

SUPPLEMENT DATED AUGUST 12, 2019
to the
PRELIMINARY OFFICIAL STATEMENT DATED JULY 31, 2019
relating to
\$5,700,000*
REFUNDING CERTIFICATES OF PARTICIPATION
Series 2019
Evidencing Proportionate Undivided Interests of the
Owners Thereof in Base Rental Payments to Be Made to the
PERRIS SCHOOL DISTRICT SCHOOL FACILITIES CORPORATION
by
PERRIS ELEMENTARY SCHOOL DISTRICT

THIS SUPPLEMENT DATED AUGUST 12, 2019 (THIS "SUPPLEMENT") AMENDS AND SUPPLEMENTS THE PRELIMINARY OFFICIAL STATEMENT DATED JULY 31, 2019 (THE "ORIGINAL PRELIMINARY OFFICIAL STATEMENT") FOR THE ABOVE- REFERENCED CERTIFICATES OF PARTICIPATION AND CONSTITUTES AN INTEGRAL PART OF THE ORIGINAL PRELIMINARY OFFICIAL STATEMENT. TOGETHER, THIS SUPPLEMENT AND ORIGINAL PRELIMINARY OFFICIAL STATEMENT CONSTITUTE THE "PRELIMINARY OFFICIAL STATEMENT" AND SHOULD BE READ TOGETHER WITH THE ORIGINAL PRELIMINARY OFFICIAL STATEMENT, WHICH ORIGINAL PRELIMINARY OFFICIAL STATEMENT IS ATTACHED HERETO AND MADE A PART HEREOF. EXCEPT AS EXPRESSLY SET FORTH HEREIN, THIS SUPPLEMENT DOES NOT UPDATE, MODIFY OR REPLACE THE INFORMATION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT, WHICH CONTAINS INFORMATION ONLY AS OF ITS DATE. TO THE EXTENT THE INFORMATION IN THIS SUPPLEMENT CONFLICTS WITH THE INFORMATION IN THE PRELIMINARY OFFICIAL STATEMENT, THIS SUPPLEMENT SHALL GOVERN. UNLESS OTHERWISE DEFINED IN THIS SUPPLEMENT, ALL TERMS USED HEREIN SHALL HAVE THE SAME MEANINGS AS THOSE TERMS HAVE IN THE PRELIMINARY OFFICIAL STATEMENT.

The Original Preliminary Official Statement is hereby amended as follows:

- A. Any reference made to the "Certificates" shall mean the \$5,700,000* Refunding Certificates of Participation Series 2019 (Bank Qualified) Evidencing Proportionate Undivided Interests of the Owners Thereof in Base Rental Payments to Be Made to the Perris School District School Facilities Corporation by Perris Elementary School District.
- B. The Table of Contents in the Original Preliminary Official Statement is hereby amended by adding "BANK QUALIFIED" after the heading "UNDERWRITING" and before the heading "CONTINUING DISCLOSURE" in the Table of Contents.
- C. The following heading and paragraph below are incorporated into the Original Preliminary Official Statement by reference herein and shall be stated as follows:

BANK QUALIFIED

The District has not issued, and does not expect to issue, any tax-exempt obligations in the calendar year commencing January 1, 2019, that exceed the aggregate of \$10,000,000. On the basis of this expectation, the District has designated the Certificates as qualified tax-exempt obligations under and for the purposes of Section 265(b)(3) of the Code.

PERRIS ELEMENTARY SCHOOL DISTRICT

* Preliminary; subject to change

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NEW ISSUE — BOOK-ENTRY ONLY

INSURED RATING: S&P: "AA"
UNDERLYING RATING: S&P: "A"
(See "RATINGS" herein.)

In the opinion of Nixon Peabody LLP, Special Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the District described herein, interest with respect to the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Special Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. Special Counsel is further of the opinion that interest with respect to the Certificates is exempt from personal income taxes of the State of California (the "State") under present State law. See "TAX MATTERS" herein regarding certain other tax considerations.

\$5,700,000*

REFUNDING CERTIFICATES OF PARTICIPATION

Series 2019

**Evidencing Proportionate Undivided Interests of the
Owners Thereof in Base Rental Payments to Be Made to the
PERRIS SCHOOL DISTRICT SCHOOL FACILITIES CORPORATION**

by

PERRIS ELEMENTARY SCHOOL DISTRICT

Dated: Date of Delivery

Due: As shown on inside cover.

The above-captioned certificates (the "Certificates") evidence the proportionate undivided interests of the Owners thereof in the payment of Base Rental (as defined herein) to be made pursuant to the Sublease (as defined herein) by and between the Perris School District School Facilities Corporation (the "Corporation") and the Perris Elementary School District (the "District"), and a Trust Agreement (defined herein), by and among the Corporation, the District and U.S. Bank National Association, as trustee (the "Trustee"). The Certificates are being executed and delivered to (i) provide for the current prepayment of the District's Certificates of Participation (2004 School Facility Bridge Funding Program) (the "Prior Certificates"), (ii) provide for the payment of a premium for a debt service reserve surety policy, and (iii) to pay costs incident to executing and delivering the Certificates. See "PLAN OF REFINANCING." The Certificates will be delivered in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Certificates will not receive certificated securities representing their interests therein.

Interest due with respect to the Certificates is payable semiannually on March 1 and September 1 commencing on September 1, 2019 (each, a "Payment Date"). On each Payment Date, the Trustee will make all payments of principal, premium, if any, and interest, for so long as the Certificates are registered in the name of Cede & Co., to DTC, which, in turn, is obligated to remit such principal, premium, if any, and interest to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Certificates. Principal with respect to the Certificates is payable upon surrender of the Certificates at maturity or earlier prepayment at the principal corporate trust office of the Trustee in Los Angeles, California. The Certificates are to be delivered as fully registered certificates in authorized denominations of \$5,000 or any integral multiple thereof.

The Certificates are subject to prepayment as described herein. See the caption "THE CERTIFICATES" herein.

The District has covenanted under the Sublease that, so long as the Base Rental is available for the District's use, it will take such action as may be necessary to include in its annual budgets all of the Base Rental due in each fiscal year and to make the necessary annual appropriations therefor, subject to abatement thereof in the event of damage, destruction, condemnation or any defect of title which substantially interferes with the District's use and right of possession of the Leased Premises. Under the Sublease, the District is required to maintain rental interruption insurance and certain other types of insurance. See "CERTAIN RISK FACTORS" herein.

THE OBLIGATIONS OF THE DISTRICT TO PAY BASE RENTAL DO NOT CONSTITUTE OBLIGATIONS OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE DISTRICT TO PAY BASE RENTAL UNDER THE SUBLEASE CONSTITUTE A DEBT OF THE DISTRICT, THE CORPORATION, THE COUNTY OF RIVERSIDE, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR OTHERWISE, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF ANY OF THE FOREGOING.

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



MATURITY SCHEDULE
(See Inside Cover)

The Certificates maturing in each of the years identified on the inside cover evidence and represent direct and proportionate undivided interests of the owners thereof in Base Rental payments to be made by the District.

See the section of this Official Statement captioned "CERTAIN RISK FACTORS" for a discussion of certain risks associated with the purchase of the Certificates which, in addition to other matters set forth herein, should be considered in evaluating the investment quality of the Certificates. This cover page contains information for quick reference only. Investors must read this entire Official Statement in order to obtain information essential to making an informed investment decision.

The Certificates are offered when, as and if executed, delivered and received by RBC Capital Markets, LLC, the Underwriter, subject to the approval as to their validity and enforceability by Nixon Peabody LLP, San Francisco, California, and certain other conditions. Certain legal matters will be passed upon for the District by Nixon Peabody LLP as Disclosure Counsel, for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, and for the Trustee and Certificate Insurer by their respective counsels. It is anticipated that the Certificates will be available for delivery in definitive form through the facilities of DTC on or about August __, 2019.



Dated: July __, 2019

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE*

\$ _____ Serial Certificates

<u>Maturity (September 1)</u>	<u>Principal Component</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP† (714383)</u>
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\$ _____, ___% Term Certificate due September 1, 20____, Yield ___%, CUSIP† 714383____

* Preliminary; subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the District or the Underwriter and are included solely for the convenience of the registered owners of the applicable Certificates. Neither the District nor the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Certificates or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offers made hereby and, if given or made, such information or representation must not be relied upon as having been authorized by the District. The information set forth in this Official Statement has been obtained from the District, the County of Riverside (see APPENDIX F – “COUNTY OF RIVERSIDE POOLED INVESTMENT FUND”) and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstance create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement does not constitute an offer to sell the Certificates in any state or other jurisdiction to any person to whom it is unlawful to make such an offer in such state or jurisdiction.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. 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 facts.

All summaries of the Certificates, the Trust Agreement and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

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

This Official Statement is submitted in connection with the execution and delivery of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Build America Mutual Assurance Company (the “Certificate Insurer”) makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, the Certificate Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Certificate Insurer, supplied by the Certificate Insurer and presented under the heading “CERTIFICATE INSURANCE” and “APPENDIX I – Specimen Municipal Bond Insurance Policy”.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “project,” “forecast” or other similar words.

The District maintains a website and certain social media accounts. However, the information presented there is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the Certificates. Various other websites referred to in this Official Statement are also not incorporated herein by such references.

The Preliminary Official Statement has been “deemed final” by the District for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FORWARD-LOOKING STATEMENTS. NO ASSURANCE IS GIVEN THAT ACTUAL RESULTS WILL MEET THE FORECASTS CONTAINED HEREIN IN ANY WAY. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THESE FORWARD-LOOKING STATEMENTS IF OR WHEN THEIR EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR OR DO NOT OCCUR.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE RESOLUTION (AS DEFINED HEREIN) BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXCEPTIONS CONTAINED IN SUCH ACTS. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS IN ANY STATE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER FEDERAL, STATE OR OTHER GOVERNMENTAL ENTITY, NOR ANY AGENCY OR DEPARTMENT THEREOF, HAS PASSED UPON THE MERITS OF THE CERTIFICATES OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. THE CERTIFICATES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

PERRIS ELEMENTARY SCHOOL DISTRICT
Riverside County, State of California

Board of Trustees

Virniecia Green-Jordan, President
Jose “Pepe” Garcia, Clerk
Michelle Maisel, Member
Maribel Nava, Member
David Santos, Member

District Administrators

Jean Marie Fréy, Superintendent
Francine M. Story, Chief Business Official

Underwriter

RBC Capital Markets, LLC
Los Angeles, California

Special Counsel

Nixon Peabody LLP
San Francisco, California

Trustee

U.S. Bank National Association
Los Angeles, California

Financial Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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OFFICIAL STATEMENT

\$5,700,000*

REFUNDING CERTIFICATES OF PARTICIPATION

Series 2019

**Evidencing Proportionate Undivided Interests of the
Owners Thereof in Base Rental Payments to Be Made to the
PERRIS SCHOOL DISTRICT SCHOOL FACILITIES CORPORATION**

by

PERRIS ELEMENTARY SCHOOL DISTRICT

INTRODUCTION

All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Sublease or the Trust Agreement shall have the meanings assigned to such terms as set forth therein. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” herein.

