

**NEW ISSUE -- FULL BOOK-ENTRY  
BANK QUALIFIED**

**RATING: S&P: "AA-"  
See "RATING" herein.**

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 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. The Refunding Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.*

**\$5,511,591.75  
CHATOM UNION SCHOOL DISTRICT  
(Stanislaus County, California)  
2019 Refunding General Obligation Bonds**

**Dated: Date of Delivery**

**Due: August 1, as shown on inside cover**

**Issuance.** The above-captioned bonds (the "Refunding Bonds") are being issued by the Chatom 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 January 8, 2019 (the "Bond Resolution"). The Refunding Bonds are being issued to refund certain maturities of the outstanding general obligation bonds of the District, and to pay costs of issuance. See "THE REFUNDING BONDS – Authority for Issuance" and "THE REFINANCING PLAN."

**Security.** The Refunding Bonds are general obligation bonds of the District payable solely from *ad valorem* taxes levied and collected in the District. The Board of Supervisors of Stanislaus County (the "County") has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the District without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Refunding Bonds. The District has other series of general obligation bonds outstanding that are similarly secured by *ad valorem* tax levies. See "SECURITY FOR THE REFUNDING BONDS."

**Redemption.** The Refunding Bonds are subject to redemption prior to maturity under certain circumstances, as described herein. See "THE REFUNDING BONDS – Redemption."

**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 ("DTC"). Purchasers will not receive physical certificates representing their interests in the Refunding Bonds. See "THE REFUNDING BONDS - Book-Entry-Only System."

**Payments.** The Refunding Bonds are dated the date of delivery and are being issued as Current Interest Bonds and Capital Appreciation Bonds (each as defined herein). The Current Interest Bonds accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity or earlier redemption, commencing August 1, 2019. The Capital Appreciation Bonds accrete interest at the accretion rates set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing on August 1, 2019 until payment of the accreted value thereof at maturity or upon earlier redemption. Payments of principal and accreted value of and interest on the Refunding Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as the designated paying agent, registrar and transfer agent for the Refunding Bonds (the "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."

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**MATURITY SCHEDULE**

(see inside front cover)

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This cover page contains information for general reference only. It is not a summary of all the provisions of the Refunding Bonds. Investors must read the entire official statement to obtain information essential in 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. Kutak Rock LLP, Irvine, California is serving as Underwriter's Counsel. It is anticipated that the Refunding Bonds, in book-entry form, will be available for delivery through the facilities of DTC, on or about March 6, 2019.*

**RAYMOND JAMES**

The date of this Official Statement is February 20, 2019.

## MATURITY SCHEDULE

### CHATOM UNION SCHOOL DISTRICT (Stanislaus County, California) 2019 Refunding General Obligation Bonds

**Base CUSIP<sup>†</sup>: 162304**

**\$3,280,000.00 Current Interest Bonds**

<b>Maturity Date (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP<sup>†</sup> No.</b>
2020	\$40,000.00	4.000%	1.500%	103.456	CP2
2021	175,000.00	4.000	1.510	105.852	CQ0
2026	250,000.00	5.000	1.860	121.619	CV9
2027	265,000.00	5.000	1.970	123.357	CW7
2028	295,000.00	5.000	2.100	122.230 <sup>c</sup>	CX5
2033	480,000.00	3.000	3.100	98.843	DB2
2035	235,000.00	3.125	3.270	98.168	DC0
2036	575,000.00	3.125	3.350	97.048	DF3
2038	640,000.00	3.250	3.500	96.498	DH9
2039	325,000.00	3.375	3.550	97.472	DJ5

**\$2,231,591.75 Denominational Amount  
(\$3,315,000 Maturity Value)  
Capital Appreciation Bonds**

<b>Maturity Date (August 1)</b>	<b>Denominational Amount</b>	<b>Accretion Rate</b>	<b>Yield to Maturity</b>	<b>Maturity Value</b>	<b>CUSIP<sup>(†)</sup></b>
2022	\$187,346.00	1.930%	1.930%	\$200,000.00	CR8
2023	192,215.10	2.020	2.020	210,000.00	CS6
2024	196,413.80	2.110	2.110	220,000.00	CT4
2025	203,890.70	2.230	2.230	235,000.00	CU1
2029	233,795.20	3.040	3.040	320,000.00	CY3
2030	235,409.20	3.250	3.250	340,000.00	CZ0
2031	225,719.70	3.450	3.450	345,000.00	DA4
2034	292,078.80	3.780	3.780	520,000.00	DD8
2035	163,434.25	3.840	3.840	305,000.00	DE6
2037	301,289.00	3.960	3.960	620,000.00	DG1

<sup>c</sup> Priced to par call on the first optional redemption date of August 1, 2027.

<sup>†</sup> CUSIP<sup>®</sup> is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

## 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 Refunding 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.

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

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

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

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

**No Securities Laws Registration.** The Refunding Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The 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.

**Stabilization of Market Price.** In connection with the offering of the Refunding Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of such Refunding Bonds at levels above those that might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

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

**CHATOM UNION SCHOOL DISTRICT  
COUNTY OF STANISLAUS  
STATE OF CALIFORNIA**

**BOARD OF TRUSTEES**

Anthony Avila, *President*  
Steve Soderstrom, *Clerk*  
Ryan Blount, *Member*  
Karen Macedo, *Member*  
Dr. Robert Santos, *Member*

**DISTRICT ADMINISTRATION**

Cherise Olvera, *Superintendent*  
Kelly Machado, *Business Manager*

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**PROFESSIONAL SERVICES**

**BOND AND DISCLOSURE COUNSEL**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

**FINANCIAL ADVISOR**

PFM Financial Advisors LLC  
*San Francisco, California*

**PAYING AGENT, TRANSFER AGENT, ESCROW AGENT  
AND BOND REGISTRAR**

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

**ESCROW VERIFICATION**

Causey Demgen & Moore P.C.  
*Denver, Colorado*

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## OFFICIAL STATEMENT

**\$5,511,591.75**

### **CHATOM UNION SCHOOL DISTRICT**

(Stanislaus County, California)

### **2019 Refunding General Obligation Bonds**

This Official Statement, which includes the cover page, inside cover page and appendices hereto, provides information in connection with the sale and delivery by the Chatom Union School District (the “**District**”) of the above-captioned bonds (the “**Refunding Bonds**”).

## INTRODUCTION

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

**The District.** The District is an elementary school district located in a small rural community west of Turlock (the “**City**”) in Stanislaus County (the “**County**”). The District currently operates one preschool, one elementary school, and one middle school. Enrollment in the District is approximately 596 for the 2018-19 school year and the District’s total assessed value in fiscal year 2018-19 is \$1,169,370,878.

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

**Purpose.** The Refunding Bonds are being issued by the District to refinance certain outstanding maturities of the District’s General Obligation Bonds, Election of 2006, Series 2006A (the “**2006A Bonds**”) and the District’s General Obligation Bonds, Election of 2006, Series 2007C (the “**2007C Bonds**”), and to pay costs of issuance. See “THE REFINANCING PLAN.”

**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 January 8, 2019 (the “**Bond Resolution**”). See “THE REFUNDING BONDS - Authority for Issuance.”

**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 within the District 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 in the District, without limitation as to 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 other series of general obligation bonds that are payable from *ad valorem* taxes levied on taxable property in the District. For the remaining debt service of the District's outstanding general obligation bonds, see "DEBT SERVICE SCHEDULES – Combined General Obligation Debt Service." See also APPENDIX A – "GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT- DISTRICT FINANCIAL INFORMATION - Long-Term Indebtedness."

**Payment and Registration of the Refunding Bonds.** The Refunding Bonds are being issued as current interest bonds (the "**Current Interest Bonds**") and capital appreciation bonds (the "**Capital Appreciation Bonds**"). The Refunding Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Refunding Bonds will be dated their date of original issuance and delivery (the "**Dated Date**") and will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 or any integral multiple of \$5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Beneficial Owners will not be entitled to receive physical delivery of the Refunding Bonds. See "THE REFUNDING BONDS" and APPENDIX F.

Interest on the Current Interest Bonds accrues from the Dated Date and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2019. Interest on the Capital Appreciation Bonds accretes interest from the Dated Date and is compounded semiannually on February 1 and August 1, commencing on August 1, 2019 until payment of the accreted value thereof at maturity. See "THE REFUNDING BONDS - Description of the Refunding Bonds."

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

**Legal Matters.** Issuance of the Refunding Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California ("**Bond Counsel**"), to be delivered in substantially the form attached hereto as APPENDIX D. Jones Hall, A Professional Law Corporation, San Francisco, California, is also serving as Disclosure Counsel to the District ("**Disclosure Counsel**"). Kutak Rock LLP, Irvine, California, is serving as counsel to the Underwriter ("**Underwriter's Counsel**"). *Payment of the fees of Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent upon issuance of the Refunding Bonds.*

**Tax Matters; Bank Qualified.** 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 Refunding Bonds will be exempt from State of California (the "**State**") personal income taxes. 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” and APPENDIX D hereto for the form of Bond Counsel’s opinion to be delivered concurrently with the Refunding Bonds.

***Continuing Disclosure.*** The District has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, dated the date of the Refunding Bonds and executed by the District (the “**Continuing Disclosure Certificate**”). The form of the Continuing Disclosure Certificate is included in APPENDIX E hereto. See “CONTINUING DISCLOSURE.”

***Other Information.*** This Official Statement speaks only as of its date, and the information contained herein is subject to change.

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

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

*END OF INTRODUCTION*

## THE REFINANCING PLAN

As described herein, the proceeds of the Refunding Bonds will be used to refund certain maturities of the District's outstanding 2006A Bonds and 2007C Bonds, and to pay related costs of issuance.

### The Refunded Bonds

**The 2006A Bonds.** The 2006A Bonds were authorized at an election of the registered voters of the District held on November 7, 2006, which authorized the issuance of \$5,000,000 of general obligation bonds (the “**2006 Authorization**”) to finance the addition and modernization of school facilities for the District. The 2006A Bonds were issued as current interest and capital appreciation bonds in the aggregate principal amount of \$2,899,994.90. The 2006A Bonds issued as current interest bonds are subject to optional redemption on or after August 1, 2016, at a redemption price of 100% of the principal amount being redeemed, plus any accrued interest, without premium. The 2006A Bonds issued as capital appreciation bonds are not subject to optional redemption.

The Refunding Bonds are being issued by the District, in part, to refund certain maturities of the 2006A Bonds, as more particularly identified in the following table (the “**2006A Refunded Bonds**”).

#### CHATOM UNION SCHOOL DISTRICT Identification of 2006A Refunded Bonds

Maturities Payable from Escrow (August 1)	CUSIP <sup>†</sup>	Outstanding Principal Amount	Redemption Date	Redemption Price
2026 T	162304AU3	\$1,040,000	March 8, 2019	100%
2031 T	162304AZ2	1,370,000	March 8, 2019	100%
Total	--	\$2,410,000	--	--

<sup>†</sup> Term Bond.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

**The 2007C Bonds.** The 2007C Bonds were issued pursuant to the 2006 Authorization, and net proceeds were used to finance the projects approved by voters. The 2007C Bonds were issued as capital appreciation bonds in the aggregate principal amount of \$1,699,997.45. The 2007C Bonds maturing on or after August 1, 2035 are subject to optional redemption on or after August 1, 2017, at a redemption price of 100% of the principal amount being redeemed, plus any accreted interest, without premium.

The Refunding Bonds are also being issued by the District, in part, to refund certain maturities of the 2007C Bonds, as more particularly identified in the following table (the “**2007C Refunded Bonds**” and, together with the 2006A Refunded Bonds, the “**Bonds**”).

**CHATOM UNION SCHOOL DISTRICT**  
**Identification of 2007C Refunded Bonds**

<b>Maturities Payable from Escrow (August 1)</b>	<b>CUSIP<sup>†</sup></b>	<b>Denominational Amount</b>	<b>Maturity Value</b>	<b>Value at Redemption</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
2035 T	162304CA5	\$420,170.50	\$1,650,000	\$734,167.50	March 8, 2019	100%
2037 T	162304CC1	271,803.45	1,185,000	475,967.10	March 8, 2019	100
2047 T	162304CN7	976,563.00	9,450,000	1,863,351.00	March 8, 2019	100
Total	--	\$1,668,538.95	\$12,285,000	\$3,073,485.60	--	--

*T Term Bond.*

*† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.*

### **Deposits in Escrow Fund**

The District will deliver the net proceeds of the Refunding Bonds to The Bank of New York Mellon Trust Company, N.A., as escrow bank (the “**Escrow Agent**”), for deposit in an escrow fund (the “**Escrow Fund**”) established under an Escrow Agreement (the “**Escrow Agreement**”), between the District and the Escrow Agent. The Escrow Agent will invest such funds in certain federal securities (“**Escrow Fund Securities**”) and/or hold funds in cash, and will apply such funds, together with interest earnings (if any) on the investment of such funds in Escrow Fund Securities, to pay the principal of and interest on the Refunded Bonds, including the redemption price of the Refunded Bonds, as set forth above, together with accrued interest to the redemption date identified above.

Sufficiency of the deposits in the Escrow Fund for the foregoing purposes will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the “**Verification Agent**”). See “**VERIFICATION OF MATHEMATICAL ACCURACY**” herein. As a result of the deposit of funds with the Escrow Agent on the date of issuance of the Refunding Bonds, the Refunded Bonds will be legally defeased and will be payable solely from amounts held for that purpose under the Escrow Agreement, and will cease to be secured by *ad valorem* property taxes levied in the District.

*The Escrow Fund Securities, if any, and cash held by the Escrow Agent in the Escrow Fund are pledged solely to the payment of the Refunded Bonds, and will not be available for the payment of debt service with respect to the Refunding Bonds.*

## 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

***Form of Bonds.*** The Refunding Bonds are being issued as Current Interest Bonds and Capital Appreciation Bonds, each as described below. The Refunding Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. 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 for DTC. Purchasers will not receive physical certificates representing their interest in the Refunding Bonds. See “– Book-Entry Only System” below and APPENDIX F.

#### **Current Interest Bonds**

The Current Interest Bonds shall be issued in the denominations of \$5,000 principal amount each or any integral multiple thereof. Interest on the Current Interest Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2019 (each, an “**Interest Payment Date**”). Each Current Interest Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15<sup>th</sup>) day of the month preceding the Interest Payment Date (each, a “**Record Date**”), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to July 15, 2019, in which event it will bear interest from the date of delivery of the Refunding Bonds identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Current Interest Bond is in default at the time of authentication thereof, such Current Interest Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Current Interest Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Current Interest Bonds.

#### **Capital Appreciation Bonds**

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

**“Accreted Value”** means, with respect to any Capital Appreciation Bond, the total amount of principal thereof and interest payable thereon as of any Compounding Date determined solely by reference to the Table of Accreted Values set forth on such Capital Appreciation Bond, which is attached to this Official Statement as APPENDIX G. The Accreted Value of any Capital Appreciation Bond as of any date other than a Compounding Date will be the sum of (a) the Accreted Value as of the Compounding Date immediately preceding the date as of which the calculation is being made plus (b) interest on the Accreted Value determined under the preceding clause (a), computed to the date as of which the calculation is being made at the Accretion Rate set forth on such Capital Appreciation Bond (computed on the basis of a 360-day year of twelve 30-day months).

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

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

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

**“Compounding Date”** means, with respect to any Capital Appreciation Bond, each February 1 and August 1, commencing August 1, 2019, to and including the date of maturity or redemption of such Capital Appreciation Bond.

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

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

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

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

Interest on the Capital Appreciation Bonds is compounded on February 1 and August 1 of each year, commencing August 1, 2019. Each Capital Appreciation Bond accretes in value daily over the term to its maturity, from its Denominational Amount on the Closing Date to its Accreted Value on its maturity date. The Accreted Value payable on any date shall be determined solely by reference to the Table of Accreted Values attached to such Capital Appreciation Bond. See APPENDIX G for the table of accreted values.

The interest portion of the Accreted Value of any Capital Appreciation Bond that is payable on the date of maturity shall represent interest accreted and coming due on such date. The Accreted Value of any Capital Appreciation Bond at maturity shall be payable by check or draft

mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Bond at the Office of the Paying Agent. See APPENDIX F.

## **Paying Agent**

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

The Paying Agent, the District, the County and the Underwriter of the 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.

## **Redemption**

### **Optional Redemption**

The Bonds maturing on or before August 1, 2027 are not subject to redemption prior to maturity. The Bonds maturing on or after August 1, 2028 are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on August 1, 2027, or on any date thereafter, at a price equal to 100% of the principal amount or Accreted Value thereof, as applicable, without premium, together with accrued interest thereon to the redemption date.

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

## **Partial Redemption of Refunding Bonds**

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

## **Selection of Refunding Bonds for Redemption**

Whenever less than all of the outstanding maturities of the Refunding Bonds is designated for redemption, the Paying Agent shall select the maturities to be redeemed as directed by the District. Whenever less than all of the outstanding Refunding Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Refunding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Refunding Bond will be deemed to consist of individual bonds of \$5,000 denominations each which may be separately redeemed.

## **Notice of Redemption**

The Paying Agent will cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Refunding Bonds designated for redemption, at their addresses appearing on the records maintained by the Paying Agent for the registration of ownership and registration of transfer of the Refunding Bonds (the **"Registration Books"**). Such mailing is not a condition precedent to such redemption and the failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Refunding Bonds. In addition, the Paying Agent will give notice of redemption by telecopy or certified, registered or overnight mail to the Municipal Securities Rulemaking Board and each of the Securities Depositories at least two days prior to such mailing to the Refunding Bond Owners.

Such notice may be conditional and shall state the redemption date and the redemption price and, if less than all of the then outstanding Refunding Bonds are to be called for redemption, shall designate the serial numbers of the Refunding Bonds to be redeemed by giving the individual number of each Refunding Bond or by stating that all Refunding Bonds between two stated numbers, both inclusive, or by stating that all of the Refunding Bonds of one or more maturities have been called for redemption, and shall require that such Refunding Bonds be then surrendered at the Office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Refunding Bonds will not accrue from and after the redemption date.

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, the Refunding Bonds called for redemption will cease to be entitled to any benefit under the Bond Resolution other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in the 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 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 under the Bond Resolution.

## 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 (or the Maturity Value or Accreted Value thereof, in the case of Capital Appreciation 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 Refunding 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 County and the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the 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 is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice.

Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount (as described above) to pay or redeem any outstanding 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.

As used in the foregoing defeasance provision, the term “**Federal Securities**” means United States Treasury notes, bonds, bills or certificates of indebtedness, or obligations issued by any agency or department of the United States which are secured, directly or indirectly, by the full faith and credit of the United States.

