includes additional one-time resources to continue immediate drought-related efforts started in 2014, such as an increase of \$53.8 million General Fund and \$12.2 million other funds for firefighting efforts, and an increase of \$18.1 million 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 Bonds

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 Refunding Bonds to provide State budget information to the District or the owners of the Refunding 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 Refunding 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 Refunding Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIIIIA, XIIIIB, XIIC, and XIID 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 Refunding Bonds. The tax levied by the County for payment of the Refunding Bonds was approved by the District's voters in compliance with Article XIIIIA and all applicable laws.

Article XIIIIA of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIIA to the State Constitution ("Article XIIIIA"). Article XIIIIA 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 XIIIIA 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 XIIIIA 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 XIIIIA 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 XIIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

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

Legislation Implementing Article XIIIIA. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIIA. 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 XIII A, 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.

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.

Constitutional Appropriations Limitation

Article XIIIIB ("Article XIIIIB") 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 XIIIIB, as amended.

The appropriations of an entity of local government subject to Article XIIIIB 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.

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.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIIIC and XIIID (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 XIIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIIA, 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 XIID. 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 XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Proposition 218 does not affect the *ad valorem* property taxes to be levied by the County to pay debt service on the Refunding Bonds.

Proposition 62

A statutory initiative (“**Proposition 62**”) was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the District be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIIIA, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court’s decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The District has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

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 XIIIIB 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 XIIIIB 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 XIIIIB 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 XIIIIB 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 XIIIIB 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 XIIIIB 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 XIIIIB 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 1A and Proposition 22

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

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

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

Application of Constitutional and Statutory Provisions; Recent Lawsuit

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see “DISTRICT FINANCIAL INFORMATION - State Funding of Education and Recent State Budgets.” In addition, a lawsuit is pending against the State with respect to the existing system of public school finance. See “DISTRICT FINANCIAL INFORMATION - 2010 Legal Challenge to State Funding of Education.”

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111 and 22 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.

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION FOR HUMBOLDT COUNTY

The Refunding Bonds are not a debt of the County of Humboldt. The County of Humboldt, including its Board of Supervisors, officers, officials, agents and other employees, are required, only to the extent required by law, to: (i) levy and collect ad valorem taxes for payment of the Refunding Bonds in accordance with the law; and (ii) transmit the proceeds of such taxes to the paying agent for the payment of the principal of and interest on the Refunding Bonds at the time such payment is due.

General

Humboldt County was created from the western portion of Trinity County in 1853. The County's name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. Humboldt County's 3,600 square miles are known for their rural beauty, roughly 80% of which is designated recreation areas and timber land. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

Population

The following table lists population figures for Humboldt County for the last five calendar years.

COUNTY OF HUMBOLDT
Population Estimates
Calendar Years 2010 through 2014

	2010	2011	2012	2013	2014
Arcata	17,211	17,681	17,769	17,774	17,734
Blue Lake	1,247	1,254	1,256	1,255	1,251
Eureka	27,125	27,034	26,988	26,921	26,914
Ferndale	1,372	1,362	1,364	1,361	1,357
Fortuna	11,897	11,871	11,853	11,838	11,902
Rio Dell	3,362	3,351	3,348	3,349	3,347
Trinidad	363	365	364	363	361
Balance of County	71,776	71,667	71,787	71,826	71,782
County Total	134,353	134,729	134,687	134,648	134,729

Source: State Department of Finance estimates. 2010 Census Benchmark.

Employment and Industry

The table below provides information about employment rates and employment by industry type for the County for calendar years 2009 through 2013.