The purpose of this Official Statement, including the cover page, inside cover page, Table of Contents and Appendices (the “Official Statement”), is to provide certain information concerning the execution, sale and delivery of the above-captioned Certificates of Participation, in the aggregate principal amount indicated above (collectively, the “Certificates”). The Perris Elementary School District, Riverside County, California (the “District”), a public school district duly organized and existing under the laws of the State of California (the “State”), will execute a Site and Facilities Lease, dated as of August 1, 2019 (the “Site Lease”), pursuant to which the District will lease certain real property (the “Leased Premises”) to the Perris School District School Facilities Corporation, a California nonprofit public benefit corporation (the “Corporation”). For further information concerning the District, see APPENDIX A herein. The Corporation will execute a Sublease and Option to Purchase, dated as of August 1, 2019 (the “Sublease”), pursuant to which the Corporation will sublease the Leased Premises to the District. The Certificates are being executed, sold and delivered pursuant to a Trust Agreement, dated as of August 1, 2019 (the “Trust Agreement”), by and among the District, the Corporation and U.S. Bank National Association (the “Trustee”). See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

The Certificates evidence and represent the proportionate undivided interest of the registered owners thereof (the “Owners”) in lease payments (the “Base Rental”) to be made by the District, as the rental for the use and possession of the Leased Premises pursuant to the Sublease.

Pursuant to an Assignment Agreement, dated as of August 1, 2019 (the “Assignment Agreement”), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the owners of the Certificates (the “Owners”), its rights under the Sublease, including (i) its right to amounts payable by the District under the Sublease, (ii) its right to receive the proceeds of casualty and rental interruption insurance on the Leased Premises and (iii) its right to enforce payment of amounts due upon default.

The Certificates are being executed and delivered to (i) provide for the current prepayment of the District’s Certificates of Participation (2004 School Facility Bridge Funding Program) (the “Prior Certificates”), (ii) provide for the payment of a premium for a debt service reserve surety policy, and

* Preliminary; subject to change.

(iii) to pay costs incident to executing and delivering the Certificates and prepaying the Prior Certificates (the “Costs of Issuance”). See “PLAN OF REFINANCING”. The Leased Premises consist of certain real property of the District as described herein under APPENDIX B – “THE LEASED PREMISES AND BASE RENTAL SCHEDULE,” and is expected to be comprised of property with an annual fair market rental value of not less than the maximum annual Base Rental.

The District is required to pay to the Trustee, as assignee of the Corporation, specified Base Rental for use and possession of the Leased Premises, which amounts are intended to be sufficient in both time and aggregate amount to pay, when due, the principal and interest payable with respect to the Certificates (see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE – Rental Payments”). In the Sublease, the District has covenanted that it will take such action as may be necessary to include in its annual budget all of the Base Rental due in each fiscal year with respect to the Leased Premises and to make the necessary annual appropriations therefor.

Under the Sublease, the District is required to maintain rental interruption insurance to cover loss of the use of the Leased Premises due to hazards including fire, lightning and all other risks covered by an extended endorsement (excluding earthquake, flood and smoke from agricultural smudging or industrial operations) covered under an insurance. Such rental interruption insurance is required to be in an amount sufficient at all times to pay the total rent payable under the Sublease to cover the period of repair or replacement but not be less than two times the maximum Base Rental payments payable in any Fiscal Year for the term of the Sublease. In addition, the Leased Premises will be insured (to the extent the District elects not to self-insure) against damage and destruction. The District currently satisfies these and other insurance requirements through coverage from a pooled insurance program of governmental entities. The District currently does not carry commercial earthquake or flood insurance. Accordingly, in the event of damage or destruction due to an earthquake or flood, no proceeds from the rental interruption insurance would be available to pay Base Rental. Net insurance proceeds and condemnation awards will, if an abatement would occur from the damage, destruction, title defect or taking of the Leased Premises, be applied to repair or replace the Leased Premises (unless the District elects not to repair or replace the Leased Premises) or to prepay all or a portion of the Certificates. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES” and “CERTAIN RISK FACTORS” herein and APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS — TRUST AGREEMENT” herein.

THE OBLIGATION OF THE DISTRICT TO PAY BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE DISTRICT TO PAY BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS UNDER THE SUBLEASE CONSTITUTE A DEBT OF THE DISTRICT, THE CORPORATION, THE COUNTY OF RIVERSIDE, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR OTHERWISE, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF ANY OF THE FOREGOING.

See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” herein for a description of certain limitations on the District’s revenues. For certain financial information with respect to the District, see APPENDIX A – “THE DISTRICT” and the Audited Financial Statements of the District in APPENDIX H hereto. There are certain risks associated with the investment in and ownership of the Certificates. See “CERTAIN RISK FACTORS” herein.

The summaries or references to the Sublease, the Site Lease, the Trust Agreement, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the Certificates included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document, agreement or statute.

THE CERTIFICATES

General Provisions

The Certificates will be executed, sold and delivered in the aggregate principal amount of \$5,700,000* and will be dated their date of delivery, and will represent and evidence interest from such date, at the rates per annum set forth on the inside cover page hereof. The Certificates will be payable semiannually on March 1 and September 1, commencing on September 1, 2019 (each, a “Payment Date”) and will mature on the designated dates in the designated years and in the principal amounts shown on the inside cover hereof. Interest with respect to any Certificate shall be payable on each Payment Date to the Owner thereof as of the close of business on the 15th day of the month preceding such Payment Date (the “Record Date”), each such interest payment to be made by check of the Trustee, sent to the Owner by first-class mail, postage prepaid, at his address as it appears on the Certificate Register; provided, however, that at the option of any Certificate Owner of at least \$1,000,000 in aggregate principal amount of Certificates, interest payments will be wired to an account at a financial institution within the United States designated by such Owner in writing prior to the applicable Record Date to the Trustee for such purpose.

The Certificates evidence and represent direct and proportionate undivided interests of Owners thereof in the Base Rental to be paid by the District. The total amount of each payment of principal and interest with respect to the Certificates made to the Owners of the Certificates is comprised of various portions of the Base Rental paid by the District on the Payment Dates.

The Certificates will be executed, sold and delivered in fully registered form in denominations of \$5,000 each or any integral multiple thereof. On each Payment Date, the Trustee will, for so long as the Certificates are registered in the name of Cede & Co., make payments of principal, premium, if any, and interest to The Depository Trust Company, New York, New York (“DTC”), which, in turn, is obligated to remit such principal, premium, if any, and interest to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Certificates. Principal and premium, if any, with respect to the Certificates is payable upon surrender of the Certificates at maturity or earlier prepayment at the principal corporate trust office of the Trustee.

The Certificates will initially be executed and delivered in book-entry only form, registered in the name of Cede & Co., as nominee of DTC. Purchasers of the Certificates (the “Beneficial Owners”) will not receive certificated securities representing their interests therein. See APPENDIX D – “BOOK-ENTRY SYSTEM.”

Optional Prepayment*

The Certificates maturing on or before September 1, 20__ are not subject to optional prepayment prior to their stated principal Payment Dates. The Certificates maturing on and after September 1, 20__ are subject to optional prepayment prior to their stated principal Payment Dates on any date on or after September 1, 20__, in whole or in part, in Authorized Denominations, from and to the extent of prepaid

* Preliminary; subject to change.

Base Rental payments paid pursuant to the Lease Agreement from any source of available funds, any such prepayment to be at a price equal to the principal evidenced by the Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Mandatory Prepayment*

The Term Certificates maturing on September 1, 20__ shall be subject to mandatory prepayment from Sinking Account Installments (as set forth below), in part, by lot, on September 1, 20__ and on each September 1 thereafter to and including September 1, 20__ from money in the Principal Account of the Certificate Fund, at a prepayment price equal to the principal as of the prepayment date, without premium, plus accrued but unpaid interest to the prepayment date. The aggregate principal of such Certificates to be so prepaid and the dates therefor shall be as indicated in the following table; provided, however, that the principal to be so prepaid is subject to reduction, to the extent the Certificates are prepaid in part in accordance with the terms of the Trust Agreement.

Year (September 1)	Principal Amount
(1)	\$
(1) Maturity.	

Extraordinary Prepayment

The Certificates are subject to mandatory prepayment, in whole or in part, on any date, from and to the extent of any condemnation proceeds or proceeds of casualty or other insurance (other than rental interruption insurance and workers’ compensation insurance) received with respect to all or a portion of the Leased Premises, to the extent that the District opts not to apply such proceeds to repair or replace said property in accordance with the terms of the Trust Agreement and the Sublease. Such prepayment will be at a prepayment price equal to 100% of the principal amount to be prepaid, together with accrued interest represented thereby to the date fixed for prepayment, without premium.

Extraordinary prepayment, as described above, and the resulting redemption of Certificates that were purchased at a price greater than the applicable redemption price could reduce the otherwise expected yield on such Certificates. See “RISK FACTORS – Extraordinary Prepayment from Insurance Proceeds.”

Selection of Certificates for Prepayment; Partial Prepayment

Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all outstanding Certificates are to be prepaid, the Trustee shall select Certificates for prepayment among maturities as directed by the District (which direction shall be consistent with the Sublease and the Trust Agreement) and within a maturity by lot. The Trustee shall promptly confirm in writing to the District the Certificates so selected for prepayment.

* Preliminary; subject to change.

Prepayment by lot shall be in such manner as the Trustee shall determine; provided, however, that the portion of any Certificate to be prepaid shall be in the principal amount of \$5,000 or any integral multiple thereof.

Upon the occurrence of an extraordinary prepayment in part, the selection of Certificates to be redeemed shall be subject to the approval of the Certificate Insurer (defined below).