### **Book-Entry Only System**

The Refunding Bonds will be registered initially in the name of “Cede & Co.,” as nominee of The Depository Trust Company, New York, New York (“**DTC**”), which has been appointed as securities depository for the Refunding Bonds, and registered ownership may not be transferred thereafter except as provided in the Bond Resolution. Purchasers will not receive certificates representing their interests in the Refunding Bonds. Principal of the Refunding Bonds will be paid by the Paying Agent to DTC, which in turn is obligated to remit such principal to its participants for subsequent disbursement to beneficial owners of the Refunding Bonds as described herein. See APPENDIX F for additional information about DTC’s book-entry only system.

### **Registration, Transfer and Exchange of Bonds**

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

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

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

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

## DEBT SERVICE SCHEDULES

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

### CHATOM UNION SCHOOL DISTRICT Annual Debt Service Schedule 2019 Refunding General Obligation Bonds

Date (August 1)	Current Interest Bonds		Capital Appreciation Bonds		Total
	Principal	Interest	Denominational Amount	Accreted Interest	
2019	-	\$48,567.45	-	-	\$48,567.45
2020	\$40,000.00	120,581.26	-	-	160,581.26
2021	175,000.00	118,981.26	-	-	293,981.26
2022	-	111,981.26	\$187,346.00	\$12,654.00	311,981.26
2023	-	111,981.26	192,215.10	17,784.90	321,981.26
2024	-	111,981.26	196,413.80	23,586.20	331,981.26
2025	-	111,981.26	203,890.70	31,109.30	346,981.26
2026	250,000.00	111,981.26	-	-	361,981.26
2027	265,000.00	99,481.26	-	-	364,481.26
2028	295,000.00	86,231.26	-	-	381,231.26
2029	-	71,481.26	233,795.20	86,204.80	391,481.26
2030	-	71,481.26	235,409.20	104,590.80	411,481.26
2031	-	71,481.26	225,719.70	119,280.30	416,481.26
2032	-	71,481.26	-	-	71,481.26
2033	480,000.00	71,481.26	-	-	551,481.26
2034	-	57,081.26	292,078.80	227,921.20	577,081.26
2035	235,000.00	57,081.26	163,434.25	141,565.75	597,081.26
2036	575,000.00	49,737.52	-	-	624,737.52
2037	-	31,768.76	301,289.00	318,711.00	651,768.76
2038	640,000.00	31,768.76	-	-	671,768.76
2039	325,000.00	10,968.76	-	-	335,968.76
Total	\$3,280,000.00	\$1,629,561.41	\$2,231,591.75	\$1,083,408.25	\$8,224,561.41

**Combined General Obligation Debt Service.** The following table shows the combined annual debt service schedule with respect to outstanding general obligation bonds of the District following the issuance of the Refunding Bonds and redemption of the Refunded Bonds, assuming no optional redemptions. See also APPENDIX A under the heading “DISTRICT FINANCIAL INFORMATION – Long-Term Indebtedness.”

**CHATOM UNION SCHOOL DISTRICT  
Combined Annual Debt Service Schedule  
All Outstanding General Obligation Bonds**

<b>Period Ending (Aug.1)</b>	<b>2006A Bonds</b>	<b>2007B Bonds</b>	<b>2007C Bonds</b>	<b>Refunding Bonds</b>	<b>Total Outstanding Bonds</b>
2019	\$120,000.00	\$40,000.00	--	\$48,567.45	\$208,567.45
2020	125,000.00	45,000.00	--	160,581.26	330,581.26
2021	--	50,000.00	--	293,981.26	343,981.26
2022	--	50,000.00	--	311,981.26	361,981.26
2023	--	50,000.00	--	321,981.26	371,981.26
2024	--	55,000.00	--	331,981.26	386,981.26
2025	--	60,000.00	--	346,981.26	406,981.26
2026	--	60,000.00	--	361,981.26	421,981.26
2027	--	70,307.60	--	364,481.26	434,788.86
2028	--	73,866.98	--	381,231.26	455,098.24
2029	--	81,918.02	--	391,481.26	473,399.28
2030	--	81,535.44	--	411,481.26	493,016.70
2031	--	95,181.37	--	416,481.26	511,662.63
2032	--	40,000.00	\$425,000.00	71,481.26	536,481.26
2033	--	--	--	551,481.26	551,481.26
2034	--	--	--	577,081.26	577,081.26
2035	--	--	--	597,081.26	597,081.26
2036	--	--	--	624,737.52	624,737.52
2037	--	--	--	651,768.76	651,768.76
2038	--	--	--	671,768.76	671,768.76
2039	--	--	--	335,968.76	335,968.76
<b>Totals</b>	<b>\$245,000.00</b>	<b>\$852,809.41</b>	<b>\$425,000.00</b>	<b>\$8,224,561.41</b>	<b>\$9,747,370.82</b>

## 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	\$5,511,591.75
Net Original Issue Premium	135,683.85
<b>Total Sources</b>	<b>\$5,647,275.60</b>

### **Uses of Funds**

Escrow Fund	\$5,493,844.99
Costs of Issuance <sup>(1)</sup>	153,430.61
<b>Total Uses</b>	<b>\$5,647,275.60</b>

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

## SECURITY FOR THE REFUNDING BONDS

### **Ad Valorem Taxes**

**Refunding 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 within the District 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). In no event is the District obligated to pay principal of and interest and redemption premium, if any, on the Refunding Bonds out of any funds or properties of the District other than *ad valorem* taxes levied upon all taxable property in the District; provided, however, nothing in the Bond Resolution prevents the District from making advances of its own moneys howsoever derived to any of the uses or purposes permitted by law.

**Other Bonds Payable from Ad Valorem Property Taxes.** The District has previously issued other general obligation bonds, which are 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 – 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, and which is irrevocably pledged for the payment of principal of and, in the case of Capital Appreciation Bonds, accreted value 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. See "PROPERTY TAXATION -Teeter Plan" below.

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

**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 property values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire, drought or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

### **Debt Service Fund**

The County will establish 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 Stanislaus County. All taxes levied by the County for the payment of the principal of and, in the case of Capital Appreciation Bonds, accreted value of, interest and premium (if any) on the Refunding Bonds will be transferred to and deposited in the Debt Service Fund promptly upon receipt. The Debt Service Fund is pledged for the payment of the principal of and, in the case of Capital Appreciation Bonds, accreted value of, 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, in the case of Capital Appreciation Bonds, accreted value of, interest and premium (if any) on the Refunding Bonds as the same become 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 other debt service funds of the District with respect to outstanding general obligation bonds of the District, if any, and if none, then 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.

## PROPERTY TAXATION

### Property Tax Collection Procedures

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the applicable 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, Senate Bill 813 (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, Senate Bill 813 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 County based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

## Assessed Valuations

**Assessed Valuation History.** The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the “full value” of the property, as defined in Article XIII A of the California Constitution. The full value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area, or to reflect declines in property value caused by substantial damage, destruction or other factors, including assessment appeals filed by property owners. For a discussion of how properties currently are assessed, see APPENDIX A under the heading “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.”

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

The following table sets forth a recent history of the assessed value in the Improvement District.

### CHATOM UNION SCHOOL DISTRICT Assessed Valuations Fiscal Years 2009-10 through 2018-19

Fiscal Year	Local Secured	Utility	Unsecured	Total	% Change
2009-10	546,942,152	401,133	41,321,238	588,664,523	--%
2010-11	566,673,952	401,133	48,039,998	615,115,083	4.5
2011-12	563,866,857	401,133	46,823,167	611,091,157	(0.7)
2012-13	597,075,588	450,198	49,326,821	646,852,607	5.9
2013-14	629,862,304	450,198	52,348,058	682,660,560	5.5
2014-15	717,877,965	450,198	52,378,149	770,706,312	12.9
2015-16	772,298,566	450,198	52,690,915	825,439,679	7.1
2016-17	866,449,144	497,290	134,356,334	1,001,302,768	21.3
2017-18	909,409,415	497,290	146,508,138	1,056,414,843	5.5
2018-19	966,244,828	497,290	202,628,760	1,169,370,878	9.7

Source: California Municipal Statistics, Inc.



**Factors Relating to Increases/Decreases in Assessed Value.** As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases in assessed valuation result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, and natural disasters such as earthquakes, fires, floods and droughts.

In addition, wildfires have occurred in recent years in different regions of the State, and related flooding and mudslides have also occurred. Although the recent natural disasters do not include territory within the District's boundaries, the District cannot predict or make any representations regarding the effects that wildfires, flooding, mudslides or any other natural disasters and related conditions have or may have on the value of taxable property within the District, or to what extent the effects said disasters might have had on economic activity in the District or throughout the State.

**Assessed Valuation By Jurisdiction.** The following table sets forth assessed valuation in the District by jurisdiction.

**CHATOM UNION SCHOOL DISTRICT  
2018-19 Assessed Valuation by Jurisdiction**

<b>Jurisdiction:</b>	<b>Assessed Valuation in School District</b>	<b>% of School District</b>	<b>Assessed Valuation of Jurisdiction</b>	<b>% of Jurisdiction in School District</b>
City of Modesto	\$ 20,500	0.00%	\$16,509,788,235	0.00%
City of Turlock	514,909,567	44.03	\$6,753,442,857	7.62%
Unincorporated Stanislaus County	<u>654,440,811</u>	<u>55.97</u>	\$15,336,518,006	4.27%
Total District	\$1,169,370,878	100.00%		
Stanislaus County	\$1,169,370,878	100.00%	\$49,523,600,525	2.36%

**Parcels by Land Use.** The following table shows a breakdown of local secured property assessed value and parcels within the District by land use for fiscal year 2018-19.

**CHATOM UNION SCHOOL DISTRICT  
Local Secured Property Assessed Valuation and Parcels by Land Use  
Fiscal Year 2018-19**

<b>Non-Residential:</b>	<b>2018-19 Assessed Valuation <sup>(1)</sup></b>	<b>% of Total</b>	<b>No. of Parcels</b>	<b>% of Total</b>
Agricultural	\$520,890,053	53.91%	1,153	67.98%
Commercial	5,316,160	0.55	13	0.77
Industrial/Food Processing	349,564,213	36.18	29	1.71
Vacant Industrial	3,988,164	0.41	23	1.36
Government/Social/Institutional	<u>0</u>	<u>0.00</u>	<u>29</u>	<u>1.71</u>
Subtotal Non-Residential	\$879,758,590	91.05%	1,247	73.53%
<b>Residential:</b>				
Single Family Residence	\$83,041,823	8.59%	349	20.58%
Mobile Home	<u>3,444,415</u>	<u>0.36</u>	<u>100</u>	<u>5.90</u>
Subtotal Residential	\$86,486,238	8.95%	449	26.47%
Total	\$966,244,828	100.00%	1,696	100.00%

(1) Local secured assessed valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc. **Per Parcel Assessed Valuation of Single-Family Homes.** The table below shows the per parcel assessed valuation of single-family homes in the District for fiscal year 2018-19, including the median and average assessed value per parcel.

**CHATOM UNION SCHOOL DISTRICT**  
**Per Parcel Assessed Valuation of Single-Family Homes**  
**Fiscal Year 2018-19**

Single Family Residential	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
	349	\$83,041,823	\$237,942	\$210,434

  

2018-19 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	8	2.292%	2.292%	\$ 128,106	0.154%	0.154%
\$25,000 - \$49,999	19	5.444	7.736	761,863	0.917	1.072
\$50,000 - \$74,999	14	4.011	11.748	875,240	1.054	2.126
\$75,000 - \$99,999	21	6.017	17.765	1,860,402	2.240	4.366
\$100,000 - \$124,999	27	7.736	25.501	2,988,965	3.599	7.965
\$125,000 - \$149,999	24	6.877	32.378	3,250,273	3.914	11.879
\$150,000 - \$174,999	21	6.017	38.395	3,469,409	4.178	16.057
\$175,000 - \$199,999	30	8.596	46.991	5,643,003	6.795	22.853
\$200,000 - \$224,999	29	8.309	55.301	6,178,975	7.441	30.293
\$225,000 - \$249,999	18	5.158	60.458	4,318,105	5.200	35.493
\$250,000 - \$274,999	19	5.444	65.903	4,975,995	5.992	41.486
\$275,000 - \$299,999	19	5.444	71.347	5,471,363	6.589	48.074
\$300,000 - \$324,999	10	2.865	74.212	3,162,976	3.809	51.883
\$325,000 - \$349,999	14	4.011	78.223	4,753,349	5.724	57.607
\$350,000 - \$374,999	19	5.444	83.668	6,835,150	8.231	65.838
\$375,000 - \$399,999	9	2.579	86.246	3,471,680	4.181	70.019
\$400,000 - \$424,999	13	3.725	89.971	5,343,183	6.434	76.453
\$425,000 - \$449,999	6	1.719	91.691	2,607,558	3.140	79.593
\$450,000 - \$474,999	5	1.433	93.123	2,309,640	2.781	82.374
\$475,000 - \$499,999	2	0.573	93.696	957,470	1.153	83.527
\$500,000 and greater	22	6.304	100.000	13,679,118	16.473	100.000
Total	349	100.000%		\$83,041,823	100.000%	

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

### Reassessments and Appeals of Assessed Value

There are general means by which assessed values can be reassessed or appealed 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 A.

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.

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, adjusted for inflation, 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.

Proposition 8 reductions may also be unilaterally applied by the County Assessor. The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers or by reductions initiated by the County Assessor. 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 Levies and Delinquencies

The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “**Teeter Plan**”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each entity levying property taxes in the County will receive by the end of the fiscal year 100% of the property tax levied, in the same manner as if the amount credited had been collected. The County assumes the responsibility for pursuing late and delinquent taxes and is therefore entitled to any penalties and interest collected. The District participates in the County’s Teeter Plan, and thus receives 100% of secured property taxes levied, in exchange for foregoing any interest and penalties collected on delinquent taxes to the County. The County’s Teeter Plan currently covers the secured roll with respect to the one percent general fund apportionment levy, other *ad valorem* taxes, such as those levied to repay the Refunding Bonds and special taxes. The plan does not include special assessments.

So long as the Teeter Plan remains in effect, the District’s receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors can under certain circumstances terminate the Teeter Plan in part or in its entirety with respect to the entire County and, in addition, the Board of Supervisors can terminate the Teeter Plan with respect to the District if the delinquency rate for all *ad valorem* property taxes levied within the District in any year exceeds 3%. In the event that the Teeter Plan were terminated, the amount of the levy of *ad valorem* property taxes in the District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

## Largest Property Owners

The 20 taxpayers in the District with the greatest combined assessed valuation of taxable property on the fiscal year 2018-19 tax roll, and the assessed valuations thereof, are shown below.

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

### CHATOM UNION SCHOOL DISTRICT Top 20 Secured Property Taxpayers Fiscal Year 2018-19

	<b>Property Owner</b>	<b>2018-19 Primary Land Use</b>	<b>% of Assessed Valuation</b>	<b>Total <sup>(1)</sup></b>
1.	Blue Diamond Growers	Food Processing	\$ 85,464,952	8.85%
2.	United States Cold Storage of California	Food Processing	62,005,890	6.42
3.	San Joaquin Valley Dairymen Association	Food Processing	49,075,864	5.08
4.	HCC Properties Ltd.	Food Processing	49,029,897	5.07
5.	Valley Milk Real Estate Holdings LLC	Food Processing	43,915,721	4.54
6.	Fresno Farming LLC	Food Processing	23,377,842	2.42
7.	Foster Poultry Farms	Food Processing	16,452,117	1.70
8.	Debra Marie Agresti	Agricultural	12,373,811	1.28
9.	G & C Silva Family Partnership LP	Agricultural	12,011,267	1.24
10.	Prospector LLC	Food Processing	9,844,287	1.02
11.	Armelim F. & Maria M. De Sousa	Agricultural	9,402,142	0.97
12.	Anthony G. Machado	Agricultural	8,924,564	0.92
13.	CMC Land Holdings LLC	Agricultural	8,393,643	0.87
14.	Robert G. & Eloise A. Gioletti	Agricultural	8,107,620	0.84
15.	John H. & Maria G. Brasil	Agricultural	7,650,503	0.79
16.	John R. & June R. Bailey	Agricultural	7,130,415	0.74
17.	Carl J. & Laurie A. Vieira	Agricultural	6,582,596	0.68
18.	California Dairies Inc.	Warehouse	6,548,820	0.68
19.	Old Castile Properties LP	Heavy Industrial	6,534,197	0.68
20.	Luis L. Borba	Agricultural	6,160,873	0.64
			<u>\$438,987,021</u>	<u>45.43%</u>

(1) 2018-19 local secured assessed valuation: \$966,244,828.  
Source: California Municipal Statistics, Inc.

## Debt Obligations

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. with respect to debt dated as February 1, 2019. 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.

### CHATOM UNION SCHOOL DISTRICT Statement of Direct and Overlapping Bonded Debt Dated as of February 1, 2019

**2018-19 Assessed Valuation:** \$1,169,370,878

<b><u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>	<b><u>% Applicable</u></b>	<b><u>Debt 2/1/19</u></b>
Yosemite Community College District	1.736%	\$ 4,690,219
Turlock Joint Unified School District	14.542	4,119,022
<b>Chatom Union School District</b>	<b>100.000</b>	<b><u>4,407,420</u></b> <sup>(1)</sup>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$13,216,661</b>
 <b><u>OVERLAPPING GENERAL FUND DEBT:</u></b>		
Stanislaus County Certificates of Participation	2.361%	\$ 600,166
Stanislaus County Office of Education Certificates of Participation	2.361	51,470
Turlock Joint Unified School District Certificates of Participation	14.542	<u>812,203</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$1,463,839</b>
 <b><u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u></b>		<b>1,790,250</b>
 <b>COMBINED TOTAL DEBT</b>		<b>\$16,470,750</b> <sup>(2)</sup>

**Ratios to 2018-19 Assessed Valuation:**

<b>Direct Debt (\$4,407,420)</b> .....	<b>0.38%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	1.13%
Combined Total Debt .....	1.41%

**Ratio to Redevelopment Incremental Valuation (\$77,724,808):**

Total Overlapping Tax Increment Debt .....	2.30%
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(1) Includes the Refunded Bonds, but excludes the Refunding Bonds offered for sale hereunder.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

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. The Refunding Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% 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 Tax Code relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Refunding Bonds. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Refunding Bonds, or may cause the Refunding Bonds to not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

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

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

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The

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

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

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

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

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

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



## VERIFICATION OF MATHEMATICAL ACCURACY

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 (a) the sufficiency of the anticipated amount of proceeds of the Refunding Bonds and other funds available to pay upon prior redemption, interest and redemption premium requirements of the Refunded Bonds described under the heading “THE REFINANCING PLAN” and (b) the “yields” on the amount of proceeds held and invested prior to redemption of the Refunded Bonds and on the Refunding Bonds considered by Bond Counsel in connection with the opinion rendered by Bond Counsel that the Refunding Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Tax Code.

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.