COUNTY OF HUMBOLDT
Civilian Labor Force, Employment and Unemployment
Annual Averages for Calendar Years 2009 through 2013
(March 2013 Benchmark)

	2009	2010	2011	2012	2013
Civilian Labor Force ⁽¹⁾	60,900	61,400	60,600	59,900	58,400
Employment	54,200	54,400	53,700	53,700	53,300
Unemployment	6,600	7,000	6,900	6,200	5,100
Unemployment Rate	10.9%	11.4%	11.4%	10.4%	8.8%
<u>Wage and Salary Employment</u> ⁽²⁾					
Agriculture	1,000	800	900	900	800
Mining and Logging	300	400	400	400	400
Construction	1,900	1,700	1,800	1,700	1,600
Manufacturing	2,200	2,100	2,100	2,000	2,100
Wholesale Trade	1,000	1,000	1,000	1,000	1,000
Retail Trade	6,900	6,900	6,700	6,800	6,900
Transportation, Warehousing and Utilities	1,200	1,200	1,200	1,300	1,300
Information	600	600	600	500	500
Financial Activities	1,700	1,700	1,600	1,600	1,600
Professional and Business Services	2,800	2,900	2,700	2,700	2,600
Educational and Health Services	7,100	7,200	7,200	7,200	7,500
Leisure and Hospitality	5,100	5,200	5,000	5,100	5,100
Other Services	1,900	1,900	1,900	1,800	1,900
Federal Government	800	900	700	700	700
State Government	3,200	3,100	3,200	3,300	3,400
Local Government	9,800	9,700	9,600	9,500	9,400
Total, All Industries ⁽³⁾	47,500	47,200	46,400	46,500	46,900

(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.

The table below lists the major employers in the County as of January 1, 2014.

COUNTY OF HUMBOLDT
Major Employers (Listed Alphabetically)
As of June 2014

Employer Name	Location	Industry
Bettendorf Trucking	Arcata	Trucking
Blue Lake Casino	Blue Lake	Casinos
Eureka City Clerk	Eureka	City Government-Executive Offices
Green Diamond Resource Co	Korbel	Foresters-Consulting
Green Diamond Resource Co	Trinidad	Foresters-Consulting
Humboldt Cnty Office-Education	Eureka	Schools
Humboldt County Dept-Health	Eureka	Clinics
Humboldt County Sheriff Dept	Eureka	Sheriff
Humboldt County Social Svc	Eureka	County Government-Social/Human Resources
Humboldt Mental Health Admin	Eureka	Hospitals
Humboldt State University Ctr	Arcata	Schools-Universities & Colleges Academic
Mad River Community Hospital	Arcata	Hospitals
Pacific Gas & Electric Co	Willow Creek	Electric Companies
Pacific Gas & Electric Co	Eureka	Electric Companies
Pacific Gas & Electric Co	Garberville	Electric Companies
Pacific Gas & Electric Co	Fortuna	Electric Companies
Public Health Admin	Eureka	County Government-Public Health Programs
Redwood Memorial Hospital	Fortuna	Hospitals
Sierra Pacific Industries	Arcata	Lumber-Manufacturers
St Joseph Health	Eureka	Hospitals
St Joseph Hospital	Eureka	Hospitals
Sun Valley Group	Arcata	Greenhouses
Trinidad Rancheria	Trinidad	Associations
Umpqua Bank	Eureka	Banks
Walmart	Eureka	Department Stores

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2014 2nd Edition.

Effective Buying Income

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

The following table summarizes the total effective buying income for the County, the State and the United States for the period 2009 through 2013.

COUNTY OF HUMBOLDT, STATE OF CALIFORNIA, UNITED STATES
Effective Buying Income
As of January 1, 2009 through 2013

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2009	Humboldt County	\$ 2,334,673	\$33,459
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	Humboldt County	\$ 2,220,518	\$31,841
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	Humboldt County	\$ 2,331,183	\$31,610
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	Humboldt County	\$ 2,523,933	\$33,631
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	Humboldt County	\$ 2,529,585	\$35,638
	California	858,676,636	48,340
	United States	6,982,757,379	43,715

Source: The Nielsen Company (US), Inc.

Commercial Activity

In 2009 the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the County during 2008 through 2012 is shown in the following table. Annual figures are not available for 2013.

During the first quarter of calendar year 2013, total taxable transactions in the County were reported to be \$406,718,000, representing a 6.13% increase over the total taxable transactions of \$383,236,000 that were reported in the County during the first quarter of calendar year 2012.