Notice of Prepayment

When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice ("Prepayment Notice"), at the expense of the District, of the prepayment of the Certificates. Such Prepayment Notice shall specify: (a) the date of prepayment, (b) the place or places where the prepayment will be made, including the name and address of any paying agent, (c) the prepayment price, (d) the CUSIP numbers, if any, assigned to the Certificates to be prepaid, (e) the numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificates to be prepaid in part only, the amount of such Certificates to be prepaid, and (f) the interest rate and stated maturity date of each Certificate to be prepaid in whole or in part. Such Prepayment Notice shall further state that on the specified date there shall become due and payable upon each Certificate or portion thereof being prepaid the prepayment price, together with interest accrued to the prepayment date with respect thereto, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

At least twenty (20) but not more than sixty (60) days prior to the prepayment date, such Prepayment Notice shall be given by the Trustee to the respective Owners of Certificates designated for prepayment by first class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee as of the close of business on the day before such Prepayment Notice is given. The failure of any Owner to receive such Prepayment Notice or any defect in such Prepayment Notice shall not affect the validity of the prepayment of any Certificates. Any notice which is mailed in accordance with the provisions of the Trust Agreement provided shall be conclusively presumed to have been given, whether or not the Owner of any Certificates which are to be prepaid receives the notice.

Effect of Notice of Prepayment

Notice having been given as aforesaid, and the monies for the prepayment (including the interest to the applicable date of prepayment) having been set aside in the Certificate Fund created under the Trust Agreement, the Certificates to be prepaid shall become due and payable on such date of prepayment.

If on such prepayment date money for the prepayment of all the Certificates to be prepaid, together with interest to such prepayment date, shall be held by the Trustee so as to be available therefor on such prepayment date, and if notice of prepayment thereof shall have been given, then from and after such prepayment date interest with respect to the Certificates to be prepaid shall cease to accrue and become payable. All money held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid.

On each such prepayment date, the Trustee shall recompute the amount of Base Rental to become due in each remaining year of the Sublease following prepayment of the Certificates to be prepaid and shall notify the District in writing of the amount of such Base Rental.

All Certificates paid at maturity or prepaid prior to maturity pursuant to the Trust Agreement shall be canceled upon surrender thereof and delivered to or upon the order of the District. All or any portion of a Certificate purchased by the District shall be canceled by the Trustee.

Partial Payment of Certificates

Upon the surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the registered Owner thereof, at the expense of the District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered. Such partial prepayment shall be valid upon payment of the amount required to be paid to such registered Owner, and the District and the Trustee shall be released and discharged thereupon from all liability to the extent of such payment.

PLAN OF REFINANCING

A portion of the net proceeds of sale of the Certificates, along with certain other funds maintained by the trustee for the Prior Certificates (the "Prior Trustee"), are expected to be used to prepay all of the outstanding Prior Certificates on November 1, 2019. A portion of the net proceeds of sale of the Certificates sufficient to prepay the Prior Certificates will be deposited into an Escrow Fund (the "Escrow Fund") established under an Escrow Agreement by and among the District, the Corporation and U.S. Bank National Association, as escrow agent, (in such capacity, the "Escrow Agent") dated as of August 1, 2019 with respect to the Prior Certificates (the "Escrow Agreement"), and held uninvested as cash.

The sufficiency of the amounts on deposit in the Escrow Fund to pay the prepayment price of the Prior Certificates will be verified by Causey Demgen & Moore P.C., as Verification Agent. As a result of the deposit and application of funds so provided in the Escrow Agreement, and assuming the accuracy of the Underwriter's and Verification Agent's computations, the obligation of the District to make lease payments with respect to the Prior Certificates will be terminated. See also "VERIFICATION" herein.

ESTIMATED SOURCES AND USES OF PROCEEDS

The proceeds to be received from the sale of the Certificates, together with certain funds held by the Prior Trustee, are estimated to be applied as follows:

Sources

Principal Amount of Certificates	\$
Net Original Issue Premium/Discount	
Transfer from Reserve Fund held by Prior Trustee	
TOTAL SOURCES	\$

Uses

Escrow Fund	\$
Costs of Issuance ⁽¹⁾	
TOTAL USES	\$

⁽¹⁾ Includes legal fees, Underwriter's discount (see the caption "UNDERWRITING" herein), Financial Advisor's fees, Trustee's fees, insurance premium, reserve surety costs, printing costs, rating agency fees, fees of the Escrow Agents and Verification Agent, and other miscellaneous costs of issuance.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate evidences and represents a proportionate, undivided interest in the Sublease, including the right to receive the Base Rental to be made by the District to the Corporation. The District will enter into the Sublease, pursuant to which the District will agree to pay Base Rental in amounts sufficient to pay the payments due with respect to the Certificates. The Sublease may be amended pursuant to its terms to provide for additional lease payments secured by the Leased Premises on a parity with Base Rental made with respect to the Certificates. Base Rental will be paid from the General Fund of the District and from other legally available moneys, including from special taxes collected pursuant to the Mello-Roos Community Facilities Act of 1982.

The Corporation and the Trustee will enter into the Assignment Agreement. The Corporation, pursuant to the Assignment Agreement, will assign its rights under the Sublease to the Trustee under the Trust Agreement for the benefit of the Owners, including (i) its right to receive amounts payable by the District under the Sublease, (ii) its right to receive condemnation awards and the proceeds of insurance maintained on the Leased Premises and (iii) its right to enforce amounts payable upon default by the District.

Principal and interest due with respect to the Certificates will be made from the Base Rental payable by the District for the use and possession of the Leased Premises, from condemnation proceeds, from title insurance proceeds, from rental interruption insurance proceeds, from casualty insurance net proceeds pertaining to the Leased Premises (to the extent that such net proceeds are not used for repair or replacement), from interest or other income derived from the investment of the funds and accounts held by the Trustee for the District pursuant to the Trust Agreement, or in certain instances, from the Reserve Fund established under the Trust Agreement (the "Reserve Fund").

The District has covenanted under the Sublease to pay Base Rental for the use and possession of the Leased Premises and to take such action each year as may be necessary to include in its annual budget all of the Base Rental due in such fiscal year and to appropriate annually an amount necessary to pay such Base Rental. Base Rental received by the Trustee is to be used to make payments of principal and interest with respect to the Certificates. Under California law, even though the Sublease for the District becomes effective as of the date of original execution of the Certificates, the obligation of the District to pay Base Rental (other than to the extent that funds to make Base Rental payments are available in the Reserve Fund) must be abated in whole or in part if the District does not have full use and possession of the Leased Premises. See "– Abatement" below and "CERTAIN RISK FACTORS – Abatement."

The District has further covenanted to also pay such amounts as shall be required for the payment of all administrative costs of the Corporation relating to the Leased Premises or the execution, sale and delivery of the Certificates, including, without limitation, taxes of any sort whatsoever payable by the Corporation as a result of its interest in the Leased Premises or as may be related to the Sublease, and certain costs resulting from the administration of the Trust Agreement for the Certificates, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental for the benefit of the Owners. Base Rental is scheduled to be sufficient in both time and amount to pay when due the portion of the principal and interest with respect to the Certificates attributable to the Leased Premises and due on the next Payment Date. The Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Trust Agreement, and under no

circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates. Additional Rental payable by the District under the Sublease includes all amounts as shall be required for the payment of all administrative costs of the Corporation in connection with the Sublease, and certain payments to the Certificate Insurer in connection with the Policy and the Reserve Fund Credit Policy (each as defined herein). Base Rental and Additional Rental are subject to abatement during any period in which, by reason of condemnation, damage or destruction, or defect in title, there is substantial interference with the use and possession of the Leased Premises, or any discrete portion thereof, by the District. See “– Abatement” below and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE.” The District is responsible for the repair and maintenance of the Leased Premises and the replacement or repair of the Leased Premises to the extent provided in the Sublease.

THE OBLIGATION OF THE DISTRICT TO MAKE BASE RENTAL PAYMENTS OR ADDITIONAL RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE BASE RENTAL PAYMENTS OR ADDITIONAL RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Insurance

The Sublease requires the District to maintain insurance of the type and in the amounts set forth therein. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE.” The Sublease permits the District to rely on insurance coverage provided through a pooled insurance program of governmental entities, and the District’s coverage through its current insurers, Southern California ReLiEF and Protected Insurance Program for Schools and Community Colleges, currently satisfies these requirements. The Sublease also permits the District to self-insure to meet insurance requirements wherein the District would rely on its own reserves for payment (so long as the terms of the Sublease are satisfied) except for rental interruption insurance. The Sublease requires the District to apply the proceeds of any insurance award either to replace or repair the affected portion of the Leased Premises or to prepay the Certificates if the District elects to do so in accordance with the Trust Agreement. The amount of Base Rental will be abated and Base Rental due under the Sublease may be reduced during any period in which material damage or destruction to all or part of any component of the Leased Premises substantially interferes with the District’s use and possession thereof. Base Rental may, however, be made from the proceeds of rental interruption insurance as described below. See “CERTAIN RISK FACTORS – Abatement.”

Pursuant to the Sublease, the District will obtain a CLTA leasehold title insurance policy on the Leased Premises in an amount equal to the aggregate principal component of Certificates Outstanding.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Account, the Interest Account or the Principal Account of the Certificate Fund or the Reserve Fund, (ii) amounts received in respect of rental interruption insurance, if any, and (iii) amounts, if any, otherwise legally available to the District for payments in respect of the Sublease or to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation or defects in title there is substantial interference with the use and possession by the

District of any component of the Leased Premises, Base Rental and Additional Rental due under the Sublease with respect to the Leased Premises shall be abated such that the resulting rental payments due in any Lease Year will not exceed the annual fair rental value of the facilities located on the Leased Premises with respect to which there is no such substantial interference, as set forth in a certification of the District. Any abatement of Base Rental pursuant to the Sublease shall not be considered an Event of Default as defined therein. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation, theft or discovery of such title defect and ending with the restoration of the Leased Premises or portion thereof to tenable condition or correction of the title defect.

Such abated Base Rental, together with other moneys legally available to the Trustee, including moneys in the Reserve Fund, and rental interruption insurance, if any, may not be sufficient to pay principal and interest represented by the Certificates in the amounts and at the rates set forth thereon. In such event, all Owners would forfeit the portion of interest attributable to Base Rental payable during the period of abatement and, to the extent Certificates mature or are to be mandatorily prepaid during a period of abatement, the Owners of such Certificates would forfeit the portion of principal attributable to such abated Base Rental. The failure to make such payments of principal and interest would not under such circumstances constitute a default under the Trust Agreement, the Sublease or the Certificates. See "CERTAIN RISK FACTORS – Abatement" herein.