## CONTINUING DISCLOSURE

The District will execute the Continuing Disclosure Certificate in connection with the issuance of the Refunding Bonds, and covenant 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 to the Municipal Securities Rulemaking Board (an “**Annual Report**”) not later than nine months after the end of the District’s fiscal year (which currently is June 30), commencing March 31, 2020 with the report for the 2018-19 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 the form of Continuing Disclosure Certificate attached as APPENDIX E. These covenants have been made in order to assist the Underwriter of the Refunding Bonds in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “**Rule**”).

The District has existing undertakings pursuant to the Rule in connection with the delivery of prior general obligation bonds. See APPENDIX A under the heading “DISTRICT FINANCIAL INFORMATION - Long-Term Indebtedness.”

During the past five years, the District failed to timely file (i) certain required operating information, because such information was not available, though it did include a statement that such information was not available in each Annual Report, and (ii) notice of an insured rating change. The District has engaged its financial advisor, PFM Financial Advisors LLC, to serve as dissemination agent with respect to each such of its continuing disclosure undertakings, including the undertaking to be entered into for the Refunding Bonds.

Neither the County nor any other entity other than the District has any obligation or will incur any liability whatsoever with respect to the performance of the District’s duties regarding continuing disclosure.

## CERTAIN LEGAL MATTERS

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

## RATING

S&P Global Ratings, (“**S&P**”) has assigned a rating of “AA-” to the Refunding Bonds. Such rating reflects only the view of S&P, and an explanation of the significance of such rating may be obtained only from S&P. The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement). There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Refunding Bonds.

## UNDERWRITING

The Refunding Bonds are being sold to Raymond James & Associates, Inc. (the “**Underwriter**”), pursuant to a bond purchase agreement for the Refunding Bonds. The Underwriter has agreed to purchase the Refunding Bonds at a price of \$5,615,611.51, representing the principal amount of the Refunding Bonds, plus net original issue premium of \$135,683.85 and less Underwriter's discount of \$31,664.09. 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 reference herein to 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 said documents. Copies of the documents mentioned under this heading are available from the Underwriter and following delivery of the Refunding Bonds will be on file at the offices of the Paying Agent.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available from upon written request to the District.

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

## **EXECUTION**

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

### **CHATOM UNION SCHOOL DISTRICT**

By:                     /s/ Cherise Olvera                      
Superintendent

### ADDITIONAL INFORMATION

The reference herein to 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 said documents. Copies of the documents mentioned under this heading are available from the Underwriter and following delivery of the Refunding Bonds will be on file at the offices of the Paying Agent.

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### EXECUTION

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

CHATOM UNION SCHOOL DISTRICT

By: C. Oliver  
Superintendent

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## APPENDIX A

### GENERAL AND FINANCIAL INFORMATION ABOUT THE 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 and, in the case of Capital Appreciation Bonds, accreted value of, or interest on the Refunding Bonds is payable from the general fund of the District. The Refunding Bonds are payable by the District solely from the proceeds of an ad valorem property tax required to be levied by the County on taxable property within the District in an amount sufficient for the payment thereof. See "SECURITY FOR THE REFUNDING BONDS" herein.*

### GENERAL DISTRICT INFORMATION

#### General Information

The District is an elementary school district located in a small rural community west of Turlock (the "**City**") in Stanislaus County (the "**County**"). The District currently operates one preschool, one elementary school, and one middle school. Enrollment in the District is approximately 596 for the 2018-19 school year and the District's total assessed value in fiscal year 2018-19 is \$1,169,370,878.

#### 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 are held every two years, alternating between one and two available positions. Current members of the Board of Trustees, together with their office and the date their term expires, are listed below:

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Anthony Avila	President	December 2022
Steve Soderstrom	Clerk	December 2020
Ryan Blount	Member	December 2022
Karen Macedo	Member	December 2020
Dr. Robert Santos	Member	December 2022

**Administration.** The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Cherise Olvera currently serves as the Superintendent of the District and Kelly Machado serves as the Business Manager.

## Recent Enrollment Trends

The following table shows recent enrollment history for the District with budgeted figures for fiscal year 2018-19.

### ANNUAL ENROLLMENT Fiscal Years 2014-15 through 2018-19 Chatom Union School District

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>Annual Percent Change</u>
2014-15	597	--%
2015-16	615	3.0
2016-17	601	(2.3)
2017-18	582	(3.2)
2018-19*	596	2.4

\*Projection.

Source: California Department of Education for 2014-15 through 2017-18.  
Chatom Union School District for 2018-19.

## Employee Relations

The District has 27.7 certificated full-time equivalent (“FTE”) employees, 29.6 classified FTE employees, and 9.2 management/supervisor/confidential FTE employees.

The certificated and classified employees of the District are represented by two bargaining units, as set forth in the following table.

### BARGAINING UNITS Chatom Union School District

<u>Employee Group</u>	<u>Representation</u>	<u>Contract Expiration Date</u>
Certificated	Chatom Union Educators' Association	June 30, 2017 <sup>(1)</sup>
Classified	California School Employees Association	June 30, 2017 <sup>(1)</sup>

(1) Employees continue to operate under expired contracts during negotiations.  
Source: Chatom Union School District.

## Risk Management – Joint Ventures

**Property and Liability.** The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Central Region Schools' Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

**Workers' Compensation.** For fiscal year 2018, the District participated in the Central Region Schools' Insurance Group (“CRSIG”), an insurance purchasing pool. The intent of the CRSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the CRSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied

to all districts in the CRSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the CRSIG. Participation in the CRSIG is limited to districts that can meet the CRSIG selection criteria.

**Employee Medical Benefits.** The District has contracted with California's Valued Trust to provide employee health and dental. Benefits are self funded and are paid out of the assets of the Trust. Each participating school district's contribution to the Trust is determined by the collective bargaining agreement between the individual district and CTA or California School Employees Association and/or by the participating agreement between the district and the Trust with respect to employees not covered by a collective bargaining agreement. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The District pays Vision Service Plan for employee vision.

See Note 11 in the audited financial statements attached to the Official Statement as APPENDIX B.

## 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 and, in the case of Capital Appreciation Bonds, accreted value 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.*

### Education Funding Generally

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

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

The fiscal year 2013-14 State budget replaced the previous K-12 finance system with a new formula known as the Local Control Funding Formula (the "**LCFF**"). Under the LCFF, revenue limits and most state categorical programs were eliminated. School districts instead



receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve outcomes of students. The LCFF creates funding targets based on student characteristics. For school districts and charter schools, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that reflect student demographic factors. The LCFF includes the following components:

- A base grant for each local education agency per unit of ADA, which varies with respect to different grade spans. The base grant is \$2,375 more than the average revenue limit provided prior to LCFF implementation. The base grants will be adjusted upward each year to reflect cost-of-living increases. In addition, grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in grades K-3 and the provision of career technical education in grades 9-12.
- A 20% supplemental grant for English learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 50% of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.
- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

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

Funding levels used in the LCFF target entitlement calculations, not including any supplemental or concentration grant funding entitlements, for fiscal year 2018-19 are set forth in the following table. Full implementation occurred in fiscal year 2018-19 in connection with adoption of the State Budget for said fiscal year.

Funding levels used in the LCFF “Target Entitlement” calculations for fiscal year 2018-19 are set forth in the following table.

**Fiscal Year 2018-19 Base Grant\* Under LCFF by Grade Span  
(Targeted Entitlement)**

<b>Grade Span</b>	<b>2018-19 Base Grant Per ADA</b>	<b>2018-19 COLA (3.70%)</b>	<b>Grade Span Adjustments (K-3: 10.4%; 9-12: 2.6%)</b>	<b>2018-19 Base Grant/Adjusted Base Grant Per ADA</b>
K-3	\$7,193	\$266	\$776	\$8,235
4-6	7,301	270	n/a	7,571
7-8	7,518	278	n/a	7,796
9-12	8,712	322	235	9,269

\*Does not include supplemental and concentration grant funding entitlements.

Source: California Department of Education.

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

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

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

### **District Accounting Practices**

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

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

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

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

## **Financial Statements**

**General.** The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2018 Audited Financial Statements were prepared by Vavrinek, Trine, Day & Co., LLP Fresno, California and are attached to the Official Statement as APPENDIX B. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the District Office, Chatom Union School District, 7201 Clayton Road, Turlock, California; Telephone (209) 664-8505. The District has not requested, and the auditor has not provided, any review or update of such financial statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. This District may impose a charge for copying, mailing and handling.

**General Fund Revenues, Expenditures and Changes in Fund Balance.** The following table shows the audited income and expense statements for the general fund for the District for the fiscal years 2013-14 through 2017-18.

**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**Fiscal Years 2013-14 through 2017-18 (Audited)**  
**Chatom Union School District**

<b>Revenues</b>	<b>Audited 2013-14</b>	<b>Audited 2014-15</b>	<b>Audited 2015-16</b>	<b>Audited 2016-17</b>	<b>Audited 2017-18</b>
LCFF sources	\$4,477,456	\$5,075,380	\$5,504,134	\$5,901,847	\$5,936,140
Federal Revenues	366,096	384,742	362,546	361,497	434,938
Other state revenues	677,722	604,275	911,492	646,534	670,337
Other local revenues	436,610	395,722	352,931	476,771	429,028
<b>Total Revenues</b>	<b>5,957,884</b>	<b>6,460,119</b>	<b>7,131,103</b>	<b>7,386,649</b>	<b>7,470,443</b>
<b>Expenditures</b>					
Instruction	3,652,940	3,889,255	4,070,532	4,002,356	4,285,418
Instruction-related services:					
Supervision of instruction	16,744	17,194	16,129	21,727	15,430
Library, media and technology	128,325	169,534	125,362	140,175	150,438
School site administration	473,393	471,935	506,294	514,869	513,619
Pupil services:					
Home-to-school transportation	304,568	339,750	399,517	450,514	349,139
Food Services	--	8,051	8,510	453	510
All other pupil services	12,797	89,532	95,460	118,581	109,554
General administration:					
Data processing	35,780	33,807	64,822	67,835	78,029
All other general administration	607,043	593,483	661,937	758,004	735,958
Plant services	483,201	454,793	642,684	487,652	492,314
Facility acquisition and construction	--	98,665	35,910	79,532	17,369
Ancillary Services	15,818	9,647	11,705	3,513	422,136
Community services	--	--	--	--	--
Other outgo	106,008	101,500	122,871	112,507	95,655
Debt service:					
Principal	--	--	16,199	14,233	14,701
Interest and other	--	--	--	1,966	1,498
<b>Total Expenditures</b>	<b>5,836,617</b>	<b>6,277,146</b>	<b>6,777,932</b>	<b>6,773,917</b>	<b>6,901,768</b>
<b>Excess of Revenues Over/(Under) Expenditures</b>	<b>121,267</b>	<b>182,973</b>	<b>353,171</b>	<b>612,732</b>	<b>568,675</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	50,000	30,000	19,357	--	--
Other sources	--	--	76,000	--	--
Transfers out	(194,723)	(80,478)	(3,615)	(21,232)	(136,334)
<b>Total Other Financing Sources (Uses)</b>	<b>(144,723)</b>	<b>(50,478)</b>	<b>91,742</b>	<b>(21,232)</b>	<b>(136,334)</b>
<b>Net change in fund balance</b>	<b>(23,456)</b>	<b>132,495</b>	<b>444,913</b>	<b>591,500</b>	<b>432,341</b>
<b>Fund Balance, July 1</b>	<b>1,269,924</b>	<b>1,246,468</b>	<b>1,378,963</b>	<b>1,823,876</b>	<b>2,415,376</b>
<b>Fund Balance, June 30</b>	<b>\$1,246,468</b>	<b>\$1,378,963</b>	<b>\$1,823,876</b>	<b>\$2,415,376</b>	<b>\$2,847,717</b>

Source: Chatom Union School District Audit Reports for fiscal years 2013-14 through 2017-18.

## District Budget and Interim Financial Reporting

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

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the Stanislaus County Superintendent of Schools (the "**County Superintendent**"), who is not an officer of the County.

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

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

A State law adopted in 1991 ("**A.B. 1200**") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments.

***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, which is not a department of the County, as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues the following types of certifications:

- **Positive certification** - the school district that will meet its financial obligations for the current fiscal year and the subsequent two fiscal years.
- **Negative certification** - the school district will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
- **Qualified certification** - the school district may not meet its financial obligations for the current fiscal year or the subsequent two fiscal years.

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

***District's Budget Approval/Disapproval and Certification History.*** In the past five years, each of the District's interim reports have been certified as positive. The District's budget for fiscal year 2018-19 was approved by the County Superintendent and the most recent interim report, the first Interim report for fiscal year 2018-19, was certified positive by the Board.

**District's General Fund.** The following table shows the general fund figures for the District for fiscal year 2018-19 (adopted budget) and 2018-19 (first interim projections).

**GENERAL FUND REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
Fiscal Year 2018-19 (Adopted Budget  
and First Interim Projections) <sup>(1)</sup>  
Chatom Union School District**

	Adopted Budget 2018-19	First Interim 2018-19
<u>Revenues</u>		
LCFF Sources	\$6,125,896	\$6,325,643
Federal Revenues	491,211	516,482
Other State Revenues	130,637	234,231
Other Local Revenues	326,673	338,616
Total Revenues	7,074,417	7,414,972
<u>Expenditures</u>		
Certificated Salaries	2,702,939	2,701,730
Classified Salaries	1,042,548	1,071,655
Employee Benefits	1,463,649	1,459,952
Books and Supplies	308,176	339,286
Services & Operating Exp.	1,205,769	1,378,399
Capital Outlay	58,470	192,629
Other Outgo (Excluding Indirect Costs)	101,885	184,763
Direct Support/Indirect Costs	(8,938)	(8,938)
Total Expenditures	6,874,498	7,319,476
Excess of Revenues Over/(Under) Expenditures	199,919	95,496
<u>Other Financing Sources (Uses)</u>		
Operating Transfers in	--	--
Operating Transfers out	(20,000)	(20,000)
Other Sources (Uses)	--	--
Total Other Financing Sources (Uses)	(20,000)	(20,000)
Net Change in Fund Balance	179,919	75,496
Fund Balance, July 1	2,098,746	2,098,746
Fund Balance, June 30	\$2,278,665	\$2,174,242

(1) Budget and interim fund balances do not include certain funds included in the District's audited financial statements.

Source: Chatom Union School District.

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

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

On October 11, 2017, the Governor signed new legislation ("**SB 751**") amending Section 42127.01 of the Education Code, effective January 1, 2018. SB 751 raises the reserve cap established under SB 858 to no more than 10% of a school district's combined assigned or unassigned ending general fund balance and provides that the reserve cap will be triggered only if there is a minimum balance of 3% of the Proposition 98 reserve. Basic aid school districts and small districts with 2,500 or fewer ADA are exempt from the reserve cap. The District cannot predict if or when the reserve cap enacted by SB 751 will be triggered and what impact it may have on the District's reserves.

### **Funding Trends - ADA and LCFF Funding**

As described herein, prior to fiscal year 2013-14, school districts in California derived most State funding based on a formula which considered a revenue limit per unit of ADA. With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target.

Community Supported Districts (formerly known as Basic Aid Districts) are those whose local property tax revenues exceed the funding entitlement under the LCFF. Community Supported Districts do not receive any funds from the State appropriation, however, they do receive funds from the State for categorical and grant programs restricted to a special population or for certain purposes such as disabled students or instructional equipment. The current law in California allows these districts to keep the excess property tax revenues without penalty. The implication for Community Supported Districts is that the legislatively determined annual cost of living adjustment and other politically determined factors are less significant in determining such districts' primary funding sources. Rather, property tax growth and the local economy become the determinant factors.



**Funding Trends Under LCFF.** The following table sets forth total LCFF funding for the District for fiscal year 2013-14 through 2018-19 (Projected) together with annual ADA.

**AVERAGE DAILY ATTENDANCE AND FUNDING**  
**Fiscal Years 2013-14 through 2018-19**  
**Chatom Union School District**

<b>Fiscal Year</b>	<b>ADA</b>	<b>LCFF Funding Per ADA</b>
2013-14	628	\$7,127
2014-15	580	8,756
2015-16	589	9,342
2016-17	578	10,203
2017-18	561	10,581
2018-19 <sup>(1)</sup>	578	10,944

<sup>(1)</sup> Projection.

Source: California Department of Education; Chatom Union School District.

Under LCFF, school districts are entitled to supplemental and concentration grant funding based on the unduplicated count of targeted students. The District's percentage of unduplicated students is approximately 84% for the purposes of calculation supplemental and concentration grant funding.

### Revenue Sources

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

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

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

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

**Federal Revenues.** The federal government provides funding for several District programs, including special education programs, programs under the Every Student Succeeds Act, the Individuals With Disabilities Education Act, and specialized programs such as Drug Free Schools and others.

**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 funding entitlement under the LCFF and its property tax revenues. In addition to such apportionment revenue, the District receives other State revenues.

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

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

## District Retirement Systems

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

**Implementation of GASB Nos. 68 and 71.** Commencing with fiscal year ended June 30, 2015, the District implemented the provisions of GASB Statement Nos. 68 and 71 which require certain new pension disclosures in the notes to its audited financial statements commencing with the audit for fiscal year 2014-15. Statement No. 68 generally requires the District to recognize its proportionate share of the unfunded pension obligation for STRS and PERS by recognizing a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. As a result of the implementation of GASB Statement Nos. 68 and 71, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014. See APPENDIX B for additional information.

**STRS.** All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended. The program is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers and the State. The District's employer contributions to STRS for recent fiscal years, and the budgeted contribution for fiscal year 2018-19 are set forth in the following table.

**STRS Contributions  
Chatom Union School District  
Fiscal Years 2013-14 through 2018-19 (Projected)**

<b>Fiscal Year</b>	<b>Amount</b>
2013-14	\$200,707
2014-15	235,881
2015-16	271,419
2016-17	324,894
2017-18	403,692
2018-19 <sup>(1)</sup>	431,415

(1) First Interim Projections.

Source: Chatom Union School District.

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the combination of investment earnings and statutory contributions were not sufficient to pay actuarially required amounts. As a result, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately \$107.3 billion as of June 30, 2017 (the date of the last actuarial valuation). In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 ("**AB 1469**"), which represents a legislative effort to address the unfunded

liabilities of the STRS pension plan. AB 1469 addressed the funding gap by increasing contributions by employees, employers and the State. In particular, employer contribution rates are scheduled to increase through at least fiscal year 2020-21, from a contribution rate of 8.88% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

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

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

Fiscal Year	Employer Contribution Rate <sup>(1)</sup>
2019-20	18.13%
2020-21	19.10
2021-22 <sup>(2)</sup>	18.60
2022-23 <sup>(2)</sup>	18.10

(1) Expressed as a percentage of covered payroll.