COUNTY OF HUMBOLDT Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions (Figures in Thousands)

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2008	2,021	\$1,206,247	4,731	\$1,692,798
2009 ⁽¹⁾	3,229	1,129,977	4,532	1,544,584
2010 ⁽¹⁾	3,302	1,177,739	4,642	1,704,007
2011 ⁽¹⁾	3,172	1,224,525	4,491	1,698,178
2012 ⁽¹⁾	3,208	1,298,773	4,499	1,768,170

(1) Not comparable to years prior to 2009. "Retail" category now includes "Food Services".
Source: *State Board of Equalization*.

Construction Activity

Building activity for the past five years in the County is shown in the following table.

COUNTY OF HUMBOLDT
Total Building Permit Valuations
For Calendar Years 2009 through 2013
(Valuations in Thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$16,452.4	\$20,650.5	\$21,367.6	\$16,492.6	\$19,627.7
New Multi-family	1,193.1	2,115.7	7,865.0	4,229.1	3,352.0
Res. Alterations/Additions	<u>11,060.8</u>	<u>12,817.7</u>	<u>10,020.5</u>	<u>10,803.0</u>	<u>13,165.4</u>
Total Residential	28,706.3	35,583.8	39,253.1	31,524.7	36,145.1
New Commercial	5,847.3	9,335.5	743.9	\$18,527.0	15,936.1
New Industrial	0.0	0.0	0.0	1,833.1	442.0
New Other	2,907.3	4,786.1	0.0	3,990.0	1,276.3
Com. Alterations/Additions	<u>8,026.0</u>	<u>10,554.1</u>	<u>8,356.9</u>	<u>10,454.8</u>	<u>13,157.9</u>
Total Nonresidential	16,780.6	24,695.8	9,100.8	34,804.9	30,812.3
<u>New Dwelling Units</u>					
Single Family	160	165	146	95	108
Multiple Family	<u>22</u>	<u>24</u>	<u>115</u>	<u>68</u>	<u>36</u>
TOTAL	182	189	261	163	144

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF JONES HALL]

October 2, 2014

Board of Trustees
McKinleyville Union School District
McKinleyville, California

OPINION: \$7,327,431.25 McKinleyville Union School District (Humboldt County, California) 2014 General Obligation Refunding Bonds

Members of the Board of Trustees:

We have acted as bond counsel to the McKinleyville Union School District (the "District") in connection with the issuance by the District of its McKinleyville Union School District (Humboldt County, California), 2014 General Obligation Refunding Bonds in the aggregate principal amount of \$7,327,431.25 (the "Refunding Bonds"), pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Bond Law") and a resolution of the Board of Trustees of the District (the "Board") adopted on August 13, 2014 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we have 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 certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

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

1. The District is duly established and validly existing as a school district with the power to enter into the Resolution, to issue the Refunding Bonds and to perform its obligations under the Resolution.
2. The Resolution has been duly approved by the Board and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.
3. The Refunding Bonds have been duly authorized, executed and delivered by the District and are valid and binding general obligations of the District, and the Board of Supervisors of Humboldt County is obligated under the laws of the State of California to cause

to be levied a tax without limit as to rate or amount upon the taxable property in the District for the payment when due of the principal of and interest on the Refunding Bonds.

4. Interest on the Refunding 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 Refunding 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 percent of that portion of such financial institutions' interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Code which must be satisfied subsequent to the issuance of the Refunding Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Resolution and in other instruments relating to the Refunding Bonds to comply with each of such requirements; and the District has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Refunding Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Refunding Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Refunding Bonds.

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

The rights of the owners of the Refunding Bonds and the enforceability of the Refunding 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,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$7,327,431.25
MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2014 General Obligation Refunding Bonds

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the McKinleyville Union School District (the “**District**”) in connection with the execution and delivery of the captioned bonds (the “**Bonds**”). The Refunding Bonds are being executed and delivered pursuant to a resolution adopted by the Board of Trustees of the District on August 13, 2014 (the “**Resolution**”). U.S. Bank National Association, San Francisco, California, is initially acting as paying agent for the Refunding 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 Refunding 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 Refunding Bond 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 (currently March 31) after the end of each fiscal year of the District (currently June 30th).