Reserve Fund

The Reserve Fund established under the Trust Agreement shall be funded in an amount equal to \$_____, provided however, at any time, the Reserve Fund Requirement shall not exceed the lesser of: (i) ten percent (10%) of the principal amount of the Certificates Outstanding, (ii) the maximum Base Rental payable by the District in any Lease Year between the date of calculation and the expiration of the Sublease, or (iii) 125% of the average annual Base Rental on the Certificates outstanding (the "Reserve Fund Requirement"). Under the Trust Agreement, the District, in lieu of funding the Reserve Fund with cash, may purchase a reserve fund credit policy. The District intends to purchase such a policy for the Reserve Fund (the "Reserve Fund Credit Policy") at closing from the Certificate Insurer (in such capacity, the "Reserve Insurer").

If the District reduces the amount of Certificates Outstanding through mandatory prepayment, the amounts in the Reserve Fund or under the Reserve Fund Credit Policy may decrease proportionately. Amounts in the Reserve Fund or under the Reserve Fund Credit Policy are to be used only for the payment of Base Rental to the extent that funds in the Certificate Fund are insufficient therefor; provided that amounts in the Reserve Fund may be invested in Qualified Investments under the Trust Agreement. See "RESERVE FUND CREDIT POLICY" herein.

Base Rental

Base Rental is required to be made by the District under the Sublease on each March 1 and September 1 (each, a "Lease Payment Date") for use and possession of the Leased Premises. Base Rental due on March 1 in any year shall be for the period from September 1 of the prior year to the last day of February of such year, and Base Rental payable on September 1 in any year shall be for the period from March 1 of such year to the last day of August of such year.

To secure the performance of its obligation to pay Base Rental, the District shall deposit the Base Rental payable on March 1 of any year with the Trustee on or before February 15 of such year and shall deposit the Base Rental payable on September 1 of any year with the Trustee on or before August 15 of

such year, in each case for application by the Trustee in accordance with the terms of the Trust Agreement.

On each Payment Date, the Trustee will withdraw from the Base Rental Account the aggregate amount of such Base Rental due and payable and will apply such amounts to pay principal and interest payments with respect to the Certificates. The annual aggregate amount of Base Rental for the Certificates is shown in the following amortization schedule. A schedule of semiannual Base Rental due with respect to the Certificates are set forth in APPENDIX B hereto.

SCHEDULE OF CERTIFICATE PAYMENTS

Payment Dates (September 1)	Principal Component	Interest Component	Total
Total	\$ _____	\$ _____	\$ _____

Action on Default

Should an event of default occur and be continuing under the Sublease, the Trustee, as assignee of the Corporation, may exercise any and all remedies available to the Corporation pursuant to law, including any or all of the rights set forth below in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE.” Acceleration of future Base Rental payments in the event of an event of default is not a remedy available under the Sublease. See “CERTAIN RISK FACTORS – No Acceleration upon Default” herein.

Substitution of Leased Premises

The District may substitute other property for the Leased Premises upon compliance with all of the conditions set forth in the Sublease. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE.”

Covenants to Insure

The Leased Premises are insured to the extent described in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE” hereto. The District is required to procure and maintain, or cause to be procured and maintained, a policy or policies of casualty insurance against loss or damage to the Leased Premises against fire, lightning and all other risks covered by an extended endorsement (excluding earthquake and flood), which the District currently obtains through a pooled insurance program of governmental entities. The District does not currently maintain earthquake or flood insurance with a commercial carrier, has no plans to do so and such insurance is not required by the Sublease. See “CERTAIN RISK FACTORS – Limited Insurance; Risk of Earthquake” herein. The proceeds of any insurance (other than any rental interruption or workers’ compensation insurance), including the proceeds of any self-insurance fund and of any condemnation award received on account of any damage, destruction or taking of the Leased Premises or any portion thereof, shall be held by the Trustee in a special account and made available for and applied to the extent necessary to the cost of repair or replacement of the Leased Premises. The District shall, within 90 days of the receipt by the Trustee of insurance or condemnation proceeds, notify the Trustee in writing of whether the District intends to replace or repair the Leased Premises. If the District elects to replace or repair the Leased Premises, the District shall deposit with the Trustee the full amount of any insurance deductible. If the damage, destruction or taking was such that an abatement of Rental Payments would result, the District has covenanted to (i) apply sufficient funds from the insurance proceeds, condemnation awards and other legally available funds to replace or repair the Leased Premises, or (ii) direct the Trustee to transfer the insurance proceeds and condemnation award to the Prepayment Account to be used to prepay Certificates. See “THE CERTIFICATES – Extraordinary Prepayment” herein.

Under the Sublease, the District is required to procure and maintain, or cause to be procured and maintained, throughout the term of the Sublease, rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Premises as a result of any of the hazards covered in the casualty insurance required by the Sublease, in an amount sufficient at all times to pay the total rent payable under the Sublease for a period adequate to cover the period of repair or replacement. Such policy shall provide that the amount payable thereunder shall not be less than an amount equal to two times the maximum Base Rental for the entire Leased Premises payable in any Fiscal Year for the term of the Sublease. The District currently obtains coverage from Southern California ReLiEF, a pooled insurance program of governmental entities, to satisfy these requirements. The proceeds of such insurance are to be paid to the Trustee and deposited by the Trustee in the Base Rental Account of the Certificate Fund and applied first to the Interest Account of the Certificate Fund for the immediate payment of interest payments past due, then to the Principal Account of the Certificate Fund for immediate payment of principal payments past due according to the tenor of any Certificate, and then to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement. Any excess proceeds of rental interruption insurance shall remain on deposit in the Base Rental Account to be applied to the payment of Base Rental. Because the District does not carry earthquake insurance, no proceeds from the rental interruption insurance would be available to pay Base Rental in the event of damage or destruction resulting from a seismic event. See “CERTAIN RISK FACTORS – Seismic Considerations”, “– Limited Insurance Risk of Earthquake” herein and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE” hereto.

Pursuant to the Sublease, the District is obligated to obtain, on the delivery date of the Certificate, a CLTA leasehold title insurance policy on the Leased Premises in an amount equal to the aggregate principal component of Certificates Outstanding.

Limitations on Remedies Available to Owners of the Certificates

The enforceability of the rights and remedies of the Owners of the Certificates, and the obligations incurred by the District, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Book-Entry Only System

DTC will act as securities depository for the Certificates. See APPENDIX D for a description of DTC's book-entry system.

Continuing Disclosure

The District has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the District by not later than 270 days after the end of each fiscal year, commencing with the report for the 2018-19 fiscal year, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission. See "CONTINUING DISCLOSURE" and APPENDIX G – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

Certain Definitions

Capitalized terms used but not defined herein shall have the meanings set forth in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

THE LEASED PREMISES

The Leased Premises consist of the real property and buildings at the Railway Elementary School (the "Leased Premises"). These facilities consist of a combined total of 56,077 square feet of building. In school year 2018-19, Railway Elementary School served 829 students in grades K-6. The buildings at Railway Elementary School consist of permanent structures constructed in 2006. The Leased Premises have a current insured replacement value in excess of the principal evidenced by the Certificates.

Pursuant to the Sublease, the District and the Corporation have agreed and determined that the Base Rental payments and Additional Rental payments required to be made under the Sublease are not in excess of the fair rental value of the Leased Premises. Under the terms of the Sublease, the District may substitute other property for the Leased Premises or any portion thereof, provided that certain conditions set forth in the Sublease are met. In addition, the District will have the option to purchase the

Corporation's right, title and interest in the Leased Premises on the terms and subject to the conditions set forth in the Sublease. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE" hereto.

CERTIFICATE INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Certificates, Build America Mutual Assurance Company ("BAM" or the "Certificate Insurer") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$513.9 million, \$105 million and \$408.9 million, respectively.

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

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

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

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

RESERVE FUND CREDIT POLICY

The Reserve Fund Credit Policy for the Certificates will provide that upon notice from the Trustee to the Reserve Insurer to the effect that insufficient amounts are on deposit in the Certificate Fund and the Reserve Fund to pay the principal (at maturity or pursuant to mandatory prepayment requirements) and interest on the Certificates, the Reserve Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal, and interest on the Certificates or the available amount of the Reserve Fund Credit Policy, whichever is less.

INVESTMENT OF DISTRICT FUNDS

The California Education Code provides that the funds of school districts, except as otherwise set forth below, shall be deposited into the County Treasury to the credit of the proper fund of the school district. The California Education Code provides that certain moneys not required for the immediate necessities of a school district may be invested in investments specified in Section 16430 or 53601 of the California Government Code. Accordingly, all funds of school districts not subject to the exception, including cash receipts and other moneys received by each district for deposit to the general fund of such district, are deposited with the County Treasury, to remain on deposit therein and generally available for the payment of current expenses and other obligations of the District including deposits into the Base Rental Fund, or otherwise. For a discussion of the County Treasury, see APPENDIX F – “COUNTY OF RIVERSIDE POOLED INVESTMENT FUND.” Moneys deposited with the Trustee under the Trust Agreement are not required to be deposited in the County Treasury.

INFORMATION REGARDING THE DISTRICT

The District covenants in the Sublease to budget annually and to appropriate sufficient funds to pay all Base Rental due in that fiscal year under the Sublease. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES.” District location and size, population figures, attendance figures for the District and financial information for the District are included in APPENDIX A – “THE DISTRICT.”

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and workers’ compensation, as are adequate, customary and comparable with such insurance maintained by similarly situated school districts, as further described in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE” hereto. In addition, based upon prior claims experience, the District believes that its recorded liabilities for self-insured claims are adequate.

The information regarding the District has been taken or constructed from the official records of the District. Such information has been reviewed by an authorized representative of the District acting in his or her official capacity. Such representative has determined that, as of the date hereof, the information contained herein is, to the best of his or her knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact, or omit to state a material fact, necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

THE CORPORATION

The Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California. The Corporation was formed for the primary purpose of financing facilities and equipment for the District. THE CORPORATION IS NOT OBLIGATED IN ANY MANNER WHATSOEVER TO MAKE BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

Article XIII A of the California Constitution limits the amount of any ad valorem tax on real property, to one percent (1%) of the full cash value thereof, except that additional *ad valorem* property taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and 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. 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.” The full cash value may be increased at a rate not to exceed two percent 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.