(2) The employer contribution rate is projected to decrease in fiscal years 2021-22 and 2022-23. Projections may change based on actual experience.

Source: AB 1469

Based upon the recommendation from its actuary, for Fiscal Year 2021-2022 and each fiscal year thereafter the STRS Teachers' Retirement Board (the "**STRS Board**"), is required to increase or decrease the employer contribution rate to reflect the contribution required to eliminate the remaining unfunded actuarial obligation with respect to service credited to members of the STRS plan before July 1, 2014 (the "**2014 Liability**") by June 30, 2046; provided that the rate cannot change in any fiscal year by more than 1% of creditable compensation upon which employees' contributions to the STRS plan are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. In addition to the increased contribution rates discussed above, A.B. 1469 also requires the STRS Board to report to the State legislature every five years (commencing with a report due on or before July 1, 2019) on the fiscal health of the STRS plan and the unfunded actuarial obligation with respect to service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for employers and the State in order to eliminate the 2014 Liability.

On February 14, 2017, the STRS Board adopted a new set of actuarial assumptions that reflect member's increasing life expectancies and current economic trends. These new assumptions were first reflected in the STRS Defined Benefit Program Actuarial Valuation as of June 30, 2016. The revised actuarial assumptions include (i) decreasing the investment rate of return to 7.25% and then to 7.00%, for the June 30, 2016 and June 30, 2017 actuarial valuations, respectively, (ii) decreasing projected wage growth to 3.50% (from 3.75%), and (iii) decreasing the inflation factor to 2.75% (from 3.00%).

The State also contributes to STRS, currently in an amount equal to 7.328% of teacher payroll in Fiscal Year 2018-2019. Based upon the recommendation from its actuary, starting for fiscal year 2017-2018 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account, which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

**PERS.** All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The District is part of a cost-sharing pool within PERS known as the "Schools Pool." Benefit provisions are established by State statutes, as legislatively amended. Contributions to PERS are made by employers and employees. Each fiscal year, the District is required to contribute an amount based on an actuarially determined employer rate. The District's employer contributions to PERS for recent fiscal years, and the budgeted contribution for fiscal year 2018-19, are set forth in the following table.

**PERS Contributions  
Chatom Union School District  
Fiscal Years 2013-14 through 2018-19 (Budgeted)**

Fiscal Year	Amount
2013-14	\$114,427
2014-15	134,373
2015-16	146,300
2016-17	173,417
2017-18	203,493
2018-19 <sup>(1)</sup>	178,006

(1) First Interim Projections.

Source: Chatom Union School District.

Like the STRS program, the PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately \$23.6 billion as of June 30, 2017 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. In November 2015, PERS adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. In December 2016, PERS voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

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

<b>Fiscal Year</b>	<b>Amount</b>
2018-19	7.375%
2019-20	7.250
2020-21	7.000

*Source: PERS.*

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

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

**EMPLOYER CONTRIBUTION RATES (PERS)  
Fiscal Years 2019-20 through 2022-23<sup>(1)</sup>**

<b>Fiscal Year</b>	<b>Employer Contribution Rate<sup>(2)</sup></b>
2019-20	20.800%
2020-21	23.500
2021-22	24.600
2022-23	25.300

(1) The PERS board is expected to approve official employer contribution rates for each fiscal year shown during the immediately preceding fiscal year.

(2) Expressed as a percentage of covered payroll.

*Source: PERS*

On February 13, 2018, the Board of Administration of PERS voted to shorten the period over which PERS will amortize actuarial gains and losses from 30 years to 20 years for new pension liabilities, effective for the June 30, 2019 actuarial valuations. Amortization payments for all unfunded accrued liability bases will be computed to remain a level dollar amount throughout the amortization period, and certain 5-year ramp-up and ramp-down periods will be eliminated. As a result of the shorter amortization period, the contributions required to be made by employers may increase beginning in fiscal year 2020-21.

**California Public Employees' Pension Reform Act of 2013.** On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), which impacted various aspects of public retirement systems in the State, including the STRS and PERS programs. In general, PEPRA (i) increased the retirement age for public employees depending on job function, (ii) capped the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) required public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits (as described in more detail below), (iv) required final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months, and (v) attempted to address other perceived abuses in the public

retirement systems in the State. PEPRAs applies to all public employee retirement systems in the State, *except* the retirement systems of the University of California, and charter cities and charter counties whose pension plans are not governed by State law. PEPRAs provisions went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on or after that date; existing employees who are members of employee associations, including employee associations of the District, have a five-year window to negotiate compliance with PEPRAs through collective bargaining.

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

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

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

***Additional Information.*** Additional information regarding the District's retirement programs is available in Note 11 to the District's audited financial statements attached to this Official Statement as APPENDIX B. In addition, both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; and (ii) PERS, 400 Q Street, Sacramento, California 95811. More information regarding STRS and PERS can also be obtained at their websites, [www.calstrs.com](http://www.calstrs.com) and [www.calpers.ca.gov](http://www.calpers.ca.gov), respectively. *The references to these Internet websites are shown for reference and convenience only and the information contained on such websites is not incorporated by reference into this Official Statement. The information contained on these websites may not be current and has not been reviewed by the District or the Underwriter*

## Other Post-Employment Retirement Benefits

**Plan Description.** The District's governing board administers the Post-Employment Benefits Plan (the "**Plan**"). The Plan is a single employer defined benefit plan that is used to provide post-employment benefits other than pensions ("**OPEB**") for eligible retirees and their spouses. Membership of the Plan consists of 7 retirees and beneficiaries currently receiving benefits and 30 active plan members.

**Benefits Provided.** The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

**Contributions.** The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Chatom Teachers Association (CTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, CTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$16,429 in benefits.

**Actuarial Assumptions and Other Inputs.** The District's total OPEB liability of \$647,516 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified: inflation 2.75%, salary increases 2.75%, average, including inflation, investment rate of return 3.8%, net of OPEB plan investment expense, including inflation, and healthcare cost trend rates 4.00% for 2018. The discount rate was based on the Bond Buyer 20-Bond General Obligation Index. Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.



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

**CHANGES IN TOTAL OPEB LIABILITY  
Chatom Union School District**

	<b>Total OPEB Liability</b>
Balance at June 30, 2017	\$614,070
Service Cost	26,365
Interest	23,510
Benefit payments	<u>(16,429)</u>
Net changes	33,446
Balance at June 30, 2018	\$647,516

*Source: Chatom Union School District Audit Report.*

**OPEB Expense.** For the year ended June 30, 2018, the District recognized an OPEB expense of \$49,875.

For more information regarding the District's OPEB and assumptions used in its most recent actuarial study, see Note 9 of APPENDIX B to the Official Statement.

**Long-Term Indebtedness**

The table below summarizes the outstanding general obligation bonds of the District, payable from *ad valorem* taxes, as of February 1, 2019. It is expected that a portion of the District's outstanding general obligation bonds will be refunded with proceeds of the Refunding Bonds.

**General Obligation Indebtedness  
Chatom Union School District**

<b>Series</b>	<b>Issue Date</b>	<b>Final Maturity</b>	<b>Original Principal</b>	<b>Principal Outstanding 02/01/19 <sup>(1)</sup></b>
GO Bonds, Election of 2006, Series 2006A <sup>(2)</sup>	12/27/2006	8/1/2031	\$2,899,994.90	\$2,472,424.00
GO Bonds, Election of 2006, Series 2007B	11/20/2007	8/1/2032	399,998.50	234,999.00
GO Bonds, Election of 2006, Series 2007C <sup>(2)</sup>	11/20/2007	8/1/2047	1,699,997.45	1,699,977.45
<b>TOTAL</b>			<b>\$4,999,990.85</b>	<b>\$4,407,400.45</b>

(1) Denominational amount, not including accreted interest on capital appreciation bonds.

(2) Expected to be refunded in part with the proceeds of the Refunding Bonds described herein.

## **Investment of District Funds**

In accordance with Government Code Section 53600 *et seq.*, the Stanislaus County Treasurer-Tax Collector (the “**Treasurer**”) manages funds deposited with it by the District. Stanislaus 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 LCFF funding, which is derived from a combination of State funds and local property taxes (see “—Funding of Education Generally” above). State funds typically make up the majority of a district’s LCFF funding. School districts also receive funding from the State for some specialized programs such as special education.

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

## STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

### State Funding of Education

**General.** The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. School districts in California receive operating income primarily from two sources: (1) the State funded portion which is derived from the State's general fund, and (2) a locally funded portion, being a district's share of the 1% general *ad valorem* tax levy authorized by the California Constitution (see "DISTRICT FINANCIAL INFORMATION – Education Funding Generally" above). School districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources.

The 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. None of the District, the Underwriter or the County is responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.*

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

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

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

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

## Recent State Budgets

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

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

**Prior Years' Budgeting Techniques.** Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2018-19 State budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 55 at the November 8, 2016 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

**2013-14 State Budget: Significant Change in Education Funding.** As described previously herein, the 2013-14 State Budget and its related implementing legislation enacted significant reforms to the State's system of K-12 education finance with the enactment of the LCFF. Significant reforms such as the LCFF and other changes in law may have significant impacts on the District's finances.

## 2018-19 State Budget

On June 27, 2018, the Governor signed the 2018-19 State budget (the “**2018-19 State Budget**”) into law. The 2018-19 State Budget calls for total spending of \$199.7 billion, with \$138.6 billion in general fund spending. The 2018-19 State Budget provides for \$78.4 billion of funding through Proposition 98, the primary source of funding for K-12 school districts and community college districts, an increase of \$3.9 billion, or 5.2%, from the 2017-18 State budget. Of that \$78.4 billion, \$61.0 billion will be distributed to K-12 school districts through the LCFF, which will be fully funded during fiscal year 2018-19, restoring every school district in the State to at least pre-recession funding levels

The 2018-19 State Budget continues to build State reserves, with the rainy-day fund balance projected to grow to \$13.8 billion by the end of the budget year, its constitutional maximum. Additionally, revenues have been set aside in new savings funds, including a \$200 million reserve for safety net programs. Other significant features of the 2018-19 State Budget include:

- \$640 million in Proposition 51 State bond authority for school facilities;
- \$1 billion in federal and state funds, over four years, for early childhood programs, including the addition of placement for 13,400 child-care and 2,947 preschool children, and \$450 million to reduce the number of children living in deep poverty;
- one-time funding for K-12 school districts to fund various programs, including \$300 million for the lowest-performing student subgroups, \$125 million to address the shortage of special education teachers, and \$100 million to expand facilities for kindergarten and transitional kindergarten;
- \$54 million for county offices of education to support school districts needing additional assistance, as determined based on multiple performance indicators;
- \$100 million for local fire response, including \$32.8 million to backfill property tax revenue losses that cities, counties and districts incurred in fiscal year 2017-18 and will incur in fiscal year 2018-19 from wildfires, mudslides and other natural disasters;
- a hold harmless provision allowing local education agencies to recoup revenue that has been lost due to declines in average daily attendance that are directly associated with these disasters;
- \$185.4 million to multiple state agencies for the first year of implementation of a \$4 billion parks and water bond measure approved by voters in 2018; and
- one-time funding of \$500 million to support local governments in addressing homelessness, to be used for emergency shelters, bridge housing, motel vouchers, and supportive housing.

## 2019-20 Proposed State Budget

On January 10, 2019, the Governor released the proposed State budget for fiscal year 2019-20 (the “**2019-20 Proposed Budget**”). The 2019-20 Proposed Budget projects general fund revenues in fiscal year 2018-19 of approximately \$149.3 billion (including a prior year balance of approximately \$12.4 billion) and expenditures of approximately \$144.1 billion. For fiscal year 2019-20, the 2019-20 Proposed Budget projects general fund revenues of \$147.9 billion (including a prior year transfer of approximately \$5.2 billion) and authorizes expenditures of \$144.2 billion. The 2019-20 Proposed Budget continues to build State reserves to manage the impacts of future economic downturns, with \$2.3 billion in a Special Fund for Economic Uncertainties, \$15.3 billion in the “Rainy Day Fund,” and \$900 million in a Safety Net Reserve Fund. The 2019-20 Proposed Budget notes that additional deposits to the Rainy Day Fund will be made in reliance on a recent opinion by the California Office of Legislative Counsel, which concluded that supplemental payments made in prior fiscal years do not count towards calculating the Rainy Day Fund’s constitutional maximum of 10%, and projects bringing the Rainy Day Fund to \$19.4 billion by 2022-23.

The 2019-20 Proposed Budget raises the Proposition 98 minimum funding guarantee for school districts and community college districts to \$80.7 billion, a new all-time high, which includes an additional \$2 billion in Proposition 98 funding for the LCFF, reflecting a 3.46% cost-of-living adjustment, and brings total LFCC funding to \$63 billion. To address the rising costs of STRS pensions, the 2019-20 Proposed Budget also includes a \$3 billion one-time general fund payment to STRS on behalf of school districts, which is expected to provide immediate relief and reduce the out-year contribution rate by 0.5%. The 2019-20 Proposed State Budget also includes a \$750 million one-time general fund payment to fund new or retrofitted facilities for full-day kindergarten programs and other activities that reduce barriers to providing full-day kindergarten and a general fund payment of \$576 million (\$186 million is one-time) to support expanded special education services in school districts with a high concentration of special education students. The Governor is required to release a revision to the proposed budget by May 14 of each year.

***Disclaimer Regarding State Budgets.*** The implementation of the foregoing 2018-19 State Budget and future State budgets may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable. The District cannot predict the impact that the 2018-19 State Budget, or subsequent state budgets, will have on its own finances and operations. However, the 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.

The State has not entered into any contractual commitments with the District, the County, the Underwriter 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 sources of information listed below are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of State budget information set forth or referred to or incorporated in this Official Statement.

***Availability of State Budgets.*** The complete 2018-19 State Budget and 2019-20 Proposed Budget are available from the California Department of Finance website at

[www.ebudget.ca.gov](http://www.ebudget.ca.gov). An impartial analysis of the budget is published by the Legislative Analyst Office, and is available at [www.lao.ca.gov/budget](http://www.lao.ca.gov/budget). Neither the District nor the Underwriter can take responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon when making an investment decision with respect to the Refunding Bonds.

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

### **Legal Challenges to State Funding of Education**

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

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and, in the case of Capital Appreciation Bonds, accreted value 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 XIII A, XIII B, XIII C, and XIII D of the State Constitution, Propositions 62, 98, 111 and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the 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 XIII A and all applicable laws.

### Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues, there shall be first set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. School districts receive a significant portion of their funding from State appropriations. As a result, decreases and increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

### Article XIII A of the California Constitution

**Basic Property Tax Levy.** On June 6, 1978, California voters approved Proposition 13 (“**Proposition 13**”), which added Article XIII A to the State Constitution (“**Article XIII A**”). Article XIII A 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 XIII A 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 XIII A 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. The tax for the payment of the Refunding Bonds falls within the exception described in (iii) of the immediately preceding sentence. Article XIII A 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 XIII A 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 XIII A.



**Legislation Implementing Article XIII A.** Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. 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 SBE has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year’s assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the “recapture” provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

## **Article XIII B of the California Constitution**

Article XIII B (“**Article XIII B**”) 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 XIII B, as amended.

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

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

### **Unitary Property**

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

### **Articles XIIC and XIID 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 XIIC and XIID (respectively, "**Article XIIC**" and "**Article XIID**"), 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 XIIC 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 XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

On November 2, 2010, Proposition 26 was approved by State voters, which amended Article XIIC 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 XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

While the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Refunding Bonds.

## **Proposition 98**

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “**Accountability Act**”). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State’s appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as “K-14 school districts”) at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school

districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B 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 XIII B 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 XIII B 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 XIII B 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 XIII B 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 XIII B 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 XIII B by reference to *per capita* personal income) and enrollment (the “**second test**”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in *per capita* State general fund revenues from the prior year is less than the annual growth in California per capita personal income (the “**third test**”). Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and *per capita* State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 39**

On November 7, 2000, California voters approved an amendment (commonly known as “**Proposition 39**”) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. Constitutional amendments may be changed only with another statewide vote. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by Proposition 39 are K-12 school districts including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

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

### **Proposition 1A and Proposition 22**

On November 2, 2004, California voters approved Proposition 1A, which amended the State constitution to significantly reduce the State's authority over major local government

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

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

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

### **Proposition 30 and Proposition 55**

The Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “**Proposition 30**”), temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by:

(i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$500,000 but less than \$600,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$600,000 but less than \$1,000,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers). Proposition 55 (described below) extended said increases to personal income rates through the end of 2030.

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See “Proposition 98” and “Proposition 111” above. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

The California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55, was a proposed constitutional amendment initiative that was approved on the November 8, 2016 general election ballot in California. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030, instead of the scheduled expiration date of December 31, 2018. Tax revenue received under Proposition 55 is to be allocated 89% to K-12 schools and 11% to community colleges. Proposition 55 did not extend the sales tax increases of Proposition 30.

### **California Senate Bill 222**

Senate Bill 222 (“**SB 222**”) was signed by the California Governor on July 13, 2015 and became effective on January 1, 2016. SB 222 amended Section 15251 of the California Education Code and added Section 52515 to the California Government Code to provide that voter approved general obligation bonds which are secured by *ad valorem* tax collections such as the Refunding Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service those bonds. Said lien shall attach automatically and is valid and binding from the time the bonds are executed and delivered. The lien is enforceable against the issuer, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act. The effect of SB 222 is the treatment of general obligation bonds as secured debt in bankruptcy due to the existence of a statutory lien.

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111, 22, 26, 30, 39 and 55 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 B**

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



CHATOM UNION ELEMENTARY  
SCHOOL DISTRICT

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ANNUAL FINANCIAL REPORT

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JUNE 30, 2018

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

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# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

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## FINANCIAL SECTION

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Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Chatom Union Elementary School District  
Turlock, 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 Chatom Union Elementary School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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; and the 2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, issued by the California 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## 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 Chatom Union Elementary School District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter –Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedules on pages 64 and 65, schedule of changes in the District's net OPEB liability and related ratios on page 66, schedule of the District's proportionate share of the net OPEB liability –MPP program on page 67, schedule of the District's proportionate share of the net pension liability on page 68, and the schedule of District contributions on page 69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chatom Union Elementary School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2018, on our consideration of the Chatom Union Elementary School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Chatom Union Elementary School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Chatom Union Elementary School District's internal control over financial reporting and compliance.

*Varrinck, Trine, Day & Co. LLP*

Fresno, California  
December 14, 2018

This section of Chatom Union School District's (District's) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal years that ended on June 30, 2018, with comparative information for the year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### The Financial Statements

The financial statements presented herein include all of the activities of the Chatom Union School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

The Government-Wide Financial Statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets) and deferred outflows, as well as all liabilities (including long-term obligations) and deferred inflows. Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The Fund Financial Statements include statements for each of the two categories of activities: governmental and fiduciary.