“*Dissemination Agent*” means, initially, Isom Advisors, A Division of Urban Futures, Inc. or any successor Dissemination Agent designated in writing by the District and which has filed with the District 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 Refunding Bonds.

"Paying Agent" means U.S. Bank National Association, Los Angeles, California, or any successor thereto.

"Participating Underwriter" means the original Underwriter of the Refunding Bonds required to comply with the Rule in connection with offering of the Refunding 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, 2015 with the report for the 2013-14 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 (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in 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 for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) the District's adopted Budget;

(ii) assessed value of taxable property in the jurisdiction of the District as shown on the recent equalized assessment roll;

(iii) changes, if any, in the operation of Humboldt County's Teeter Plan affecting the District;

(iv) changes, if any, in the operation of Humboldt County Investment Pool which would affect the District's access to property taxes used to pay debt service on the Bonds;

(v) property tax collection delinquencies for the District, for the most recently completed Fiscal Year, if the District is no longer a participant in Humboldt County's Teeter Plan; and

(vi) top ten property owners in the jurisdiction of the District for the then current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value, and their percentage of total secured assessed value.

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Refunding 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 Refunding Bonds. If such termination occurs prior to the final maturity of the Refunding 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 Refunding 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 Refunding 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 Refunding Bonds in the manner provided in the Refunding Bond Resolution for amendments to the Refunding Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Refunding 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 Refunding 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 Refunding Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 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 Refunding 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 Refunding 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 Refunding Bonds, and shall create no rights in any other person or entity.

Date: October 2, 2014

**MCKINLEYVILLE UNION SCHOOL
DISTRICT**

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: McKinleyville Union School District (the "District")

Name of Bond Issue: McKinleyville Union School District 2014 General Obligation
Refunding Bonds

Date of Issuance: October 2, 2014

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 October 2, 2014. 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 Refunding Bonds, payment of principal, interest and other payments on the Refunding Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Refunding 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 Refunding Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Refunding Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Refunding 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”). On August 8, 2011, Standard & Poor’s downgraded its rating of DTC to AA+ from AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *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, the Bonds will be redeemed on a pro rata basis.

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 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G
TABLE OF ACCRETED VALUES

[THIS PAGE INTENTIONALLY LEFT BLANK]

McKinleyville Union School District

2014 General Obligation Refunding Bonds

Capital Appreciation Bonds

Table of Redemption Prices

	2035 Serial	2036 Serial	2037 Serial	2038 Serial	2039 Serial	2042 Serial	2043 Serial	2044 Serial	2047 Term
Delivery Date	10/2/2014	10/2/2014	10/2/2014	10/2/2014	10/2/2014	10/2/2014	10/2/2014	10/2/2014	10/2/2014
Final Maturity	8/1/2035	8/1/2036	8/1/2037	8/1/2038	8/1/2039	8/1/2042	8/1/2043	8/1/2044	8/1/2047
Maturity Value	1,640,000	1,800,000	1,980,000	2,165,000	1,550,000	3,550,000	3,825,000	4,115,000	12,000,000
Accretion Rate	5.110%	5.160%	5.220%	5.250%	5.270%	5.380%	5.390%	5.400%	5.500%
Price	34.956%	32.884%	30.836%	29.084%	27.481%	22.820%	21.580%	20.4030%	16.8410%