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 one percent (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 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment 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.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

In 1979, an initiative added Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B, the State and each local governmental entity has an annual “appropriations limit” and is not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of

“appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Unitary Property

Assembly Bill 454 (Chapter 921, Statutes of 1986) (“AB 454”) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”) are allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The State electric utility industry has experienced significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State’s school financing formula.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the “Smaller Classes, Safer Schools and Financial Accountability Act” (the “Smaller Classes Act”) which amends Section 1 of Article XIII A, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for “the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities,” (2) a list of projects to be funded and a certification that the school district board has evaluated “safety, class size reduction, and information technology needs in developing that list” and (3) that

annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIII A has been added to exempt the one percent (1%) *ad valorem* property tax limitation that Section 1(a) of Article XIII A of the Constitution levies, to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

The State Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* property taxes apply in any single election: (1) for an elementary and high school district, indebtedness shall not exceed \$30 per \$100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed \$60 per \$100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed \$25 per \$100,000 of taxable property. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Proposition 98

On November 8, 1988, voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" ("Proposition 98"). Proposition 98 guarantees K-14 schools a minimum share of the State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 schools are guaranteed the greater of (a) 40.9% of State General Fund revenues (the "first test"), or (b) the amount appropriated to K-14 schools 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"), or (c) a "third test" which would replace the second test in any year when the percentage growth in per capita State General Fund revenues from the prior year plus 1/2 of 1% is less than the percentage growth in the State per capita personal income. Under the third test, schools would receive the amount appropriated in the prior year adjusted for changes 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 would become a "credit" to schools which would be paid in future years when State General Fund revenue growth exceeds personal income growth.

Proposition 98 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend this minimum funding formula for a one-year period, and any corresponding reduction in funding for that year will not be paid in subsequent years. However, in determining the funding level for the succeeding year, the formula base for the prior year will be reinstated as if such suspension had not taken place. The Legislature has suspended payment on a number of occasions since voters approved Proposition 98.

Proposition 98 also changes how tax revenues in excess of the State Appropriations Limit are distributed. "Excess" tax revenues are determined based on a two-year cycle, so that the State could avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year were under its limit. After any two-year period, if there are excess State tax revenues, 50% of the excess would be transferred to K-14 schools, with the balance returned to taxpayers. Further, any excess State tax revenues transferred to K-14 schools 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 will not be increased by this amount.

Propositions 1A and 22

Proposition 1A (SCA 4), proposed by the State Legislature in connection with the 2004-05 State budget and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Pursuant to Proposition 1A, if the State reduces the Vehicle License Fee rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A required the State, beginning March 1, 2006, to suspend mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in fiscal year 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (“ERAF”) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State’s voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as “Proposition 22.”

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in fiscal year 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted fiscal year 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies. 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.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State Budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and K-14 school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to K-14 school districts and county offices of education, totaling \$1.7 billion statewide. The District is unable to predict what affect the implementation of ABx1 26 will have on the District's future receipt of tax increment revenues.

As a result of the dissolution of California redevelopment agencies and ABx1 26, the tax increment previously paid to redevelopment agencies shall first be used to pay pass-through payments to other taxing entities and second to pay the redevelopment agencies enforceable obligations; with the remaining revenue (if any) paid to the taxing entities by the County Auditor-Controller in the same proportion as other tax revenue. The District does not expect to have any of its property tax payments deferred as a result of the dissolution of area redevelopment agencies.

Propositions 30 and 55

The passage of the Governor's November Tax Initiative ("Proposition 30") on November 6, 2012, resulted in an increase in the State sales tax by a quarter-cent for four years and, for seven years, and raises taxes on individuals after their first \$250,000 in income and on couples after their first \$500,000 in earnings. These increased tax rates affect approximately one percent of California personal income tax filers and will be in effect until the conclusion of the 2018 tax year. Proposition 30 also places into the State Constitution certain requirements related to the transfer of certain State program responsibilities to local governments, mostly counties, including incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services.

Proposition 30 also provides additional tax revenues aimed at balancing the State's budget through fiscal year 2018-19, providing several billion dollars annually through fiscal year 2018-19 available for funding existing State programs, ending K-14 education payment delays, and paying other State debts. The State Office of Legislative Analyst (the "LAO") estimates that as a result of Proposition 30 and Proposition 55, which extends the temporary tax as described below, additional state tax revenues of about \$7 billion annually from 2017-18 through 2019-20 will be received by the State, with that figure increasing to about \$8 billion between 2020-21 and 2021-22. Future actions of the State Legislature and the Governor will determine the use of these funds. According to the LAO, revenues raised by Proposition 30 could be subject to multibillion-dollar swings, above or below the revenues projections, due to the majority of the additional revenue coming from the personal income tax rate increases on upper-income taxpayers. These fluctuations in incomes of upper-income taxpayers will impact potential State revenue and could complicate State budgeting in future years. After the tax increases expire, the loss of the associated tax revenues could create additional budget pressure in subsequent years.

Revenues generated from the temporary tax increases are included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts and deposited into the Education Protection Account created pursuant to Proposition 30 (the "EPA"). See "– Proposition 98" above. Pursuant to Proposition 30, funds in the EPA are allocated quarterly, with approximately 89% of such funds provided to school districts and approximately 11% to community college districts, before distribution to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district receives less than \$200

per unit of Average Daily Attendance (“ADA”) and no community college district receives 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 moneys received from the EPA are spent, provided that such board may not use any of such funds for salaries or benefits of administrators or any other administrative costs.

On November 8, 2016, voters approved Proposition 55, which extends the temporary tax increases created by Proposition 30 from the 2016 tax year through the 2030 tax year. The District cannot predict the effect the loss of the revenues generated from such temporary tax increases will have on total State revenues and the effect on the Proposition 98 formula for funding schools should the tax not be extended further.

Proposition 2

On November 4, 2014, voters approved Proposition 2, also referred to as the “Rainy Day Budget Stabilization Fund Act.” Proposition 2 changed the State’s existing requirements for the Budget Stabilization Account (“BSA”) and establishes a Public School System Stabilization Account (“PSSSA”).

Proposition 2 limits the ability of the Governor to suspend or reduce transfers to the BSA. Specifically, the Governor would have to declare a “budget emergency,” defined in Article XIIB of the State Constitution or determine that there are insufficient resources to maintain general fund expenditures for the current year, at the highest level of spending in the three most recent fiscal years. Any such declaration must be followed by a legislative bill passed by a majority vote of each house.

Proposition 2 also requires the State Controller to deposit annually 1.5% of general fund revenues and an amount equal to revenues derived from capital gains-related taxes in situations where such tax revenues are in excess of 8% of general fund revenues. Deposits to the BSA will be made until the BSA balance reaches an amount equal to 10% of general fund revenues. Additionally, from 2015-16 to 2029-30, half of any required transfers to the BSA must be allocated to reduce certain state liabilities, such as unfunded state-level pension plans and making certain payments owed to K-14 school districts.

The PSSSA will be funded by the capital gains-related tax revenues in excess of 8% of general fund revenues. The State may deposit amounts into the PSSSA only after certain conditions are met, including the payment of all amounts owing to school districts under the Proposition 98 maintenance factor and the existence of a “Test 1” year under Proposition 98.

State legislation (Senate Bill 858, as amended by Senate Bill 751) established certain limits on the amount that school districts are permitted to maintain in their reserve funds in any given period. These limits, often referred to as the “school district reserve cap,” can be triggered upon deposits into the PSSSA. If deposits in the PSSSA in a fiscal year equal or exceed 3% of the combined general fund revenues provided to school districts under Proposition 98, then a school district will be restricted from exceeding 10% of such funds in its general fund reserves in the immediately following fiscal year, among other provisions. While the Fiscal Year 2019-20 State Budget (described herein) includes a deposit of approximately \$377 million to the PSSSA, the 3% threshold was not met and the school district reserve cap is not triggered. See APPENDIX A – “Fiscal Year 2019-20 State Budget” herein.

Proposition 51

At the November 8, 2016 Election, voters in the State approved the California Public School Facility Bonds Initiative, (“Proposition 51”). Proposition 51 authorizes the sale and issuance of \$9 billion

in general obligation bonds to fund the construction and modernization of school facilities for both community colleges and K-12 schools within the state.

Specifically, the \$9 billion will be stored between a State School Facilities Fund and a California Community College Capital Outlay Bond Fund. The funds can then be used to allocate bond revenue in the following manner:

- \$3 billion for construction of new K-12 school district facilities;
- Another \$3 billion for the modernization of K-12 public school sites, which includes repairs to outdated facilities to increase earthquake and fire safety, removing asbestos, technology upgrades and other health and safety improvements;
- \$500 million for various charter school facilities;
- \$500 million for career technical education facilities;
- \$2 billion for California community college facility construction and modernization.

The State issues general obligation bonds for facility projects. Typically, K-12 schools can submit proposals for such projects to the State Office of Public School Construction for both modernization and new construction. If the project is approved, the school district will receive State grant funding and in turn the school district must contribute local funding to such projects. If sufficient local funding is unavailable, the school district may potentially receive the full project cost via State grant funding. Career technical education and charter school facilities face a similar approval process. Community college districts, on the other hand, must submit requests for facility projects to the Chancellor of the community college system. Selected projects are eventually approved and funded as part of the annual State budget. A scoring system is used to determine the State and local contributions for these community college sites.

The impact that Proposition 51 will have on school district behavior is unclear. Some school districts may spend less local funds given the greater support of state funding. However, school districts may decide to spend more local funds by proposing an increased number of facility projects with the knowledge that additional state funding could be available. It is also possible that school districts make no changes to their number of proposals for construction and modernization projects. The District pursued project funding under Proposition 51 in 2016.

Article XIIC and Article XIID of the California Constitution

The so-called “Right to Vote on Taxes Act” (“Proposition 218”) was approved by the voters in 1996. Proposition 218 added Articles XIIC and XIID to the State Constitution (“Article XIIC” and “Article XIID,” respectively), 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. 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. Article XIIC also 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.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on a county treasurer-tax collector to levy a property tax sufficient to

pay debt service on general obligation bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of general obligation bonds or to otherwise interfere with performance of the mandatory, statutory duty of the District and the County with respect to such taxes which are pledged as security for payment of the general obligation bonds. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are neither pledged nor available to pay the Certificates.

Future Initiatives

Article XIIA, Article XIIB, Article XIIC, Article XIID and the Propositions discussed above were each adopted as measures that qualified for the ballot pursuant to 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.