The Governmental Funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Fiduciary Funds are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Chatom Union School District.

DISTRICT  
SUPERINTENDENT  
*Cherise Olvera*

BOARD OF TRUSTEES  
*Anthony Avila*  
*Ryan Blount*  
*Karen Macedo*  
*Dr. Rob Santos*  
*Steve Soderstrom*



# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's operating results. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the Statement of Net Position and the Statement of Activities, we present the District activities as follows:

**Governmental Activities** –The District reports all of its services in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and as well as local grants finance these activities.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

**Governmental Funds** –All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which 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 general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

### THE DISTRICT AS TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The Local Control Funding Formula (LCFF) and the Local Control Accountability Plan (LCAP) have continued to be the funding model for the District revenue. The LCFF guarantees a minimum amount of state aid to school districts based on the amount of state aid they received in 2012-2013. The calculation is adjusted for changes in local revenue and ADA and it provides a uniform base grant for each school district per unit of average daily attendance (ADA), based on the grade span of the pupils, i.e. kindergarten through grade 3 (TK-3), grades 4-6, grades 7-8. The LCFF allows for supplemental and concentration dollars based on unduplicated student counts within the district. Each district has a "target" revenue and the state fills the gap between this target and the calculated revenue. This "gap funding" is determined by the state each year. To date, the District's gap has closed considerably and is expected to be at full implementation prior to the goal year of 2020-2021.

The District continues to experience positive financial solvency, as in past years, despite the economic ups and downs in both the State and the national scene. The District has also continued to meet all obligations and commitments during the year. The District did not have to borrow from other funds at the end of year, as it had done in prior years, for cash flow needs in the General Fund.

Again, the After-School Programs that are operated on both campuses have made a significant impact on the education of students needing tutoring and enrichment. Fortunately, both campuses continued to receive funding in the 2017-2018 school year which allowed the programs to continue. LCAP funding assisted in transportation costs to allow students to stay after school with reliable and safe transportation home. The District also has a C.A.R.E. program which runs in conjunction to the after-school program providing its students with a safe environment at school until parental supervision is available.

Negotiations for both the Certificated and the Classified Staff have not been settled for 2017-2018. All bargaining unit members, within the District, have been major contributors to the financial well-being of the District. All Staff have been moved Step and/or Column appropriate to their tenure with the District.

# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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The District remains with a reserve amount above the State required percentage. Fund 01 (General Fund) combined with Fund 17 (Reserve for Economic Uncertainties) remains above 8% of the total expenditures of the General Fund. The District Board has requested that the district's reserve balance be at least 8.33% of the total expenditures in the General Fund. As the economy nationwide continues to fluctuate, making school funding more nebulous, these reserves continue to help the District maintain its fiscal health in the out-years. These reserves will also continue to help maintain a positive cash flow, as the District funding model changed from a Revenue Limit per ADA to a Local Control Funding Formula. Along with the new funding model the District has had to implement the new State Local Control Accountability Program. This has allowed the public, parents and staff to have input into the programs the District operates. The programs will be monitored and will be reviewed annually by those involved to check effectiveness and the appropriate use of the funding.

### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$(2.6) million for the fiscal year ended June 30, 2018, and \$(2.8) million for the fiscal year ended June 30, 2017; an increase in net position of \$0.2 million. Of this amount, \$0.7 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the School Board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 1

(Amounts in millions)

	Governmental Activities		
	2018	2017, as restated	Difference
<b>Assets</b>			
Current and other assets	\$ 4.4	\$ 3.9	\$ 0.5
Capital assets	6.1	6.2	(0.1)
Total Assets	10.5	10.1	0.4
Deferred Outflows of Resources	2.4	1.5	0.9
<b>Liabilities</b>			
Current liabilities	0.5	0.5	–
Long-term obligations	7.1	7.0	0.1
Aggregate net pension liability	7.0	5.9	1.1
Total Liabilities	14.6	13.4	0.1
Deferred Inflows of Resources	0.9	1.0	(0.1)
<b>Net Position</b>			
Net investment in capital assets	1.6	1.6	–
Restricted	0.7	0.7	–
Unrestricted	(4.9)	(5.1)	0.2
Total Net Position	\$ (2.6)	\$ (2.8)	\$ 0.2

The \$(2.6) million in net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 3.9 percent (\$(4.9) million compared to \$(5.1) million).

### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 2

(Amounts in millions)

	Governmental Activities		
	2018	2017	Difference
Revenues			
Program revenues:			
Charges for services <sup>1</sup>	\$ -	\$ -	\$ -
Operating grants and contributions	1.5	1.5	-
General revenues:			
Federal and State aid not restricted	3.8	3.6	0.2
Property taxes	2.9	2.8	0.1
Other general revenues	0.4	0.6	(0.2)
Total Revenues	8.6	8.5	0.1
Expenses			
Instruction related	5.4	5.0	0.4
Pupil services	1.1	0.9	0.2
Administration	0.9	0.9	-
Plant services	0.5	0.6	(0.1)
Other	0.5	0.5	-
Total Expenses	8.4	7.9	0.5
Change in Net Position	\$ 0.2	\$ 0.6	\$ 0.4

<sup>1</sup> Balances of less than \$50,000 are rounded down to zero.

### Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$8.4 million, while the prior year was \$7.9 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$2.9 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions (\$1.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.8 million in unrestricted Federal and State funds and \$0.4 million in other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 3

(Dollar amounts in millions)	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 5.4	\$ 4.5	\$ 5.0	\$ 4.1
Pupil services	1.1	0.6	0.9	0.4
Administration	0.9	0.8	0.9	0.8
Plant services	0.5	0.5	0.6	0.6
All other services	0.5	0.4	0.5	0.5
Total	<u>\$ 8.4</u>	<u>\$ 6.8</u>	<u>\$ 7.9</u>	<u>\$ 6.4</u>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$3.8 million, which is an increase of \$0.4 million from the prior year. The General Fund increased by \$0.4 million due primarily to an increase in State funding. The District's other major funds, the Cafeteria Fund and the Capital Facilities Fund, showed little change from the prior year. The District's non-major governmental funds also showed little change from the prior year.

#### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in June 2018. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

- Revenue revisions were made to the 2017-2018 Budget due to other local revenue being budgeted as received. These include interest, RDA taxes, CARE program income, donations and CRSIG Safety reimbursements.
- Expenditures in salaries and benefits decreased from the original budget due to Superintendent absence. Much of the overall decrease in expenditures was due to Special Ed students moving out of the district and timing of capital projects being budgeted for 2017-2018 that had not begun by June 30, 2018 therefore pushing the expenditure into the next fiscal year.

# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2018, the District had \$6.1 million in a broad range of capital assets (net of depreciation), including land, land improvements, buildings, and furniture and equipment. This amount represents a decrease of \$0.1 million from last year (Table 4).

Table 4

(Amounts in millions)

	Governmental Activities		
	2018	2017	Difference
Capital assets – net of accumulated depreciation	\$ 6.1	\$ 6.2	\$ (0.1)

We present more detailed information regarding our Capital Assets in the Notes to Financial Statements.

#### Long-Term Obligations

At the end of this year, the District had \$7.1 million in long-term obligations outstanding and \$7.0 million last year. Those obligations consisted of:

Table 5

(Amounts in millions)

	Governmental Activities		
	2018	2017, as restated	Difference
General obligation bonds (Financed with property taxes)	\$ 6.4	\$ 6.3	\$ 0.1
Other obligations	0.7	0.7	–
Total	\$ 7.1	\$ 7.0	\$ 0.1

The District's general obligation bond insured S&P rating at the time of our last issuance was "AAA".

Other obligations include capital leases, compensated absences, and other postemployment benefits. We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

#### Net Pension Liability (NPL)

As of June 30, 2015, the District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities of \$2.4 million, Deferred Inflows from pension activities of \$0.9 million, and a Net Pension Liability of \$7.0 million. We present more detailed information regarding our net pension liabilities in the Notes to Financial Statements.

# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

### SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

The After-School program continued to have great success with students and staff. The staff and administration are always looking for educational enhancements, which will have a positive impact on students.

The District has continued to use Deferred Maintenance funds and LCAP Supplemental & Concentration monies to replace or repair its facilities throughout the year. Other projects are planned for the future.

The District-wide technology infrastructure is being addressed and will be updated as funding becomes available. The District received E-rate funding in 2017-2018 to assist with the costs of technology infrastructure.

The District began its pedestrian walkway project to be completed in 2018-2019 which addresses and ensures students safety.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

- Using the Local Control Funding Formula method of funding, this will be adjusted at First Interim using the most current information.
- Using the funding factors pursuant to the Governor's Adopted State Budget.
- Interest earnings will be budgeted at the same rate as prior year.
- Budgeting ADA the same as prior year P2. Any changes will need to be addressed for the out-years and will be adjusted as needed at during Interim based on projected enrollment.
- Following the FCMAT LCFF Calculator Factors as a base for multiyear projections.
- District reserve levels will be maintained at 8.33 percent or more.

Expenditures are based on the following forecasts:

- Step and Column are anticipated to increase by approximately 3% for certificated and 4% for classified bargaining units.
- No COLA is being budgeted for salaries.
- With the LCFF funding model, expenditures are being projected with the final expenditures being brought in line with revenue projections at midyear. There will need to be modifications to the budget based on the final data being used for funding.
- Decrease of one certificated position due to current declining enrollment.
- Budgeted contributions to restricted programs/funds will be revised as more information is available.



# CHATOM UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Superintendent, Cherise Olvera at Chatom Union School District, 7201 Clayton Rd., Turlock, California, 95380, or e-mail at [colvera@chatom.k12.ca.us](mailto:colvera@chatom.k12.ca.us).

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 4,096,140
Receivables	238,844
Stores inventories	13,638
Nondepreciable capital assets	137,160
Capital assets being depreciated	10,088,147
Accumulated depreciation	(4,089,639)
Total Assets	<u>10,484,290</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>2,358,552</u>
LIABILITIES	
Accounts payable	489,739
Unearned revenue	19,034
Long-term obligations:	
Current portion of long-term obligations other than pensions	165,184
Noncurrent portion of long-term obligations other than pensions	6,906,971
Total Long-Term Obligations	<u>7,072,155</u>
Aggregate net pension liability	<u>6,968,836</u>
Total Liabilities	<u>14,549,764</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>914,167</u>
NET POSITION	
Net investment in capital assets	1,624,610
Restricted for:	
Debt service	203,872
Capital projects	306,244
Educational programs	202,405
Other activities	9,107
Unrestricted	(4,967,327)
Total Net Position	<u>\$ (2,621,089)</u>

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 4,740,495	\$ –	\$ 797,904
Instruction-related activities:			
Supervision of instruction	15,373	–	4,096
Instructional library, media, and technology	154,722	–	97,370
School site administration	547,687	–	41,515
Pupil services:			
Home-to-school transportation	424,586	–	–
Food services	559,787	35,010	441,511
All other pupil services	111,187	–	40,573
Administration:			
Data processing	85,082	–	–
All other administration	782,203	–	36,670
Plant services	530,982	–	6,812
Ancillary services	43,417	–	31,336
Interest on long-term obligations	325,404	–	–
Other outgo	95,655	–	24,476
Total Governmental Activities	<u>\$ 8,416,580</u>	<u>\$ 35,010</u>	<u>\$ 1,522,263</u>
General revenues and subventions:			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Taxes levied for other specific purposes			
Federal and State aid not restricted to specific purposes			
Interest and investment earnings			
Miscellaneous			
Subtotal, General Revenues			
Change in Net Position			
Net Position – Beginning as Restated			
Net Position – Ending			

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

Net (E xpenses)  
Revenues and  
Changes in  
Net Position  

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Governmental  
Activities

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\$	(3,942,591)
	(11,277)
	(57,352)
	(506,172)
	(424,586)
	(83,266)
	(70,614)
	(85,082)
	(745,533)
	(524,170)
	(12,081)
	(325,404)
	(71,179)
	<hr/> (6,859,307) <hr/>
	2,648,794
	237,879
	23,207
	3,769,152
	41,457
	303,442
	<hr/> 7,023,931 <hr/>
	164,624
	(2,785,713)
\$	<hr/> (2,621,089) <hr/>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## GOVERNMENTAL FUNDS

### BALANCE SHEET

JUNE 30, 2018

	General Fund	Cafeteria Fund	Capital Facilities Fund
<b>ASSETS</b>			
Deposits and investments	\$ 3,013,078	\$ 467	\$ 408,094
Receivables	136,017	63,373	–
Due from other funds	53,000	1,833	–
Stores inventories	–	13,638	–
Total Assets	<u>\$ 3,202,095</u>	<u>\$ 79,311</u>	<u>\$ 408,094</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 329,010	30,204	\$ 101,850
Due to other funds	6,334	40,000	–
Unearned revenue	19,034	–	–
Total Liabilities	<u>354,378</u>	<u>70,204</u>	<u>101,850</u>
<b>Fund Balances:</b>			
Nonspendable	5,000	13,638	–
Restricted	187,426	–	306,244
Committed	–	–	–
Assigned	1,092,500	–	–
Unassigned	1,562,791	(4,531)	–
Total Fund Balances	<u>2,847,717</u>	<u>9,107</u>	<u>306,244</u>
Total Liabilities and Fund Balances	<u>\$ 3,202,095</u>	<u>\$ 79,311</u>	<u>\$ 408,094</u>

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



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

Total Fund Balance –Governmental Funds		\$ 3,839,849
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 10,225,307	
Accumulated depreciation is	(4,089,639)	
Net Capital Assets		6,135,668
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	607,185	
Net change in proportionate share of net pension liability	370,073	
Difference between projected and actual earnings on pension plan investments	81,019	
Differences between expected and actual experience in the measurement of the total pension liability.	101,016	
Changes of assumptions	1,199,259	
Total Deferred Outflows of Resources Related to Pensions		2,358,552
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(682,669)	
Difference between projected and actual earnings on pension plan investments	(123,224)	
Differences between expected and actual experience in the measurement of the total pension liability.	(80,699)	
Changes of assumptions	(27,575)	
Total Deferred Inflows of Resources Related to Pensions		(914,167)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(6,968,836)

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

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

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

General obligation bonds	\$ 6,349,151	
Capital leases	30,867	
Compensated absences	6,515	
Net other postemployment benefits (OPEB) liability	<u>685,622</u>	
Total Long-Term Obligations		\$ (7,072,155)
Total Net Position –Governmental Activities		<u><u>\$ (2,621,089)</u></u>

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



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Cafeteria Fund
REVENUES		
Local Control Funding Formula	\$ 5,936,140	\$ -
Federal sources	434,938	433,026
Other State sources	670,337	15,373
Other local sources	429,028	52,290
Total Revenues	7,470,443	500,689
EXPENDITURES		
Current		
Instruction	4,285,418	-
Instruction-related activities:		
Supervision of instruction	15,430	-
Instructional library, media and technology	150,438	-
School site administration	513,619	-
Pupil services:		
Home-to-school transportation	349,139	-
Food services	510	524,805
All other pupil services	109,554	-
Administration:		
Data processing	78,029	-
All other administration	735,958	-
Plant services	492,314	-
Ancillary services	42,136	-
Other outgo	95,655	-
Facility acquisition and construction	17,369	-
Debt service		
Principal	14,701	-
Interest and other	1,498	-
Total Expenditures	6,901,768	524,805
Excess (Deficiency) of Revenues Over Expenditures	568,675	(24,116)
Other Financing Sources (Uses)		
Transfers in	-	1,833
Transfers out	(136,334)	-
Net Financing Sources (Uses)	(136,334)	1,833
NET CHANGE IN FUND BALANCES	432,341	(22,283)
Fund Balance -Beginning	2,415,376	31,390
Fund Balance -Ending	\$ 2,847,717	\$ 9,107

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

Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ —	\$ 60,000	\$ 5,996,140
—	—	867,964
—	227,953	913,663
26,943	242,251	750,512
<u>26,943</u>	<u>530,204</u>	<u>8,528,279</u>
—	178,710	4,464,128
—	—	15,430
—	—	150,438
—	9,985	523,604
—	—	349,139
—	2,452	527,767
—	—	109,554
—	—	78,029
8,500	15,197	759,655
—	14,974	507,288
—	—	42,136
—	—	95,655
100,850	83,826	202,045
—	140,000	154,701
—	103,040	104,538
<u>109,350</u>	<u>548,184</u>	<u>8,084,107</u>
<u>(82,407)</u>	<u>(17,980)</u>	<u>444,172</u>
—	134,501	136,334
—	—	(136,334)
—	134,501	—
<u>(82,407)</u>	<u>116,521</u>	<u>444,172</u>
388,651	560,260	3,395,677
<u>\$ 306,244</u>	<u>\$ 676,781</u>	<u>\$ 3,839,849</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances –Governmental Funds \$ 444,172  
Amounts Reported for Governmental Activities in the Statement  
of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in  
governmental funds as expenditures; however, for governmental activities,  
those costs are shown in the Statement of Net Position and allocated over  
their estimated useful lives as annual depreciation expenses in the  
Statement of Activities.

This is the amount by which depreciation exceed capital outlays in the period.

Capital outlays	\$ 222,749	
Depreciation expense	(265,747)	
Net Expense Adjustment		(42,998)

In the Statement of Activities, compensated absences (vacations) are  
measured by the amounts earned during the year. In the governmental  
funds, however, expenditures are measured by the amount of financial  
resources used and paid. Vacation used and paid was less than the  
amounts earned by \$673. (673)

In the governmental funds, pension costs are based on employer  
contributions made to pension plans during the year. However, in the  
Statement of Activities, pension expense is the net effect of all changes in  
the deferred outflows, deferred inflows and net pension liability during the  
year. (138,428)

Postemployment benefits other than pensions (OPEB): In governmental  
funds, OPEB costs are recognized when employer contributions are made.  
In the Statement of Activities, OPEB costs are recognized on the accrual  
basis. This year, the difference between OPEB costs and actual employer  
contributions was: (31,284)

Payment of principal on long-term obligations is an expenditure in the  
governmental funds, but it reduces long-term obligations in the Statement  
of Net Position and does not affect the Statement of Activities:

General obligation bonds	140,000
Capital lease obligations	14,701

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

CHATOM UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES, Continued  
FOR THE YEAR ENDED JUNE 30, 2018

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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded 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. The additional interest reported in the Statement of Activities is the result of additional accumulated interest that was accreted on the District's "capital appreciation" general obligation bonds.

Change in Net Position of Governmental Activities

\$	(220,866)
\$	<u>164,624</u>

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	Agency Funds
ASSETS	
Deposits and investments	\$ 80,419
LIABILITIES	
Due to student groups	\$ 80,419

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Chatom Union Elementary School District was established on July 1, 1956, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades preschool –eighth as mandated by the State and/or Federal agencies. The District operates one preschool, one elementary school (K-5), and one middle school (6-8).