Date	Per 5,000								
10/2/2014	1,747.80	1,644.20	1,541.80	1,454.20	1,374.05	1,141.00	1,079.00	1,020.15	842.05
2/1/2015	1,777.15	1,672.10	1,568.25	1,479.30	1,397.90	1,161.20	1,098.10	1,038.25	857.30
8/1/2015	1,822.60	1,715.25	1,609.20	1,518.15	1,434.75	1,192.40	1,127.70	1,066.30	880.90
2/1/2016	1,869.15	1,759.50	1,651.20	1,558.00	1,472.55	1,224.50	1,158.10	1,095.10	905.10
8/1/2016	1,916.90	1,804.90	1,694.30	1,598.90	1,511.35	1,257.45	1,189.30	1,124.65	930.00
2/1/2017	1,965.90	1,851.45	1,738.50	1,640.85	1,551.20	1,291.25	1,221.35	1,155.00	955.60
8/1/2017	2,016.10	1,899.25	1,783.90	1,683.95	1,592.05	1,326.00	1,254.30	1,186.20	981.85
2/1/2018	2,067.65	1,948.25	1,830.45	1,728.15	1,634.00	1,361.65	1,288.10	1,218.20	1,008.85
8/1/2018	2,120.45	1,998.50	1,878.25	1,773.50	1,677.05	1,398.30	1,322.80	1,251.10	1,036.60
2/1/2019	2,174.65	2,050.05	1,927.25	1,820.05	1,721.25	1,435.90	1,358.45	1,284.90	1,065.10
8/1/2019	2,230.20	2,102.95	1,977.55	1,867.85	1,766.60	1,474.55	1,395.05	1,319.60	1,094.40
2/1/2020	2,287.20	2,157.20	2,029.15	1,916.85	1,813.15	1,514.20	1,432.65	1,355.20	1,124.50
8/1/2020	2,345.60	2,212.85	2,082.15	1,967.20	1,860.95	1,554.95	1,471.25	1,391.80	1,155.40
2/1/2021	2,405.55	2,269.95	2,136.50	2,018.80	1,909.95	1,596.75	1,510.90	1,429.40	1,187.20
8/1/2021	2,467.00	2,328.50	2,192.25	2,071.80	1,960.30	1,639.70	1,551.65	1,468.00	1,219.85
2/1/2022	2,530.05	2,388.60	2,249.45	2,126.20	2,011.95	1,683.85	1,593.45	1,507.60	1,253.40
8/1/2022	2,594.70	2,450.25	2,308.20	2,182.00	2,064.95	1,729.15	1,636.40	1,548.35	1,287.85
2/1/2023	2,661.00	2,513.45	2,368.40	2,239.30	2,119.40	1,775.65	1,680.50	1,590.15	1,323.30
8/1/2023	2,728.95	2,578.30	2,430.25	2,298.10	2,175.25	1,823.40	1,725.80	1,633.05	1,359.65
2/1/2024	2,798.70	2,644.80	2,493.65	2,358.40	2,232.55	1,872.45	1,772.30	1,677.15	1,397.05
8/1/2024	2,870.20	2,713.05	2,558.75	2,420.30	2,291.40	1,922.85	1,820.05	1,722.45	1,435.50
2/1/2025	2,943.55	2,783.05	2,625.55	2,483.85	2,351.75	1,974.55	1,869.10	1,768.95	1,474.95
8/1/2025	3,018.75	2,854.85	2,694.05	2,549.05	2,413.75	2,027.70	1,919.50	1,816.70	1,515.50
2/1/2026	3,095.90	2,928.50	2,764.40	2,615.95	2,477.35	2,082.20	1,971.25	1,865.75	1,557.20
8/1/2026	3,175.00	3,004.05	2,836.55	2,684.65	2,542.60	2,138.25	2,024.35	1,916.15	1,600.00
2/1/2027	3,256.10	3,081.60	2,910.60	2,755.10	2,609.60	2,195.75	2,078.90	1,967.90	1,644.00
8/1/2027	3,339.30	3,161.10	2,986.55	2,827.45	2,678.40	2,254.80	2,134.95	2,021.00	1,689.25
2/1/2028	3,424.60	3,242.65	3,064.50	2,901.65	2,748.95	2,315.50	2,192.50	2,075.60	1,735.70