CERTAIN RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating an investment in the Certificates. The discussion below does not purport to be, nor should it be construed to be, complete nor a summary of all factors which may affect the financial condition of the District, the District's ability to make Base Rental payments in the future, the effectiveness of any remedies that the Trustee may have or the circumstances under which any rental payments due under the Sublease may be abated. Finally, the following is not presented in an order reflective of their relative importance to purchasers of the Certificates.

Limited Obligation

The purchase of the Certificates offered hereby is without recourse to the Corporation, and the purchaser must assume the entire risk that the District will not meet its obligations under the Sublease. The District has the obligation to make the Base Rental Payments specified in the Sublease for each Fiscal Year for which the Sublease is in force, but only to the extent to which the District has use and possession of the Leased Premises and performs certain other covenants. However, Base Rental Payments will not be made in the event of abatement, and there is no assurance that funds will be available for payment of the Certificates. There are limitations on the ability of the District to increase revenues payable to the General Fund. The ability of the District to increase the *ad valorem* property taxes (which has historically been a primary source of revenues for counties in the State) is limited pursuant to Article XIIA of the State Constitution, which was enacted in 1978. In addition, voters in 1986 approved an initiative statute that limits the imposition of new or higher taxes by local agencies, including the District. In 1996, voters approved Proposition 218, which adds Articles XIIC and XIID to the State Constitution. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" above and "- Not a Pledge of Taxes" below.

Base Rental will be payable from the District's General Fund, from which a number of other debts and obligations of the District now exist, or such other obligations that may be incurred in the future will also be payable. See "Additional Obligations of the District" below, along with APPENDIX A – "THE DISTRICT" and APPENDIX H – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

Not a Pledge of Taxes

The obligation of the District to pay Base Rental does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Base Rental payments under the Sublease constitute a debt of the District, the Corporation, the County of Riverside, the State of California or any of its political subdivisions within the meaning of the Constitution of the State of California or otherwise, or a pledge of the full faith and credit of any of the foregoing.

Although the Sublease does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under Sublease to pay Base Rental from any source of legally available funds (subject to certain exceptions) and the District has covenanted in the Sublease that, for as long as the Leased Premises is available for its use and possession, it will make the necessary annual appropriations within its budgets for all Base Rental. The District is currently liable on certain other obligations payable from general revenues, including other certificates of participation.

Additional Obligations of the District

The District has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the District, the funds available to make Base Rental payments may be decreased.

Base Rental and other payments due under the Sublease (including payment of costs of repair and maintenance of the Leased Premises, taxes and other governmental charges levied against the Leased Premises) are payable from funds lawfully available to the District. In the event that the amounts which the District is obligated to pay in a fiscal year exceed the District's revenues for such year, the District may choose to make some payments rather than making other payments, including Base Rental, based on the perceived needs of the District. The same result could occur if, because of California Constitutional limits on expenditures, the District is not permitted to appropriate and spend all of its available revenues.

No Acceleration Upon Default

In the event of a default under the Sublease, there is no available remedy of acceleration of Base Rental or the total Additional Rental due over the term of the Sublease. The District will only be liable for Additional Rental and Base Rental on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for such fiscal year's Base Rental and Additional Rental from the District. THE TRUSTEE MAY NOT DECLARE THE CERTIFICATES TO BE DUE AND PAYABLE AND ACCELERATE PAYMENT OF THE CERTIFICATES. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in the State of California, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental payments were due and against funds needed to serve the public welfare and interest.

Extraordinary Prepayment from Insurance Proceeds

Prepayment of the Certificates from certain insurance proceeds (see “THE CERTIFICATES – Extraordinary Prepayment”) could be made as provided in the Trust Agreement, and the resulting prepayment of Certificates that were purchased at a price greater than the applicable prepayment price could reduce the otherwise expected yield on such Certificates.

Abatement

The obligation of the District under the Sublease to pay Base Rental is in consideration for the use and possession of the Leased Premises. The obligation of the District to pay Base Rental may be abated in whole or in part if the District does not have full use and possession of the Leased Premises.

The amount of Base Rental due under the Sublease shall be abated during any period in which by reason of damage, destruction, eminent domain, defect of title or otherwise there is substantial interference with the use and possession of the Leased Premises. Such abatement will end with the substantial completion or replacement, repair or reconstruction of the Leased Premises. The Reserve Fund will be funded in an amount equal to the Reserve Fund Requirement for the Certificates, and such funds may be used by the Trustee to make payments with respect to the Certificates in the event amounts received by the Trustee are insufficient to pay principal and interest represented by the Certificates as such amounts become due. **In the event Base Rental is abated, no assurances can be given that moneys on deposit in the Reserve Fund or that the proceeds of rental interruption insurance will be sufficient to pay the debt service on the Certificates.** In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Fund Requirement. If damage or destruction or eminent domain proceedings with respect to the Leased Premises result in abatement of the related Base Rental and the resulting Base Rental, together with moneys in the Reserve Fund (and in the event of damage or destruction, together with rental interruption proceeds, if any), are insufficient to make all payments of principal and interest represented by the series of Certificates attributable to the District during the period that the Leased Premises is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made and no remedy is available to the Trustee or the Owners, under the Sublease or the Trust Agreement, for nonpayment under such circumstances.

Notwithstanding the foregoing provisions of the Sublease and the Trust Agreement specifying the extent of abatement in the event of the District’s failure to have use and possession of the Leased Premises, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental of the District may not be sufficient to pay all of that portion of the principal and interest represented by Certificates then remaining Outstanding.

Limited Insurance; Risk of Earthquake

The Sublease provides that the District may self-insure for casualty, liability and workers’ compensation insurance. The Sublease does not require the District to maintain actuarially determined reserves to cover payments of claims pursuant to casualty and liability insurance deductibles, or for claims not covered by the liability and casualty insurance.

Under the Sublease, the District is not required to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased Premises. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – SUBLEASE” hereto. The District does not currently carry earthquake insurance with respect to the Leased Premises and has no plans to do so in the future. Future earthquakes could damage the Leased Premises, which could result in

an abatement of lease payments. See “– Abatement” above. The rental interruption insurance procured by the District would not cover Base Rental in the event an abatement due to damage or destruction caused by an earthquake.

Seismic Considerations

The Leased Premises are located in the general proximity of several active and potentially active faults, including an active fault known as the San Andreas Fault. Earthquakes occurring within 60 miles of the Leased Premises are capable of generating ground shaking of engineering significance to the Leased Premises. Consequently, if there were an occurrence of severe seismic activity in the District, there could be substantial damage to and interference with the District’s right to use and occupy all or a portion of the Leased Premises, which could result in Base Rental payments being subject to abatement. See “– Abatement” above. The District is not required to obtain or maintain earthquake insurance for the Leased Premises and has no plans to do so in the future. See “– Limited Insurance; Risk of Earthquake” above.

Tax Matters

As discussed herein under “TAX MATTERS,” interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date such Certificates were issued as a result of acts or omissions of the District in violation of its covenants in the Trust Agreement. Should such an event of taxability occur, the Certificates are not subject to a special prepayment and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

See TAX MATTERS for additional tax-related risks.

No Liability by the Corporation to the Owners

Except as expressly provided in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Base Rental by the District, or with respect to the performance by the District of other agreements and covenants required to be performed by it contained in the Sublease or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Hazardous Substances

The public education activities of the District may, from time to time, result in the use of limited amounts of hazardous substances on the facilities owned and operated by the District, including, but not limited to, the Leased Premises. Accordingly, it is possible that spills, discharges or other adverse environmental consequences of such use in the future could cause an adverse effect on the fair rental value of the Leased Premises and lead, in an extreme case, to abatement, in whole or in part, of applicable Base Rental. See “– Abatement” above. The District has covenanted to limit its use of hazardous substances on its campus to those permitted by the Environmental Regulations.

Bankruptcy

The rights of the Owners are subject to certain limitations. Enforceability of the rights and remedies of the Owners, and the obligations incurred by the District, may become subject to the United States Bankruptcy Code (the “Bankruptcy Code”) and applicable bankruptcy, insolvency, reorganization,

moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against school and community college districts in the State. Bankruptcy proceedings, or the exercise of related powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Bankruptcy of the District. State law limits the filing of bankruptcy proceedings by school districts, such as the District, to specified circumstances. The District believes that the State Superintendent of Schools would have to first appoint an administrator for the District, and the administrator would determine whether or not the District should file for bankruptcy relief. The District can provide no assurance, however, that a bankruptcy court would agree with the District's interpretation of the law. As of the date of this Official Statement, no school district in the State has availed itself of this process.

If the District were to become a debtor in a bankruptcy case, it would be a debtor under Chapter 9 of the Bankruptcy Code.

If the District is in a Chapter 9 bankruptcy proceeding, parties may be prohibited from taking any action to collect any amount from the District or to enforce any obligation of the District, unless the bankruptcy court grants permission to take such action. This prohibition may also prevent the Trustee from making payments to the Owners from funds in the Trustee's possession.

In the event of a District bankruptcy filing, the District may be able to borrow additional money that is secured by a lien on any of its property, including the sources of funds for payment to the Trustee of the assigned Base Rental and Additional Rental payments under the Sublease (including, without limitation, the General Fund of the District and funds deposited in the General Fund), which lien could have priority over the pledges made under the Trust Agreement, so long as the bankruptcy court determines that the rights of the Owners will be adequately protected. The District may also be able to cause some of the Base Rental and Additional Rental payments to be released to it, free and clear of the lien of the Trust Agreement, so long as the bankruptcy court determines that the rights of the Owners will be adequately protected.

The District may be able, without the consent and over the objection of the Trustee and the Owners, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Trust Agreement and the Certificates, so long as the bankruptcy court determines that the alterations are fair and equitable.

The District is informed that both the State Teachers' Retirement System ("STRS") and the California Public Employees' Retirement System ("PERS") have significant unfunded liabilities, and the District is unable to predict what the amount of unfunded liabilities will be in the future or the amount of contributions that the District may be required to make. See APPENDIX A – "THE DISTRICT." In a bankruptcy of the District, the amounts of current and, if any, accrued (unpaid) contributions owed to STRS, PERS or any other pension system (collectively the "Pension Systems"), as well as future material increases in required contributions, reduce the District's ability to pay Base Rental and Additional Rental payments. Given that municipal pension systems in California are usually administered pursuant to State

constitutional provisions and, as applicable, other state and/or city law, the Pension Systems may take the position, among other possible arguments, that (1) their claims enjoy a priority over all other claims, (2) Pension Systems are instrumentalities of the State and have the right to enforce payment by injunction or other proceedings outside of a District bankruptcy case, and (3) their claims cannot be the subject of adjustment or other impairment under the Bankruptcy Code because that would purportedly constitute a violation of state statutory, constitutional and/or municipal law. It is uncertain how a bankruptcy judge in a bankruptcy of the District would rule on these matters. In addition, this area of law is unsettled because issues of pension underfunding claim priority, pension contribution enforcement and related bankruptcy plan treatment of such claims (among other pension-related matters) are presently the subject of litigation in the Chapter 9 cases of several California municipalities, but did not result in appellate rulings giving definitive guidance on these matters.