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Chatom Union Elementary School District, this includes general operations, food service, and student related activities of the District.

#### Basis of Presentation –Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories, which are governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

#### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 15, Pupil Transportation Fund, Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements. As a result, the General Fund reflects an increase in fund balance of \$748,971.

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (Education Code Sections 17620–17626 and Government Code Section 65995 et seq.). Expenditures are restricted to the purposes specified in Government Code Sections 65970–65981 or to the items specified in agreements with the developer (Government Code Section 66006).

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (Education Code Section 17582).

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

**Special Reserve Capital Outlay Fund** The Special Reserve Capital Outlay Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (Education Code Section 42840).

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term obligations.

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (Education Code Sections 15125–15262).

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

### Basis of Accounting – Measurement Focus

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and exclude fiduciary activity. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pool are determined by the program sponsor.

### Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the Statement of Net Position.

### Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position as long-term obligations.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### Accounts Payable and Long-Term Obligations

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

### Fund Balances –Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable –amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted –amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed –amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned –amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Superintendent or designee may assign amounts for specific purposes.

Unassigned –all other spendable amounts.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Spending Order Policy

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

### Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties including all unassigned amounts equal to no less than 8.33 percent of General Fund expenditures and other financing uses.

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$721,628 of restricted net position.

### Interfund Activity

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

### Estimates

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### Property Tax

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

### Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

### New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

CHATOM UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 –DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 4,096,140
Fiduciary funds	80,419
Total Deposits and Investments	<u>\$ 4,176,559</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 188,492
Cash in revolving	5,000
Investments	3,983,067
Total Deposits and Investments	<u>\$ 4,176,559</u>

Policies and Practices

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



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Investment in County Treasury –The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

### General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 – 24 Months	25 – 60 Months	More Than 60 Months
County Pool	\$ 3,969,310	\$ 3,969,310	\$ -	\$ -	\$ -

### NOTE 3 – FAIR VALUE MEASUREMENTS

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

Level 1 – Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 4 – RECEIVABLES

Receivables at June 30, 2018, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 65,923	\$ 50,245	\$ –	\$ 116,168
State Government				
State grants and entitlements	66,409	3,289	39,454	109,152
Local Sources	3,685	9,839	–	13,524
Total	<u>\$ 136,017</u>	<u>\$ 63,373</u>	<u>\$ 39,454</u>	<u>\$ 238,844</u>

### NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Additions	Balance June 30, 2018
Governmental Activities			
Capital Assets Not Being Depreciated			
Land	\$ 19,900	\$ –	\$ 19,900
Construction in process	–	117,260	117,260
Total Capital Assets Not Being Depreciated	<u>19,900</u>	<u>117,260</u>	<u>137,160</u>
Capital Assets Being Depreciated			
Land improvements	261,174	5,188	266,362
Buildings and improvements	8,477,538	86,152	8,563,690
Furniture and equipment	1,243,946	14,149	1,258,095
Total Capital Assets Being Depreciated	<u>9,982,658</u>	<u>105,489</u>	<u>10,088,147</u>
Less Accumulated Depreciation			
Land improvements	163,925	13,144	177,069
Buildings and improvements	2,848,312	194,850	3,043,162
Furniture and equipment	811,655	57,753	869,408
Total Accumulated Depreciation	<u>3,823,892</u>	<u>265,747</u>	<u>4,089,639</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,178,666</u>	<u>\$ (42,998)</u>	<u>\$ 6,135,668</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Depreciation expense was charged to functional expenditures as follows:

### Governmental Activities

Instruction	\$ 122,243
School site administration	5,315
Home-to-school transportation	69,094
Food services	21,260
Data processing	5,315
All other general administration	5,315
Plant services	37,205
Total Depreciation Expenses Governmental Activities	<u>\$ 265,747</u>

### NOTE 6 – INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds are as follows:

	Interfund Receivables	Interfund Payables
Major Governmental Funds		
General	\$ 53,000	\$ 6,334
Cafeteria	1,833	40,000
Total Major Governmental Funds	<u>54,833</u>	<u>46,334</u>
Non-Major Governmental Fund		
Child Development	4,501	13,000
Total All Governmental Funds	<u>\$ 59,334</u>	<u>\$ 59,334</u>

The General Fund owes the Child Development Non-Major Governmental Fund for a temporary cash flow loan.

\$ 4,501

The General Fund owes the Cafeteria Fund for a temporary cash flow loan.

1,833

The Child Development Non-Major Governmental Fund owes the General Fund for a temporary cash flow loan.

13,000

The Cafeteria Fund owes the General Fund for a temporary cash flow loan.

40,000

Total

\$ 59,334

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018, consist of the following:

The General Fund transferred to the Child Development Non-Major Governmental Fund for a temporary cash flow loan.	\$ 4,501
The General Fund transferred to the Cafeteria Fund for a temporary cash flow loan.	1,833
The General Fund transferred to the Special Reserve Capital Outlay Non-Major Governmental Fund for future projects.	130,000
Total	<u>\$ 136,334</u>

### NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consists of the following:

	General Fund	Cafeteria Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 25,772	\$ 16,283	\$ 101,850	\$ 20,064	\$ 163,969
Accrued payroll	250,946	13,921	–	8,611	273,478
State apportionment	52,292	–	–	–	52,292
Total	<u>\$ 329,010</u>	<u>\$ 30,204</u>	<u>\$ 101,850</u>	<u>\$ 28,675</u>	<u>\$ 489,739</u>

### NOTE 8 – UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	General Fund
Federal financial assistance	<u>\$ 19,034</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 9 – LONG-TERM OBLIGATIONS

#### Summary

The changes in the District's long-term obligations other than pensions during the year consisted of the following:

	Balance June 30, 2017, as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds					
Current interest –series 2006A	\$ 2,410,000	\$ -	\$ -	\$ 2,410,000	\$ -
Capital appreciation –series 2006A	398,631	20,890	100,000	319,521	110,000
Current interest –series 2007B	80,000	-	40,000	40,000	40,000
Capital appreciation –series 2007B	473,404	37,298	-	510,702	-
Capital appreciation –series 2007C	2,906,250	162,678	-	3,068,928	-
Capital lease	45,568	-	14,701	30,867	15,184
Compensated absences –net	5,842	673	-	6,515	-
Other postemployment benefits (OPEB) liability	654,338	49,875	18,591	685,622	-
Total	<u>\$ 6,974,033</u>	<u>\$ 271,414</u>	<u>\$ 173,292</u>	<u>\$ 7,072,155</u>	<u>\$ 165,184</u>

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local tax revenues. The compensated absences and other postemployment benefits obligations will be paid by the fund for which the employee worked. The capital lease will be paid by the General Fund.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2018
General obligation bonds –series 2006A							
Current interest							
11/28/06	8/1/27-8/1/31	4.1-4.25%	\$ 2,410,000	\$ 2,410,000	\$ –	\$ –	\$ 2,410,000
Capital appreciation							
11/28/06	8/1/10-8/1/20	3.6-4.33%	489,995	398,631	20,890	100,000	319,521
General obligation bonds –series 2007B							
Current interest							
11/16/07	8/1/12-8/1/18	3.45-3.95%	165,000	80,000	–	40,000	40,000
Capital appreciation							
11/16/07	8/1/19-8/1/32	4.71-5.13%	234,999	473,404	37,298	–	510,702
General obligation bonds –series 2007C							
Capital appreciation							
11/16/07	8/1/32-8/1/47	4.82-5.80%	1,699,997	2,906,250	162,678	–	3,068,928
Total				<u>\$ 6,268,285</u>	<u>\$ 220,866</u>	<u>\$ 140,000</u>	<u>\$ 6,349,151</u>

### 2006, Series 2006A Current Interest General Obligation Bonds

The bonds mature through 2032 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ –	\$ 99,140	\$ 99,140
2020	–	99,140	99,140
2021	–	99,140	99,140
2022	135,000	99,140	234,140
2023	150,000	93,740	243,740
2024-2028	985,000	366,500	1,351,500
2029-2032	1,140,000	124,530	1,264,530
Total	<u>\$ 2,410,000</u>	<u>\$ 981,330</u>	<u>\$ 3,391,330</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### 2006, Series 2006A Capital Appreciation Bonds

The bonds mature through 2021 as follows:

<u>Fiscal Year</u>	<u>Final Maturity Principal</u>	<u>Current Year Accreted Value</u>
2019	\$ 110,000	\$ 110,000
2020	120,000	108,096
2021	125,000	101,425
Total	<u>\$ 355,000</u>	<u>\$ 319,521</u>

### 2006, Series 2007B Current Interest General Obligation Bonds

The bonds mature through 2019 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	<u>\$ 40,000</u>	<u>\$ 1,600</u>	<u>\$ 41,600</u>

### 2006, Series 2007B Capital Appreciation Bonds

The bonds mature through 2033 as follows:

<u>Fiscal Year</u>	<u>Final Maturity Principal</u>	<u>Current Year Accreted Value</u>
2020	\$ 40,000	\$ 36,096
2021	45,000	36,639
2022	50,000	36,730
2023	50,000	33,150
2024	50,000	29,910
2025-2029	319,175	175,417
2030-2033	298,634	162,760
Total	<u>\$ 852,809</u>	<u>\$ 510,702</u>



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### 2006, Series 2007C Capital Appreciation Bonds

The bonds mature through 2048 as follows:

<u>Fiscal Year</u>	<u>Final Maturity Principal</u>	<u>Current Year Accreted Value</u>
2033	\$ 425,000	\$ 97,155
2034	502,801	239,649
2035	523,497	237,490
2036	545,000	235,331
2037	566,219	231,931
2038-2042	3,190,553	988,880
2043-2047	3,871,191	873,018
2048	870,000	165,474
Total	<u>\$ 10,494,261</u>	<u>\$ 3,068,928</u>

### Capital Leases

The District has entered into an agreement to lease a school bus. The agreement is, in substance, a purchase (capital lease) and is reported as a capital lease obligation. The District's liability on this lease agreement with an option to purchase is summarized below:

	<u>Total</u>
Balance, July 1, 2017	\$ 48,597
Payments	16,199
Balance, June 30, 2018	<u>\$ 32,398</u>

The capital lease has minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2019	\$ 16,199
2020	16,199
Total	32,398
Less: Amount Representing Interest	1,531
Present Value of Minimum Lease Payments	<u>\$ 30,867</u>

### Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2018, amounted to \$6,515.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	OPEB Expense
District Plan	\$ 647,516	\$ 49,875
Medicare Premium Payment (MPP) Program	38,106	(2,162)
Total	<u>\$ 685,622</u>	<u>\$ 47,713</u>

The details of each plan are as follows:

#### District Plan

##### Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

##### Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	7
Active employees	<u>30</u>
Total	<u><u>37</u></u>

##### Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

##### Contributions

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Chatom Teachers Association (CTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, CTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$16,429 in benefits.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Total OPEB Liability of the District

The District's total OPEB liability of \$647,516 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

### Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.8 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4 percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

### Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 614,070
Service cost	26,365
Interest	23,510
Benefit payments	(16,429)
Net change in total OPEB liability	33,446
Balance at June 30, 2018	<u>\$ 647,516</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.80%)	\$ 765,182
Current discount rate (3.80%)	647,516
1% increase (4.80%)	554,192

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (3%)	\$ 557,247
Current healthcare cost trend rate (4%)	647,516
1% increase (5%)	755,338

### OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of \$49,875.

### Medicare Premium Payment (MPP) Program

#### Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California Education Code Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$38,106 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0091 percent, and 0.0086 percent, resulting in a net increase in the proportionate share of 0.0005 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(2,162).

### Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

### Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 42,186
Current discount rate (3.58%)	38,106
1% increase (4.58%)	34,137

CHATOM UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 34,435
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	38,106
1% increase (4.7% Part A and 5.1% Part B)	41,741

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Cafeteria Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 5,000	\$ –	\$ –	\$ –	\$ 5,000
Stores inventories	–	13,638	–	–	13,638
Total Nonspendable	5,000	13,638	–	–	18,638
Restricted					
Educational programs	187,426	–	–	14,979	202,405
Capital projects	–	–	306,244	–	306,244
Debt service	–	–	–	203,872	203,872
Total Restricted	187,426	–	306,244	218,851	712,521
Committed					
Deferred maintenance program	–	–	–	215,959	215,959
Assigned					
Special education costs	250,000	–	–	–	250,000
Textbook adoption	150,000	–	–	–	150,000
One-time discretionary balance	349,978	–	–	–	349,978
Care program	31,744	–	–	–	31,744
K-2 Playground	109,575	–	–	–	109,575
Lottery	175,805	–	–	–	175,805
Education Protection Account	25,398	–	–	–	25,398
Capital projects	–	–	–	241,971	241,971
Total Assigned	1,092,500	–	–	241,971	1,334,471
Unassigned					
Reserve for economic uncertainties	271,973	–	–	–	271,973
Remaining unassigned	1,290,818	(4,531)	–	–	1,286,287
Total Unassigned	1,562,791	(4,531)	–	–	1,558,260
Total	\$ 2,847,717	\$ 9,107	\$ 306,244	\$ 676,781	\$ 3,839,849



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 11 –RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Central Region Schools' Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2018, the District participated in the Central Region Schools' Insurance Group (CRSIG), an insurance purchasing pool. The intent of the CRSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the CRSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the CRSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the CRSIG. Participation in the CRSIG is limited to districts that can meet the CRSIG selection criteria.

#### Employee Medical Benefits

The District has contracted with California's Valued Trust to provide employee health and dental. Benefits are self funded and are paid out of the assets of the Trust. Each participating school district's contribution to the Trust is determined by the collective bargaining agreement between the individual district and CTA or California School Employees Association and/or by the participating agreement between the district and the Trust with respect to employees not covered by a collective bargaining agreement. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The District pays Vision Service Plan for employee vision.

### NOTE 12 –EMPLOYEE RETIREMENT SYSTEMS

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 4,626,775	\$ 1,631,620	\$ 832,290	\$ 367,853
CalPERS	2,342,061	726,932	81,877	377,760
Total	<u>\$ 6,968,836</u>	<u>\$ 2,358,552</u>	<u>\$ 914,167</u>	<u>\$ 745,613</u>

The details of each plan are as follows:

### California State Teachers' Retirement System (CalSTRS)

#### Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

#### Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$403,692.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 4,626,775
State's proportionate share of the net pension liability associated with the District	2,737,161
Total	<u>\$ 7,363,936</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0050 percent and 0.0048 percent, resulting in a net increase in the proportionate share of 0.0002 percent.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$367,853. In addition, the District recognized pension expense and revenue of \$275,522 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 403,692	\$ -
Net change in proportionate share of net pension liability	353,654	628,367
Difference between projected and actual earnings on pension plan investments	-	123,224
Differences between expected and actual experience in the measurement of the total pension liability	17,110	80,699
Change of Assumptions	857,164	-
Total	<u>\$ 1,631,620</u>	<u>\$ 832,290</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (102,440)
2020	77,518
2021	11,177
2022	(109,479)
Total	<u>\$ (123,224)</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The deferred outflows/inflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 37,730
2020	37,730
2021	37,730
2022	37,732
2023	204,199
Thereafter	163,741
Total	<u>\$ 518,862</u>

### Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

### Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 6,793,575
Current discount rate (7.10%)	4,626,775
1% increase (8.10%)	2,868,270

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### California Public Employees Retirement System (CalPERS)

#### Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:  
<https://www.calpers.ca.gov/page/forms-publications>.

#### Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% – 2.5%	1.0% – 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$203,493.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$2,342,061. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0098 percent and 0.0103 percent, resulting in a net decrease in the proportionate share of 0.0005 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$377,760. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 203,493	\$ -
Net change in proportionate share of net pension liability	16,419	54,302
Difference between projected and actual earnings on pension plan investments	81,019	-
Differences between expected and actual experience in the measurement of the total pension liability	83,906	-
Changes of assumptions	342,095	27,575
Total	<u>\$ 726,932</u>	<u>\$ 81,877</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (2,195)
2020	93,478
2021	34,103
2022	(44,367)
Total	<u>\$ 81,019</u>

The deferred outflows/inflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/Inflows of Resources
2019	\$ 129,514
2020	129,568
2021	101,461
Total	<u>\$ 360,543</u>

### Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

### Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 3,445,922
Current discount rate (7.15%)	2,342,061
1% increase (8.15%)	1,426,316

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$222,597 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves, but have not been included in the budgeted amounts reported in the General Fund – Budgetary Comparison Schedule.

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

### Litigation

The District is not currently a party to any legal proceedings.

### Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Pedestrian walkway	\$ 280,000	October 1, 2018

CHATOM UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 14 –PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the California's Valued Trust (CVT) and the Central Region Schools Insurance Group (CRSIG) public entity risk pools. The District pays annual premiums to each entity for its health, workers' compensation, and property and liability coverage. The relationship between the District and the pools is such that the pools are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entity.

The District has appointed no members to the Governing Board of CVT.

During the year ended June 30, 2018, the District made payments of \$440,482 to CVT for employee medical and dental coverage.

The District is represented by the Superintendent on the Governing Board of CRSIG.

During the year ended June 30, 2018, the District made payments of \$118,751 to CRSIG for workers' compensation and property liability coverage.