8/1/2028	3,512.10	3,326.30	3,144.50	2,977.85	2,821.40	2,377.75	2,251.55	2,131.60	1,783.40
2/1/2029	3,601.85	3,412.10	3,226.55	3,056.00	2,895.75	2,441.75	2,312.25	2,189.20	1,832.45
8/1/2029	3,693.90	3,500.15	3,310.75	3,136.20	2,972.05	2,507.40	2,374.55	2,248.30	1,882.85
2/1/2030	3,788.25	3,590.45	3,397.20	3,218.55	3,050.35	2,574.85	2,438.55	2,309.00	1,934.65
8/1/2030	3,885.05	3,683.10	3,485.85	3,303.05	3,130.75	2,644.15	2,504.30	2,371.35	1,987.85
2/1/2031	3,984.35	3,778.10	3,576.85	3,389.75	3,213.25	2,715.25	2,571.75	2,435.35	2,042.50
8/1/2031	4,086.15	3,875.60	3,670.20	3,478.75	3,297.90	2,788.30	2,641.10	2,501.10	2,098.70
2/1/2032	4,190.55	3,975.60	3,766.00	3,570.05	3,384.80	2,863.30	2,712.25	2,568.65	2,156.40
8/1/2032	4,297.60	4,078.15	3,864.30	3,663.75	3,474.00	2,940.35	2,785.35	2,638.00	2,215.70
2/1/2033	4,407.40	4,183.40	3,965.15	3,759.95	3,565.55	3,019.45	2,860.40	2,709.25	2,276.65
8/1/2033	4,520.00	4,291.30	4,068.65	3,858.65	3,659.50	3,100.65	2,937.50	2,782.40	2,339.25
2/1/2034	4,635.50	4,402.05	4,174.85	3,959.95	3,755.90	3,184.10	3,016.70	2,857.50	2,403.55
8/1/2034	4,753.95	4,515.60	4,283.80	4,063.90	3,854.90	3,269.75	3,098.00	2,934.65	2,469.65
2/1/2035	4,875.40	4,632.10	4,395.60	4,170.55	3,956.45	3,357.70	3,181.45	3,013.90	2,537.60
8/1/2035	5,000.00	4,751.60	4,510.35	4,280.05	4,060.70	3,448.00	3,267.20	3,095.25	2,607.35
2/1/2036	4,874.20	4,628.05	4,392.40	4,167.70	3,540.75	3,355.25	3,178.85	2,679.05	
8/1/2036	5,000.00	4,748.85	4,507.70	4,277.55	3,636.00	3,445.70	3,264.65	2,752.75	
2/1/2037		4,872.80	4,626.00	4,390.25	3,733.85	3,538.55	3,352.80	2,828.45	
8/1/2037		5,000.00	4,747.45	4,505.95	3,834.25	3,633.90	3,443.35	2,906.25	
2/1/2038			4,872.10	4,624.65	3,937.40	3,731.85	3,536.30	2,986.15	
8/1/2038			5,000.00	4,746.55	4,043.35	3,832.40	3,631.80	3,068.25	
2/1/2039				4,871.60	4,152.10	3,935.70	3,729.85	3,152.65	
8/1/2039				5,000.00	4,263.80	4,041.80	3,830.55	3,239.35	
2/1/2040					4,378.50	4,150.70	3,934.00	3,328.45	
8/1/2040					4,496.30	4,262.55	4,040.20	3,419.95	
2/1/2041					4,617.25	4,377.45	4,149.30	3,514.00	
8/1/2041					4,741.45	4,495.40	4,261.35	3,610.65	
2/1/2042					4,869.00	4,616.55	4,376.40	3,709.95	
8/1/2042					5,000.00	4,741.00	4,494.55	3,811.95	
2/1/2043						4,868.75	4,615.90	3,916.80	
8/1/2043						5,000.00	4,740.55	4,024.50	
2/1/2044							4,868.50	4,135.20	
8/1/2044							5,000.00	4,248.90	
2/1/2045								4,365.75	
8/1/2045								4,485.80	
2/1/2046								4,609.15	
8/1/2046								4,735.90	
2/1/2047								4,866.15	
8/1/2047								5,000.00	

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

[THIS PAGE INTENTIONALLY LEFT BLANK]