Recharacterization of the Site Lease and the Sublease as a Financing Arrangement. In bankruptcy proceedings, a bankruptcy court is not required to accept the characterization of an agreement as a “lease,” but will look to the economic realities of the transaction as a whole. In the event a bankruptcy case is filed by the District, a bankruptcy court could determine that each of the Site Lease and the Sublease is either (1) an unexpired lease or executory contract (defined below) under Section 365 (“Section 365”) of the Bankruptcy Code (a “True Lease”) or (2) part of a loan or other financing arrangement secured by a lien (a “Financing Arrangement”). The Bankruptcy Code specifies different treatment for True Leases and Financing Arrangements.

In the *United Air Lines* bankruptcy case filed in 2002 and in other bankruptcy proceedings courts have been required to determine whether arrangements with features similar to the Site Lease and the Sublease were True Leases or Financing Arrangements. There are court decisions arising out of bankruptcy proceedings that have found certain relationships to be disguised Financing Arrangements, where a government agency granted an interest in property to an entity and then leased that interest back and where the terms of the lease relate not to the market value of the property leased but to bond financing, *e.g.*, the lease-back is in exchange for payments equaling bond debt service and related costs and/or the term of the lease is tied to the final payment on the relevant bonds.

There can be no guarantee that a bankruptcy court would not recharacterize the Site Lease and the Sublease together as a Financing Arrangement. If a bankruptcy court did so, the payment obligations of the District might be substantially reduced. A borrower in a bankruptcy proceeding that has given a security interest in property in connection with a Financing Arrangement may retain such property, provided that it make payments over time giving the lender the economic value of the security interest. If such economic value is less than the balance due on the debt in the Financing Arrangement, the difference is then treated as an unsecured debt. In the case of the District, were the Site Lease and the Sublease to be determined to be part of a Financing Arrangement, the District would very likely be permitted to remain in possession of the Leased Premises if it made payments for that right, but the amount required to be paid is primarily dependent upon the value of the Trustee’s security interest under the Trust Agreement, not the payment terms of the Sublease. Therefore, there is a risk that payment will be delayed or reduced from the amounts specified in the Sublease, even if the value of the Trustee’s security interest is greater than the amount of the debt owed by the District.

Treatment of the Site Lease and the Sublease as True Leases. Section 365 requires an entity in bankruptcy to make considered decisions either to keep (“assume”) or repudiate (“reject”) its “executory” contracts (that are as yet incomplete as to both parties’ performances), and its leases. Section 365 thus requires that a lessee under a True Lease must either (1) assume the lease or the executory contract and fully perform all of its obligations or (2) reject such lease or executory contract and surrender the leased property. In the event of a bankruptcy case with respect to the District in which a bankruptcy court

determined that the Site Lease and the Sublease were each a True Lease or executory contract, the District would then have these two options.

Assuming the Sublease would require that the District cure all monetary defaults (including any unpaid amounts due under the Sublease) and most non-monetary defaults, if any. The District would also have to provide adequate assurance that defaults would not occur in the future.

If the Sublease is treated as a True Lease by a bankruptcy court and the District rejects the Sublease, the rights of the Trustee (and thus the Owners) to receive Base Rental and Additional Rental would be terminated. Under such circumstances, the Owners could suffer substantial losses, and any claim for damages may be significantly limited. Rejection of the Sublease could result in a claim for damages against the District in connection with the Certificates that would rank as a general unsecured debt of the District. In the event of such rejection of the Sublease, the amount of any corresponding claim could also likely be limited by the cap on landlord claims provided in the Bankruptcy Code, *i.e.*, to the Base Rental payable under the Sublease (without acceleration) for the greater of one year or 15% of the remaining term of the Sublease, but not to exceed three years, following the earlier of (a) the date the bankruptcy petition was filed, and (b) the date on which the District surrendered (voluntarily or involuntarily) the Leased Premises, plus any unpaid Base Rental and Additional Rental under the Sublease (without acceleration) existing on the earlier of such dates. Thus, if the Sublease is treated as a True Lease under Section 365 and rejected in a bankruptcy of the District, the damage claim could be severely limited resulting in reduced funds available to pay the Certificates.

In addition, payments by a lessee within 90 days prior to a bankruptcy filing may be deemed to be “avoidable preferences” under the Bankruptcy Code. Accordingly, payments made pursuant to the Sublease could be subject to recapture in a bankruptcy of the District, subject to certain defenses that may be available to the Corporation or the Trustee.

There may be delays in payments with respect to the Certificates while the bankruptcy court considers any of these issues. There may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments with respect to the Certificates, or result in losses to the Owners. Actions could be taken in a bankruptcy of the District that could adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. Regardless of any specific adverse determinations in a bankruptcy proceeding of the District, the mere commencement of such a bankruptcy proceeding could have an adverse effect on the liquidity and market value of the Certificates.

Bankruptcy of the Corporation. The Corporation could potentially become a debtor in a bankruptcy case. In a bankruptcy case of the Corporation, the legal principles and risks discussed above, in connection with a bankruptcy case filed with respect to the District, would apply, with uncertain consequences to the Owners.

Because the Corporation is not assigning all its rights under the Site Lease and the Sublease to the Trustee, if the Corporation became the subject of a bankruptcy proceeding, the Corporation may be able to obtain authorization from the bankruptcy court to sell to a third party all rights under the Site Lease and the Sublease, including the Base Rental and Additional Rental, free and clear of rights of the Trustee and the Owners. While the Trustee (and thus the Owners) would be entitled to receive the value of the Base Rental and Additional Rental as determined by the bankruptcy court, the bankruptcy court’s valuation may be substantially different than the value placed on such payments by the Owners, and the Owners may suffer a loss.

The Trustee and the Owners would be prohibited from taking any action to enforce any of their respective rights or remedies against the Corporation or its property, unless the permission of the bankruptcy court was first obtained. This could prevent the Trustee from making payments to the Owners from funds in the possession of the Trustee. In addition, the provisions of the transaction documents that require the District to make payments directly to the Trustee, rather than to the Corporation, may no longer be enforceable, and all payments may be required to be made to the Corporation.

There may be delays in payments on the Certificates while the bankruptcy court considers any of these issues. There may be other possible effects of a bankruptcy of the Corporation that could result in delays or reductions in payments with respect to the Certificates, or result in losses to the Owners. Actions could be taken in a bankruptcy of the Corporation that could adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. Regardless of any specific adverse determinations in a bankruptcy proceeding of the Corporation, the mere commencement of such a bankruptcy proceeding could have an adverse effect on the liquidity and market value of the Certificates.

Insurer Financial Strength

The obligation of any insurer of the Certificates (the “Certificate Insurer”) to pay the principal, purchase price and interest with respect to the Certificates as and when due under the terms set forth in the Bond Insurance Policy is subject to the risk that the Certificate Insurer may be unable or unwilling to make payment in amounts equal to such obligations as a result of bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect against the Certificate Insurer or other adverse financial conditions affecting the Certificate Insurer. Further, the market price of the Certificates may be adversely affected by the financial condition of the Certificate Insurer, without regard to the District’s financial condition. See “RATINGS” herein.

Certificate Insurance Risk Factors

In the event of default of the payment of principal or interest with respect to the Certificates when all or some becomes due, any owner of the Certificates shall have a claim under the Bond Insurance Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Bond Insurance Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the District which is recovered by the District from the Certificate owner as a voidable preference under applicable bankruptcy law is covered by the Bond Insurance Policy, however, such payments will be made by the Certificate Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the Certificate Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Certificate Insurer without appropriate consent. The Certificate Insurer may direct and must consent to any remedies and the Certificate Insurer’s consent may be required in connection with amendments to any applicable Certificate documents.

In the event the Certificate Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the moneys received pursuant to the applicable Certificate documents. In the event the Certificate Insurer becomes obligated

to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates.

The long-term ratings on the Certificates are dependent in part on the financial strength of the Certificate Insurer and its claim paying ability. The Certificate Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Certificate Insurer and of the ratings on the Certificates insured by the Certificate Insurer will not be subject to downgrade and such event could adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates. See description of "RATINGS" herein.

The obligations of the Certificate Insurer are general obligations of the Certificate Insurer and in an event of default by the Certificate Insurer, the remedies available may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the District or Underwriter have made independent investigation into the claims paying ability of the Certificate Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Certificate Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Certificates and the claims paying ability of the Certificate Insurer, particularly over the life of the investment. See "CERTIFICATE INSURANCE" herein for further information provided by the Certificate Insurer and the Bond Insurance Policy, which includes further instructions for obtaining current financial information concerning the Certificate Insurer.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the execution and delivery of the Certificates for interest with respect thereto to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. Pursuant to the Trust Agreement and the Tax and Nonarbitrage Certificate of the District (the "Tax Certificate") the District has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest with respect to the Certificates from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the District has made certain representations and certifications in the Trust Agreement and the Tax Certificate. Special Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Special Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the District described above, interest with respect to the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code.

In rendering these opinions, Special Counsel has relied upon representations and covenants of the District in the Tax Certificate concerning the property financed with Certificate proceeds, the investment and use of Certificate proceeds and the rebate to the federal government of certain earnings thereon. In addition, Special Counsel has assumed that all such representations are true and correct and that the

District will comply with such covenants. Special Counsel has expressed no opinion with respect to the exclusion of the interest with respect to the Certificates from gross income under Section 103(a) of the Code in the event that any of such District representations are untrue or the District fails to comply with such covenants, unless such failure to comply is based on the advice or the opinion of Special Counsel.

State Taxes

Special Counsel is also of the opinion that interest with respect to the Certificates is exempt from personal income taxes of the State under present State law. Special Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Certificates nor as to the taxability of the Certificates or the income therefrom under the laws of any state other than California.

Original Issue Discount

Special Counsel is further of the opinion that the excess of the principal amount of a maturity of the Certificates over its issue price (i.e., the first price at which price a substantial amount of such maturity of the Certificates was sold to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a “Discount Certificate” and collectively the “Discount Certificates”) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest with respect to the Certificates. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Certificate and the basis of each Discount Certificate acquired at such issue price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Certificates, even though there will not be a corresponding cash payment. Owners of the Discount Certificates are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Certificates.