NOTE 15 –RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position –Beginning	\$ (2,292,245)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(493,468)
Net Position –Beginning as Restated	<u>\$ (2,785,713)</u>

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## REQUIRED SUPPLEMENTARY INFORMATION

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# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances – Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Local Control Funding Formula	\$ 5,935,888	\$ 5,942,347	\$ 5,936,140	\$ (6,207)
Federal sources	518,847	608,949	434,938	(174,011)
Other State sources	133,570	284,392	670,337	385,945
Other local sources	340,582	328,337	429,028	100,691
Total Revenues <sup>1</sup>	6,928,887	7,164,025	7,470,443	306,418
EXPENDITURES				
Current				
Certificated salaries	3,745,428	2,893,388	2,830,017	63,371
Classified salaries	981,530	1,058,020	1,096,683	(38,663)
Employee benefits	1,312,364	1,458,621	1,587,120	(128,499)
Books and supplies	283,502	344,586	303,420	41,166
Services and operating expenditures	1,188,508	1,276,959	972,447	304,512
Other outgo	439,506	93,855	80,458	13,397
Capital outlay	160,000	123,470	15,424	108,046
Debt service – principal	–	–	14,701	(14,701)
Debt service – interest	–	–	1,498	(1,498)
Total Expenditures <sup>1</sup>	8,110,838	7,248,899	6,901,768	347,131
Excess (Deficiency) of Revenues Over Expenditures	(1,181,951)	(84,874)	568,675	653,549
Other Financing Uses				
Transfers out	(23,000)	(130,000)	(136,334)	(6,334)
NET CHANGE IN FUND BALANCES	(1,204,951)	(214,874)	432,341	647,215
Fund Balance – Beginning	2,415,376	2,415,376	2,415,376	–
Fund Balance – Ending	\$ 1,210,425	\$ 2,200,502	\$ 2,847,717	\$ 647,215

<sup>1</sup> Due to the consolidation of Fund 15, Pupil Transportation Fund, Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## CAFETERIA FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			Variances – Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
REVENUES				
Federal sources	\$ 403,166	\$ 403,166	\$ 433,026	29,860
Other State sources	63,000	21,194	15,373	\$ (5,821)
Other local sources	40,040	54,507	52,290	(2,217)
Total Revenues	506,206	478,867	500,689	21,822
EXPENDITURES				
Current				
Classified salaries	166,673	179,374	197,323	(17,949)
Employee benefits	87,720	96,566	96,693	(127)
Books and supplies	195,064	200,993	213,100	(12,107)
Services and operating expenditures	12,600	16,470	17,689	(1,219)
Capital outlay	23,000	–	–	–
Total Expenditures	485,057	493,403	524,805	(31,402)
Excess (Deficiency) of Revenues Over Expenditures	21,149	(14,536)	(24,116)	(9,580)
Other Financing Sources				
Transfers in	–	–	1,833	1,833
NET CHANGE IN FUND BALANCES	21,149	(14,536)	(22,283)	(7,747)
Fund Balance –Beginning	31,390	31,390	31,390	–
Fund Balance –Ending	\$ 52,539	\$ 16,854	\$ 9,107	\$ (7,747)

See accompanying note to required supplementary information.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	2018
Total OPEB Liability	
Service cost	\$ 26,365
Interest	23,510
Benefit payments	(16,429)
Net change in total OPEB liability	33,446
Total OPEB liability –beginning	614,070
Total OPEB liability –ending	<u>\$ 647,516</u>
 Covered payroll	 <u>N/A<sup>1</sup></u>
 District's total OPEB liability as a percentage of covered payroll	 <u>N/A<sup>1</sup></u>

<sup>1</sup> The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY –MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	2018
District's proportion of the net OPEB liability	0.0091%
District's proportionate share of the net OPEB liability	\$ 38,106
District's covered-employee payroll	N/A <sup>1</sup>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

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# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.0050%	0.0048%
District's proportionate share of the net pension liability	\$ 4,626,775	\$ 3,912,895
State's proportionate share of the net pension liability associated with the District	2,737,161	2,227,541
Total	<u>\$ 7,363,936</u>	<u>\$ 6,140,436</u>
District's covered –employee payroll	<u>\$ 2,582,623</u>	<u>\$ 2,529,534</u>
District's proportionate share of the net pension liability as a percentage of its covered –employee payroll	179.15%	154.69%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.0098%	0.0103%
District's proportionate share of the net pension liability	\$ 2,342,061	\$ 2,025,395
District's covered –employee payroll	<u>\$ 1,248,682</u>	<u>\$ 1,234,912</u>
District's proportionate share of the net pension liability as a percentage of its covered –employee payroll	187.56%	164.01%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

2016 2015

<u>2016</u>	<u>2015</u>
<u>0.0044%</u>	<u>0.0059%</u>
\$ 2,944,118	\$ 3,437,847
<u>1,557,114</u>	<u>2,075,920</u>
<u>\$ 4,501,232</u>	<u>\$ 5,513,767</u>
<u>\$ 2,656,318</u>	<u>\$ 2,620,303</u>
<u>110.83%</u>	<u>131.20%</u>
<u>74%</u>	<u>77%</u>
<u>0.0100%</u>	<u>0.0107%</u>
\$ 1,479,164	\$ 1,216,040
\$ 1,141,560	\$ 1,124,463
<u>129.57%</u>	<u>108.14%</u>
<u>79%</u>	<u>83%</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	\$ 403,692	\$ 324,894
Contributions in relation to the contractually required contribution	403,692	324,894
Contribution deficiency (excess)	\$ -	\$ -
District's covered –employee payroll	\$ 2,797,588	\$ 2,582,623
Contributions as a percentage of covered –employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	\$ 203,493	\$ 173,417
Contributions in relation to the contractually required contribution	203,493	173,417
Contribution deficiency (excess)	\$ -	\$ -
District's covered –employee payroll	\$ 1,310,238	\$ 1,248,682
Contributions as a percentage of covered –employee payroll	15.531%	13.888%

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

WFO K20-V01R01 TO K20-V01R02 TO K20-V01R03 TO K20-V01R04 TO K20-V01R05 TO K20-V01R06 TO K20-V01R07 TO K20-V01R08 TO K20-V01R09 TO K20-V01R10 TO K20-V01R11 TO K20-V01R12 TO K20-V01R13 TO K20-V01R14 TO K20-V01R15 TO K20-V01R16 TO K20-V01R17 TO K20-V01R18 TO K20-V01R19 TO K20-V01R20 TO K20-V01R21 TO K20-V01R22 TO K20-V01R23 TO K20-V01R24 TO K20-V01R25 TO K20-V01R26 TO K20-V01R27 TO K20-V01R28 TO K20-V01R29 TO K20-V01R30 TO K20-V01R31 TO K20-V01R32 TO K20-V01R33 TO K20-V01R34 TO K20-V01R35 TO K20-V01R36 TO K20-V01R37 TO K20-V01R38 TO K20-V01R39 TO K20-V01R40 TO K20-V01R41 TO K20-V01R42 TO K20-V01R43 TO K20-V01R44 TO K20-V01R45 TO K20-V01R46 TO K20-V01R47 TO K20-V01R48 TO K20-V01R49 TO K20-V01R50 TO K20-V01R51 TO K20-V01R52 TO K20-V01R53 TO K20-V01R54 TO K20-V01R55 TO K20-V01R56 TO K20-V01R57 TO K20-V01R58 TO K20-V01R59 TO K20-V01R60 TO K20-V01R61 TO K20-V01R62 TO K20-V01R63 TO K20-V01R64 TO K20-V01R65 TO K20-V01R66 TO K20-V01R67 TO K20-V01R68 TO K20-V01R69 TO K20-V01R70 TO K20-V01R71 TO K20-V01R72 TO K20-V01R73 TO K20-V01R74 TO K20-V01R75 TO K20-V01R76 TO K20-V01R77 TO K20-V01R78 TO K20-V01R79 TO K20-V01R80 TO K20-V01R81 TO K20-V01R82 TO K20-V01R83 TO K20-V01R84 TO K20-V01R85 TO K20-V01R86 TO K20-V01R87 TO K20-V01R88 TO K20-V01R89 TO K20-V01R90 TO K20-V01R91 TO K20-V01R92 TO K20-V01R93 TO K20-V01R94 TO K20-V01R95 TO K20-V01R96 TO K20-V01R97 TO K20-V01R98 TO K20-V01R99 TO K20-V01R100

2016	2015
\$ 271,419	\$ 235,881
271,419	235,881
\$ -	\$ -
\$ 2,529,534	\$ 2,656,318
10.73%	8.88%
\$ 146,300	\$ 134,373
146,300	134,373
\$ -	\$ -
\$ 1,234,912	\$ 1,141,560
11.847%	11.771%

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

### NOTE 1 –PURPOSE OF SCHEDULES

#### Budgetary Comparison Schedules

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California Education Code. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2018, the District major fund exceeded the budgeted amount in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
Cafeteria			
Total Expenditures	\$ 493,403	\$ 524,805	\$ 31,402

#### Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms –There were no changes in the benefits terms since the previous valuation.

Change of Assumptions –The plan rate of investment return assumption was changed from 4.5 percent to 3.8 percent since the previous valuation.

#### Schedule of the District's Proportionate Share of the Net OPEB Liability –MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability –MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms –There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions –The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

### Schedule of District Contributions

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



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## SUPPLEMENTARY INFORMATION

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# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through California Department of Education (CDE):			
Title I, Part A, Basic Grants	84.010	14329	\$ 205,809
Title II, Part A, Supporting Effective Instruction	84.367	14341	37,109
Title III –English Language Acquisition –LEP	84.365	14346	57,775
Title III –English Language Acquisition –IEP	84.365	15146	461
Title V, Part B, Rural and Low Income School	84.358B	14356	47,419
Special Education, Basic Local Assistance	84.027	13379	86,365
Total U.S. Department of Education			<u>434,938</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through CDE:			
Child and Adult Care Food Program	10.558	13393	34,541
Child Nutrition Cluster			
National School Lunch	10.555	13391	255,457
Especially Needy Breakfast	10.553	13526	84,783
Meals Supplements	10.555	13391	13,477
Food Distribution –Commodities	10.555	13391	38,786
Summer Meal Program	10.559	13004	5,982
Subtotal Child Nutrition Cluster			<u>398,485</u>
Total U.S. Department of Agriculture			<u>433,026</u>
Total Expenditures of Federal Awards			<u>\$ 867,964</u>

See accompanying note to supplementary information.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

### ORGANIZATION

The Chatom Union Elementary School District was established on July 1, 1956, and consists of an area comprising approximately 100 square miles. The District operates one preschool, one elementary school (K-5), and one middle school (6-8). There were no boundary changes during the year.

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Robert Santos	President	2021
Anthony Avila	Clerk	2021
Ryan Blount	Member	2021
Karen Macedo	Member	2019
Steve Soderstrom	Member	2019

### ADMINISTRATION

Cherise Olvera	Superintendent
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See accompanying note to supplementary information.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	267.92	266.03
Fourth through sixth	174.50	174.05
Seventh and eighth	120.46	120.65
Total Regular ADA	562.88	560.73

See accompanying note to supplementary information.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-1987 Minutes Requirement	2017-2018 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	43,495	180	N/A	Complied
Grades 1 –3	50,400				
Grade 1		51,420	180	N/A	Complied
Grade 2		51,420	180	N/A	Complied
Grade 3		58,270	180	N/A	Complied
Grades 4 –6	54,000				
Grade 4		58,270	180	N/A	Complied
Grade 5		58,270	180	N/A	Complied
Grade 6		54,666	180	N/A	Complied
Grades 7 –8	54,000				
Grade 7		54,666	180	N/A	Complied
Grade 8		54,666	180	N/A	Complied

See accompanying note to supplementary information.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 <sup>1</sup>	2018	2017	2016
GENERAL FUND				
Revenues	\$ 7,074,417	\$ 7,461,777	\$ 7,144,892	\$ 6,951,239
Other sources and transfers in	—	—	—	19,357
Total Revenues and Other Sources <sup>3</sup>	7,074,417	7,461,777	7,144,892	6,970,596
Expenditures	6,874,498	6,885,568	6,366,974	6,512,371
Other uses and transfers out	20,000	136,335	173,825	38,615
Total Expenditures and Other Uses <sup>3</sup>	6,894,498	7,021,903	6,540,799	6,550,986
INCREASE (DECREASE) IN FUND BALANCE	\$ 179,919	\$ 439,874	\$ 604,093	\$ 419,610
ENDING FUND BALANCE	\$ 2,278,665	\$ 2,098,746	\$ 1,658,872	\$ 1,054,779
AVAILABLE RESERVES <sup>2</sup>	\$ 981,190	\$ 1,562,791	\$ 1,730,636	\$ 1,077,120
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	14.23%	22.26%	26.46%	16.44%
LONG-TERM OBLIGATIONS <sup>4</sup>	Not Available	\$ 7,072,155	\$ 6,974,033	\$ 6,348,886
AVERAGE DAILY ATTENDANCE AT P-2	556	563	580	593

The General Fund balance has increased by \$1,043,967 over the past two years. The fiscal year 2018-2019 budget projects a further increase of \$179,919 (8.6 percent). For a district this size, the State recommends available reserves of at least four percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$723,269 over the past two years.

Average daily attendance has decreased by 30 over the past two years. Additional decline of seven ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of Fund 15, Pupil Transportation Fund, Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund as required by GASB Statement No. 54.

<sup>4</sup> The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

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# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

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

	Child Development Fund	Deferred Maintenance Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 545	\$ 228,113	\$ 241,971
Receivables	39,454	-	-
Due from other funds	4,501	-	-
Total Assets	<u>\$ 44,500</u>	<u>\$ 228,113</u>	<u>\$ 241,971</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 16,521	\$ 12,154	\$ -
Due to other funds	13,000	-	-
Total Liabilities	<u>29,521</u>	<u>12,154</u>	<u>-</u>
Fund Balances:			
Restricted	14,979	-	-
Committed	-	215,959	-
Assigned	-	-	241,971
Total Fund Balances	<u>14,979</u>	<u>215,959</u>	<u>241,971</u>
Total Liabilities and Fund Balances	<u>\$ 44,500</u>	<u>\$ 228,113</u>	<u>\$ 241,971</u>

See accompanying note to supplementary information.



# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	Child Development Fund	Deferred Maintenance Fund	Special Reserve Capital Outlay Fund
REVENUES			
Local Control Funding Formula	\$ -	\$ 60,000	\$ -
Other State sources	226,985	-	-
Other local sources	623	2,433	1,287
Total Revenues	227,608	62,433	1,287
EXPENDITURES			
Current			
Instruction	178,710	-	-
Instruction-related activities:			
School site administration	9,985	-	-
Pupil services:			
Food services	2,452	-	-
Administration:			
All other administration	15,197	-	-
Plant services	6,739	8,235	-
Facility acquisition and construction	13,098	70,728	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	226,181	78,963	-
Excess (Deficiency) of Revenues Over Expenditures	1,427	(16,530)	1,287
Other Financing Sources			
Transfers in	4,501	-	130,000
NET CHANGE IN FUND BALANCES	5,928	(16,530)	131,287
Fund Balance –Beginning	9,051	232,489	110,684
Fund Balance –Ending	\$ 14,979	\$ 215,959	\$ 241,971

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ 60,000
968	227,953
237,908	242,251
<u>238,876</u>	<u>530,204</u>
-	178,710
-	9,985
-	2,452
-	15,197
-	14,974
-	83,826
140,000	140,000
103,040	103,040
<u>243,040</u>	<u>548,184</u>
(4,164)	(17,980)
-	134,501
(4,164)	116,521
208,036	560,260
<u>\$ 203,872</u>	<u>\$ 676,781</u>

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

### NOTE 1 –PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

#### Local Education Agency Organization Structure

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

#### Schedule of Average Daily Attendance (ADA)

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

#### Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986–1987 requirements as required by Education Code Section 46201.

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

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

#### 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.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

### Non-Major Governmental Funds –Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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## INDEPENDENT AUDITOR'S REPORTS

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VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

VALUE THE *difference*

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

Governing Board  
Chatom Union Elementary School District  
Turlock, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatom Union Elementary School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Chatom Union Elementary School District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Emphasis of Matter –Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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



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

#### Compliance and Other Matters

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

#### Purpose of This Report

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

*Vanninck, Trine, Day & Co. LLP*

Fresno, California  
December 14, 2018



VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

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

Governing Board  
Chatom Union Elementary School District  
Turlock, California

Report on Compliance for Each Major Federal Program

We have audited Chatom Union Elementary School District's (the District) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Chatom Union Elementary School District's major Federal programs for the year ended June 30, 2018. Chatom Union Elementary 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 Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chatom Union Elementary 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Chatom Union Elementary 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 Chatom Union Elementary School District's compliance.

## Opinion on Each Major Federal Program

In our opinion, Chatom Union Elementary School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

Management of Chatom Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chatom Union Elementary School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chatom Union Elementary 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Varrinck, Trine, Day & Co. LLP*

Fresno, California  
December 14, 2018



VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Chatom Union Elementary School District  
Turlock, California

### Report on State Compliance

We have audited Chatom Union Elementary School District's (the District) compliance with the types of compliance requirements as identified in the 2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting that could have a direct and material effect on each of the Chatom Union Elementary School District's State government programs as noted below for the year ended June 30, 2018.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Chatom Union Elementary School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. These 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 noted below. An audit includes examining, on a test basis, evidence about Chatom Union Elementary 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 opinions. Our audit does not provide a legal determination of Chatom Union Elementary School District's compliance with those requirements.

### Unmodified Opinion

In our opinion, Chatom Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	No (see below)
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No (see below)
After School	Yes
Before School	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study –Course Based	No (see below)
<b>CHARTER SCHOOLS</b>	
Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Non Classroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

We did not perform procedures for Independent Study because the independent study ADA was under the level that requires testing.

We did not perform Continuation Education procedures because the program is not offered by the District.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

We did not perform procedures for the General Requirements of the After/Before School Education and Safety Program because the grantee, Stanislaus County Office of Education, administers the program and has its own audit.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study –Course Based program; therefore, we did not perform any procedures related to Independent Study –Course Based.

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 14, 2018

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018

### FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

### FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	
Identification of major Federal programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

### STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

None reported.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

None reported.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

None reported.

# CHATOM UNION ELEMENTARY SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### State Awards Findings and Questioned Costs

2017-001      61000

#### Classroom Teacher Salaries

##### Criteria

Education Code Section 41372 requires that the payment of classroom teacher salaries and benefits meet or exceed 60 percent (for elementary districts) of total expenditures of the District.

##### Condition

The District spent 58.41 percent of their current expense of education (\$5,228,256) on classroom teacher salaries and benefits.

##### Questioned Costs

The deficiency was calculated to be \$82,873.

##### Cause

Collective bargaining agreements had not been settled as of June 30, 2017, which would have resulted in an increase to the classroom teachers salaries and benefits.

##### Effect

The deficiency amount was determined to be \$82,873; therefore, the District is out of compliance with Education Code Section 41372.

##### Recommendation

We recommend the District continue to work on this requirement and apply for a waiver of the requirement from the Stanislaus County Office of Education.

##### Current Status

Implemented.

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## APPENDIX C

### GENERAL INFORMATION CITY OF TURLOCK AND STANISLAUS COUNTY

*The following information in this section of the Official Statement concerning the City of Turlock and surrounding areas is included only for the purpose of supplying general information regarding the community. The taxing power of the City of Turlock, Stanislaus County, the State of California, and any political subdivision thereof is not pledged to the payment of the Refunding Bonds. The Refunding Bonds are not a debt of the City of Turlock, Stanislaus County, the State of California, or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.*

#### General

**The City.** The City of Turlock (the “City”) is located in Stanislaus County (the “County”), approximately half-way between Fresno and Sacramento on Highway 99 in the Central Valley, 107 miles east of San Francisco, 85 miles south Sacramento, and 305 miles north of Los Angeles.

Once a farming community for the first settlers in 1850's, the City is now the second largest city in the County covering 13.3 square miles and with a population of over 74,000. While agriculture still plays a major role, the City has an increasingly diverse economy with a variety of businesses and industry located in town.

**The County.** The County is located approximately 90 minutes southeast from both the City of San Francisco and Silicon Valley. The County covers approximately 1,521 square miles and reaches from the Sierra Nevada foothills to California's coastal range. It is located in the geographic center of the State.

#### Population

The following sets forth the County and City population estimates as of January 1 for the years 2014 through 2018.

#### COUNTY OF STANISLAUS Estimated Population

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Ceres	46,317	46,515	46,923	47,755	48,326
Hughson	7,057	7,102	7,190	7,463	7,738
Modesto	207,104	209,296	211,675	214,181	215,692
Newman	10,864	10,932	11,130	11,471	11,801
Oakdale	21,628	21,851	22,259	22,816	23,324
Patterson	21,172	21,604	22,123	22,395	22,679
Riverbank	23,707	23,830	24,154	24,934	25,244
<b>Turlock</b>	<b>71,418</b>	<b>72,454</b>	<b>73,409</b>	<b>74,392</b>	<b>74,730</b>
Waterford	8,801	8,872	8,957	9,074	9,149
Balance Of County	111,782	112,449	113,186	115,495	116,941
<b>County Total</b>	<b>529,850</b>	<b>534,905</b>	<b>541,006</b>	<b>549,976</b>	<b>555,624</b>

*Source: State of California Department of Finance, Demographic Research Unit.*

## Employment and Industry

The District is included in the Modesto Metropolitan Statistical Area (“**MSA**”). The unemployment rate in the County was 5.7% in November 2018, up from a revised 5.4% in October 2018, and below the year-ago estimate of 6.5%. This compares with an unadjusted unemployment rate of 3.9% for California and 3.5% for the nation during the same period.

The table below provides information about employment by industry type for the MSA for calendar years 2013 through 2017.

**MODESTO MSA  
(County of Stanislaus)  
Annual Average Civilian Labor Force,  
Employment and Unemployment  
(March 2017 Benchmark)**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Civilian Labor Force	241,000	241,200	241,600	243,500	243,300
Employment	209,800	214,200	218,700	222,600	225,100
Unemployment	31,200	26,900	22,900	21,000	18,200
Unemployment Rate	12.9%	11.2%	9.5%	8.6%	7.5%
<u>Wage and Salary Employment:</u> <sup>(1)</sup>					
Agriculture	14,100	14,100	14,600	14,900	14,300
Mining, Logging and Construction	7,000	7,500	8,500	9,000	9,300
Manufacturing	20,900	21,200	21,300	21,800	21,300
Wholesale Trade	5,900	5,900	5,900	6,100	6,300
Retail Trade	21,500	21,800	22,400	22,700	23,300
Trans., Warehousing, Utilities	7,100	7,200	7,500	8,200	7,700
Information	900	900	900	1,000	1,000
Financial Activities	5,400	5,300	5,200	5,300	5,300
Professional and Business Services	13,400	13,800	14,200	14,600	14,800
Educational and Health Services	28,800	29,800	30,700	31,100	32,200
Leisure and Hospitality	15,800	16,900	17,800	18,700	19,200
Other Services	5,000	5,200	5,300	5,400	5,800
Federal Government	800	800	800	800	800
State Government	1,800	1,900	1,900	2,000	2,100
Local Government	22,900	23,400	23,900	24,800	25,400
<b>Total All Industries</b> <sup>(2)</sup>	<b>171,100</b>	<b>175,800</b>	<b>181,000</b>	<b>186,400</b>	<b>188,600</b>

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) May not add due to rounding.

Source: State of California Employment Development Department.

## Major Employers

The table below lists the major employers in the County as of January 2019, listed alphabetically.

### COUNTY OF STANISLAUS Major Employers (Listed Alphabetically) January 2019

Employer Name	Location	Industry
Bartles & Jaymes Co	Modesto	Wineries (Mfrs)
Bronco Wine Co	Ceres	Wineries (Mfrs)
Community Services Agency	Not Available	Government Offices-County
Con Agra Foods Inc	Oakdale	Food Products (whls)
Copperidge Winery	Modesto	Vineyards
Del Monte Foods Inc	Modesto	Food Products & Manufacturers
E & J Gallo Winery	Modesto	Wineries (Mfrs)
Ecco Domani Winery	Modesto	Wineries (Mfrs)
Emanuel Medical Ctr	Turlock	Hospitals
Foster Farms	Turlock	Poultry Processing Plants (Mfrs)
Frito-Lay Inc	Modesto	Potato Chips (Whls)
Gallo Vineyards Inc	Modesto	Wineries (Mfrs)
Health Services Inc	Modesto	Clinics
Macdonald Group	Modesto	Real Estate
Memorial Medical Ctr	Modesto	Hospitals
Modesto Bee	Modesto	Newspapers (Publishers/Mfrs)
Oak Valley Hospital District	Oakdale	Hospitals
Peter Vella Winery	Modesto	Wineries (Mfrs)
Stanislaus County Community	Modesto	Government Offices-County
Stanislaus County Welfare Dept	Modesto	County Government-Social/Human Resources
Storer Coachways	Modesto	Buses-Charter & Rental
Temsa	Turlock	Nonclassified Establishments
Turlock Irrigation District	Turlock	Electric Companies
Women Infants Child Prgm-W I C	Modesto	Health Services
Zabaco Winery	Modesto	Wineries

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2019 1st Edition.



## Median Effective Buying Income

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

The following table summarizes the total effective buying income for the City of Turlock, County of Stanislaus, the State and the United States for the period 2015 through 2019.

**CITY OF TURLOCK, COUNTY OF STANISLAUS, STATE OF CALIFORNIA  
AND UNITED STATES  
Effective Buying Income  
As of January 1, 2015 through 2019**

<b>Year</b>	<b>Area</b>	<b>Total Effective Buying Income (000's Omitted)</b>	<b>Median Household Effective Buying Income</b>
2015	City of Turlock	\$1,206,833	\$40,554
	County of Stanislaus	8,644,033	40,665
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2016	City of Turlock	\$1,417,408	\$45,738
	County of Stanislaus	9,747,128	44,099
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	City of Turlock	\$1,386,490	\$46,252
	County of Stanislaus	10,090,714	45,932
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	City of Turlock	\$1,573,637	\$50,800
	County of Stanislaus	11,160,933	49,836
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	City of Turlock	\$1,617,859	\$50,279
	County of Stanislaus	11,772,166	51,340
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

*Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019.*

## Construction Activity

Provided below are the building permits and valuations for the City and the County for calendar years 2013 through 2017.

### CITY OF TURLOCK Total Building Permit Valuations Calendar Years 2013 through 2017 (valuations in thousands)

	2013	2014	2015	2016	2017
<u>Permit Valuation</u>					
New Single-family	\$11,761.6	\$19,355.6	\$14,010.9	\$9,291.5	\$5,458.8
New Multi-family	0.0	0.0	218.2	0.0	0.0
Res. Alterations/Additions	8,928.9	9,776.0	8,653.2	14,876.0	13,114.1
Total Residential	20,690.5	29,131.6	22,882.3	24,167.5	18,572.9
New Commercial	8,029.0	5,728.2	12,509.6	12,147.3	13,745.0
New Industrial	87.2	12,793.4	3,797.4	4,880.0	0.0
New Other	164.7	993.2	1,718.0	11,303.7	5,195.1
Com. Alterations/Additions	15,686.3	28,617.5	14,968.5	17,608.9	17,000.1
Total Nonresidential	23,967.2	48,132.3	32,993.5	45,939.9	35,940.2
<u>New Dwelling Units</u>					
Single Family	51	91	58	45	26
Multiple Family	0	0	2	0	0
TOTAL	51	91	60	45	26

Source: Construction Industry Research Board, Building Permit Summary.

### COUNTY OF STANISLAUS Total Building Permit Valuations Calendar Years 2013 through 2017 (valuations in thousands)

	2013	2014	2015	2016	2017
<u>Permit Valuation</u>					
New Single-family	\$64,015.4	\$91,762.8	\$105,229.0	\$156,444.5	\$168,250.6
New Multi-family	3,362.9	7,700.0	1,063.2	1,054.8	26,655.7
Res. Alterations/Additions	27,737.5	37,921.7	30,899.7	38,540.1	46,491.2
Total Residential	95,115.8	137,384.5	137,191.9	196,039.4	241,397.5
New Commercial	66,570.6	22,626.8	90,382.3	98,365.3	74,468.2
New Industrial	10,668.9	63,065.1	4,075.1	5,760.0	32,379.3
New Other	20,898.1	97,893.0	27,895.3	57,435.6	32,339.9
Com. Alterations/Additions	72,028.7	17,385.2	52,925.3	67,625.0	99,818.3
Total Nonresidential	170,166.3	200,970.1	175,278.0	229,185.9	239,005.7
<u>New Dwelling Units</u>					
Single Family	292	389	476	678	788
Multiple Family	42	50	14	14	100
TOTAL	334	439	490	692	888

Source: Construction Industry Research Board, Building Permit Summary.

## Commercial Activity

Total taxable sales during calendar year 2016 in the City were reported to be \$1,221,243,206, a 3.03% increase over the total taxable sales of \$1,185,278,924 reported during calendar year 2015. Annual figures are not yet available for 2017.

**CITY OF TURLOCK**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in Thousands)**

	<b>Retail Stores</b>		<b>Total All Outlets</b>	
	<b>Number of Permits</b>	<b>Taxable Transactions</b>	<b>Number of Permits</b>	<b>Taxable Transactions</b>
2012	1,002	\$820,930	1,485	\$1,019,562
2013	1,018	843,746	1,502	1,076,470
2014	1,051	891,565	1,532	1,148,835
2015 <sup>(1)</sup>	1,150	905,141	1,719	1,185,279
2016	1,189	921,174	1,776	1,221,243

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

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

Total taxable sales during calendar year 2016 in the County were reported to be \$8,671,624,503, a 6.11% increase over the total taxable sales of \$8,172,288,671 reported during the calendar year 2015. Annual figures are not yet available for 2017.

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

	<b>Retail Stores</b>		<b>Total All Outlets</b>	
	<b>Number of Permits</b>	<b>Taxable Transactions</b>	<b>Number of Permits</b>	<b>Taxable Transactions</b>
2012	6,649	\$4,709,642	9,761	\$7,178,273
2013	6,741	4,998,626	9,757	7,639,992
2014	6,875	5,226,290	9,899	7,903,608
2015 <sup>(1)</sup>	3,819	5,433,420	11,028	8,172,289
2016	7,295	5,667,430	11,236	8,671,625

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

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

## APPENDIX D

### FORM OF OPINION OF BOND COUNSEL

March 6, 2019

Board of Trustees  
Chatom Union School District  
7201 Clayton Road  
Turlock, CA 95380

**OPINION:**       \$5,511,591.75 Chatom Union School District  
                      2019 Refunding General Obligation Bonds

Members of the Board of Trustees:

We have acted as bond counsel to the Chatom Union School District (the "District") in connection with the issuance by the Board of Trustees of the District (the "Board") of its \$5,511,591.75 principal amount of Chatom Union School District (Stanislaus County, California) 2019 Refunding General Obligation Bonds (the "Bonds"). The Bonds have been authorized to be issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Bond Law"), and a resolution of the Board of Trustees of the District (the "Board") adopted on January 8, 2019 (the "Bond 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 Bond Resolution and in the certified proceedings and other certifications furnished to us, without undertaking to verify such facts by independent investigation.

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

1. The District is duly created and validly existing as a school district with the power to issue the Bonds and to perform its obligations under the Bond Resolution and the Bonds.
2. The Bond Resolution has been duly adopted by the Board and constitutes a valid and binding obligation of the Board enforceable against the Board in accordance with its terms.
3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District, and the Board of Supervisors of the County of Stanislaus is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount (except for certain personal property that is taxable at limited rates).
4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the

Internal Revenue Code of 1986, as amended (the "Tax Code"), and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to the portion of the Bonds designated as and comprising interest.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds, and in order for the Bonds to be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds, or may cause the Bonds not to be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

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

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

*Jones Hall,*  
A Professional Law Corporation

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**\$5,511,591.75**  
**CHATOM UNION SCHOOL DISTRICT**  
(Stanislaus County, California)  
**2019 Refunding General Obligation Bonds**

#### **Continuing Disclosure Certificate**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Chatom Union School District (the “District”) in connection with the issuance of \$5,511,591.75 aggregate principal amount of Chatom Union School District (Stanislaus County, California) 2019 Refunding General Obligation Bonds (the “Bonds”). The Bonds are being issued under a resolution adopted by the Board of Trustees of the District on January 8, 2019 (the “Bond Resolution”). The Bank of New York Mellon Trust Company, N.A., is initially acting as paying agent for the Bonds (the “**Paying Agent**”). The District covenants and agrees as follows:

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

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

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

“*Annual Report Date*” means the date that is nine months after the end of the District’s fiscal year (currently March 31 based on the District’s fiscal year end of June 30).

“*Dissemination Agent*” means initially PFM Financial Advisors LLC, or any other third party Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

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

“*Participating Underwriter*” means Raymond James & Associates, Inc., the original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

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

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

### Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to provide, not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing no later than March 31, 2020 with the report for the 2018-19 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide in a timely manner (or cause the Dissemination Agent to provide in a timely manner) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) in a timely manner to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

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

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), 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) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

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

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

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

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

(v) current fiscal year assessed valuation of taxable properties in the District, including assessed valuation of the top ten properties.

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

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 have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.



- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District.
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material.
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6) (other than adverse tax opinions with respect to the tax status of the Bonds or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a notice of Proposed Issuance (IRS Form 5701 TEB) with respect to the Bonds), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) or (a)(15) above, the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds.

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

governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

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

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

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. 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 hereof, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

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

Section 9. Additional Information. Nothing in this Disclosure Certificate prevents the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. If the District fails to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: March 6, 2019

**CHATOM UNION SCHOOL  
DISTRICT**

By: \_\_\_\_\_  
Superintendent

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligor: Chatom Union School District

Name of Bond Issue: \$5,511,591.75 aggregate principal amount of Chatom Union School District (Stanislaus County, California) 2019 Refunding General Obligation Bonds

Date of Issuance: March 6, 2019

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

Dated: \_\_\_\_\_

**DISSEMINATION AGENT**

By: \_\_\_\_\_  
Authorized Officer

cc: Chatom Union School District

## APPENDIX F

### DTC AND THE BOOK-ENTRY SYSTEM

*The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the 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"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). *The information contained on this Internet site is not incorporated herein by reference.*

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

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

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

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

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

rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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



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**APPENDIX G**  
**TABLE OF ACCRETED VALUES**

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**Bond Accreted Value Table**  
Chatom Union School District

2006 Election, Series 2007C										
	Serial Capital Appreciation Bonds 08/01/2022	Serial Capital Appreciation Bonds 08/01/2023	Serial Capital Appreciation Bonds 08/01/2024	Serial Capital Appreciation Bonds 08/01/2025	Serial Capital Appreciation Bonds 08/01/2029	Serial Capital Appreciation Bonds 08/01/2030	Serial Capital Appreciation Bonds 08/01/2031	Serial Capital Appreciation Bonds 08/01/2034	Serial Capital Appreciation Bonds 08/01/2035	Serial Capital Appreciation Bonds 08/01/2037
Date	1.93%	2.02%	2.11%	2.23%	3.04%	3.25%	3.45%	3.78%	3.84%	3.96%
3/6/19	4,683.65	4,576.55	4,463.95	4,338.10	3,653.05	3,461.90	3,271.30	2,808.45	2,679.25	2,429.75
8/1/19	4,720.00	4,613.75	4,501.85	4,377.05	3,697.75	3,507.15	3,316.65	2,851.15	2,720.60	2,468.45
2/1/20	4,765.55	4,660.35	4,549.35	4,425.85	3,753.95	3,564.15	3,373.90	2,905.05	2,772.85	2,517.35
8/1/20	4,811.55	4,707.40	4,597.30	4,475.20	3,811.00	3,622.05	3,432.10	2,959.95	2,826.10	2,567.20
2/1/21	4,857.95	4,754.95	4,645.85	4,525.10	3,868.90	3,680.90	3,491.30	3,015.90	2,880.35	2,618.00
8/1/21	4,904.85	4,802.95	4,694.85	4,575.55	3,927.75	3,740.75	3,551.50	3,072.90	2,935.65	2,669.85
2/1/22	4,952.20	4,851.50	4,744.35	4,626.55	3,987.45	3,801.50	3,612.75	3,130.95	2,992.00	2,722.70
8/1/22	5,000.00	4,900.50	4,794.40	4,678.15	4,048.05	3,863.30	3,675.10	3,190.15	3,049.45	2,776.60
2/1/23		4,950.00	4,845.00	4,730.30	4,109.55	3,926.10	3,738.50	3,250.45	3,108.00	2,831.60
8/1/23		5,000.00	4,896.10	4,783.05	4,172.05	3,989.90	3,803.00	3,311.85	3,167.65	2,887.65
2/1/24			4,947.80	4,836.40	4,235.45	4,054.70	3,868.60	3,374.45	3,228.50	2,944.85
8/1/24			5,000.00	4,890.30	4,299.85	4,120.60	3,935.30	3,438.25	3,290.50	3,003.15
2/1/25				4,944.85	4,365.20	4,187.55	4,003.20	3,503.20	3,353.65	3,062.60
8/1/25				5,000.00	4,431.55	4,255.60	4,072.25	3,569.45	3,418.05	3,123.25
2/1/26					4,498.90	4,324.75	4,142.50	3,636.90	3,483.70	3,185.10
8/1/26					4,567.30	4,395.05	4,213.95	3,705.65	3,550.55	3,248.15
2/1/27					4,636.70	4,466.45	4,286.65	3,775.65	3,618.75	3,312.45
8/1/27					4,707.20	4,539.05	4,360.60	3,847.05	3,688.20	3,378.05
2/1/28					4,778.75	4,612.80	4,435.80	3,919.75	3,759.05	3,444.95
8/1/28					4,851.35	4,687.75	4,512.35	3,993.80	3,831.20	3,513.15
2/1/29					4,925.10	4,763.95	4,590.15	4,069.30	3,904.75	3,582.70
8/1/29					5,000.00	4,841.35	4,669.35	4,146.20	3,979.75	3,653.65
2/1/30						4,920.00	4,749.90	4,224.60	4,056.15	3,726.00
8/1/30						5,000.00	4,831.85	4,304.40	4,134.05	3,799.75
2/1/31							4,915.20	4,385.80	4,213.40	3,875.00
8/1/31							5,000.00	4,468.65	4,294.30	3,951.75
2/1/32								4,553.15	4,376.75	4,029.95
8/1/32								4,639.20	4,460.80	4,109.75
2/1/33								4,726.85	4,546.45	4,191.15
8/1/33								4,816.20	4,633.70	4,274.15
2/1/34								4,907.25	4,722.70	4,358.75
8/1/34								5,000.00	4,813.35	4,445.05
2/1/35									4,905.80	4,533.05
8/1/35									5,000.00	4,622.85
2/1/36										4,714.35
8/1/36										4,807.70
2/1/37										4,902.90
8/1/37										5,000.00