Original Issue Premium

Certificates sold at prices in excess of their principal amounts are “Premium Certificates.” An initial purchaser with an initial adjusted basis in a Premium Certificate in excess of its principal amount will have amortizable certificate premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable certificate premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Certificate based on the purchaser’s yield to maturity (or, in the case of Premium Certificates callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Certificate, an initial purchaser who acquires such obligation with an amortizable certificate premium is required to decrease such purchaser’s adjusted basis in such Premium Certificate annually by the amount of amortizable certificate premium for the taxable year. The amortization of certificate premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Certificates. Owners of the Premium Certificates are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Certificates.

Ancillary Tax Matters

Ownership of the Certificates may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United

States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Certificates. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Certificates is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest with respect to the Certificates may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Special Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinions attached as APPENDIX E. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Certificates, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest with respect to the Certificates for federal or state income tax purposes, and thus on the value or marketability of the Certificates. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest with respect to the Certificates from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Certificates may occur. Prospective purchasers of the Certificates should consult their own tax advisors regarding the impact of any change in law on the Certificates.

Special Counsel has not undertaken to advise in the future whether any events after the date of execution and delivery of the Certificates may affect the tax status of interest with respect to the Certificates. Special Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Certificates, or the interest with respect thereto, if any action is taken with respect to the Certificates or the proceeds thereof upon the advice or approval of other counsel.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, execution and delivery of the Certificates will be subject to the final approving opinion of Nixon Peabody LLP, San Francisco, California, Special Counsel, substantially in the form contained in APPENDIX E.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Certificates, the Trust Agreement, the Sublease, the Site Lease, the Assignment Agreement, the Continuing Disclosure Certificate or in any way contesting or affecting the validity of the foregoing or any proceedings of the District or the Corporation taken with respect to any of the foregoing.

RATINGS

The Certificates have been assigned a rating of “AA” by S&P with the understanding that, upon the delivery of the Certificates, the Bond Insurance Policy will be issued by the Certificate Insurer. See “CERTIFICATE INSURANCE” herein. The Certificates have been assigned an underlying rating of “A” by S&P. Such ratings reflect only the views of S&P. An explanation of the significance and status of such ratings may be obtained from S&P, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, tel. (212) 553-0300. The information provided by any rating agency is not incorporated herein by reference. Generally, a rating agency bases its ratings on information and material so furnished and on investigations, studies and assumptions made by the rating agency. The District furnished such ratings agency with certain information and materials relating to the Certificates that has not been included in this Official Statement. The ratings are not a recommendation to buy, sell or hold the Certificates. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates. The District does not undertake any responsibility to bring to the attention of the owners of the Certificates any proposed revision or withdrawal of a rating of the Certificates, or to oppose any such downward revision or withdrawal. Any such revision or withdrawal of such a rating could have an adverse effect on the market price and marketability of the Certificates.

AVAILABILITY OF DOCUMENTS

Copies of the Sublease, the Trust Agreement, the Assignment Agreement, the Site Lease and the Continuing Disclosure Certificate are available, upon written request, from the District at 143 East First St., Perris, California 92570.

VERIFICATION

Causey Demgen & Moore P.C., certified public accountants, will provide their report as of the Date of Delivery of the Certificates, certifying the sufficiency of amounts deposited pursuant to the Escrow Agreement to provide for the prepayment in full of the Prior Certificates.

UNDERWRITING

The Certificates are being purchased for reoffering by RBC Capital Markets, LLC (the “Underwriter”). The Underwriter has agreed to purchase all of the Certificates for a purchase price of \$_____, which is equal to the initial aggregate principal amount of \$_____, plus/minus \$_____ net original issue premium/discount, less an underwriter’s discount of \$_____, and less \$_____ for the Bond Insurance Policy and \$_____ for the Reserve Fund Credit Policy, pursuant to agreements with the District (the “Contract of Purchase”). The Contract of Purchase provides that the Underwriter will purchase all of the Certificates if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Contract of Purchase.

The Underwriter may offer and sell the Certificates to certain dealers and others at a price lower than the public offering price set forth on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its

respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

CONTINUING DISCLOSURE

In accordance with the requirements of the Rule, the District will enter into a Continuing Disclosure Undertaking (the “Continuing Disclosure Undertaking”) in the form of APPENDIX G hereto, on or prior to the sale of the Bonds in which the District will undertake, for the benefit of the Beneficial Owners of the Certificates, to provide certain information as set forth therein. The covenants contained in the Continuing Disclosure Undertaking have been made to assist the Original Purchaser in complying with the Rule. See APPENDIX G – “FORM OF CONTINUING DISCLOSURE AGREEMENT” hereto.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. 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. The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement is not to be construed as a contract or agreement between the District and purchasers or Owners of any of the Certificates. The delivery of this Official Statement has been duly authorized by the District.

The delivery of this Official Statement has been duly authorized by the District.

PERRIS ELEMENTARY SCHOOL DISTRICT

By: _____
Superintendent

APPENDIX A

THE DISTRICT

This Appendix contains a general description of the Perris Elementary School District (the “District”), its employees, retirement programs and enrollment history and projections. Also set forth are tables for the District showing summaries of assessed value, recent audited results and current budget information.

District General Information

The District was established in 1893 and is comprised of an area of approximately 55 square miles located in the County. The District serves students from transitional kindergarten through grade eight. The children of the nine schools are housed in functional facilities with support services and staffs. The District operates seven elementary schools, one charter school, and one preschool. The District projects an average daily attendance for fiscal years 2018-19 and 2019-20 of 5,577 and 5,483 respectively. The District has a fiscal year 2018-19 assessed valuation of \$2,742,804,873.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District may be obtained by contacting: Superintendent, Perris Elementary School District, 143 East 1st Street, Perris, California 92570.

District Organization

The District is governed by a Board of Trustees (the “Governing Board”) consisting of five members. Members are elected to four-year terms, by voters within five trustee areas, in alternate slates of two and three. Elections are held every two years. Current members of the Governing Board, together with their offices and the dates their terms expire, are listed below:

**PERRIS ELEMENTARY SCHOOL DISTRICT
Board of Trustees**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Virniecia Green-Jordan	President	12/2020
Jose “Pepe” Garcia	Clerk	12/2022
Michelle Maisel	Member	12/2022
Maribel Nava	Member	12/2022
David Santos	Member	12/2020

Key Personnel

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Governing Board.

Brief biographies of the Superintendent and the Chief Business Officer follow:

Jean Marie Fréy, Superintendent – Jean Marie Fréy was appointed Superintendent effective July 1, 2017. Previously Ms. Fréy served as the Assistant Superintendent of Educational Services. Ms. Fréy has spent 27 years in education, serving the students and community in the School District.

Ms. Fréy earned her Bachelor of Science Degree from the College of Education at the University of South Florida and a Master of Arts in Curriculum and Instruction from Chapman University.

Francine M. Story, Chief Business Official. Francine Story was appointed Chief Business Official of the School District effective November 2, 2016. Ms. Story previously served as the Interim Chief Business Official of the Moreno Valley Unified School District from July 2015 to October 2016. She has over 15 years of experience in public education.

Ms. Story earned her Bachelor of Science degree from University of California, Riverside and a Master's in Business Administration from University of Phoenix.

District Employees

As of June 30, 2018, the District employed 313 certificated non-management academic professionals as well as 265 classified non-management employees. In addition, as of such date, the District employed 28 certificated management employees and 19 classified management and confidential employees. The certificated employees of the District have assigned the Perris Elementary Teachers Association (“PETA”) as their exclusive bargaining agent. The certificated employees’ contract with PETA expires on June 30, 2021. The classified employees have assigned California School Employees Association (“CSEA”) as their exclusive bargaining agent. The classified employees contract with CSEA expires on June 30, 2021.

Pension Plans

The District participates in the State Teachers’ Retirement System (“STRS”). This plan basically covers all full-time certificated employees. The District’s employer contribution to STRS was \$3,652,734 for fiscal year 2016-17, was \$4,437,375 for fiscal year 2017-18 and is estimated to be \$5,271,618 for fiscal year 2018-19.

The District also participates in the State Public Employees’ Retirement System (“PERS”). This plan covers all classified personnel who are employed four or more hours per day. The District’s employer contribution to CalPERS was \$1,281,402 for fiscal year 2016-17, was \$1,499,286 for fiscal year 2017-18 and is estimated to be \$1,885,939 for fiscal year 2018-19.

The information set forth below regarding STRS and PERS has been obtained from publicly available sources and has not been independently verified by the District or the Financial Advisor, is not guaranteed as to the accuracy or completeness of the information and is not to be construed as a representation by the District or the Financial Advisor. Furthermore, the summary data below should not be read as current or definitive, as recent gains or losses on investments made by the retirement systems generally may have changed the unfunded actuarial accrued liabilities.

Both PERS and STRS are operated on a statewide basis. The PERS and STRS defined benefit programs are funded through a combination of investment earnings and contributions by members, employees and the State. Both PERS and STRS have substantial State unfunded actuarial liabilities. PERS may issue certain pension obligation bonds to reach funded status. Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282. The amounts of the pension/award benefit obligation (PERS) or actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. The District is unable to predict what the amount of liabilities will be in the future, or the amount of the contributions which the District may be required to make.

District contribution rates to PERS can vary annually depending on changes in actuarial assumption and other factors, such as liability. Unlike typical defined benefit programs, prior to fiscal year 2014-15, neither the STRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. As a result, in recent years, the combined employer, employee and State contributions to STRS have not been sufficient to pay actuarially required amounts. As a result, and due to significant investments losses, the unfunded actuarial liability of STRS increased significantly. The District is unable to predict what the STRS program liabilities will be in the future.

In order to address STRS funding inadequacies, the 2014-15 State Budget set forth a plan of shared responsibility among the State, school districts and teachers to shore up STRS. The first year's increased contributions from all three entities were approximately \$275 million. The contributions would increase in subsequent years, reaching more than \$5 billion annually. Then Governor Brown expected that this will eliminate the unfunded liability in approximately 30 years. The 2018-19 State Budget included \$3.1 billion for state contributions to STRS, which reflects action by the STRS board to increase state contributions by 0.5% of teacher payroll. The 2019-20 State Budget includes approximately \$3.3 billion for State contributions to STRS.

**STATE OF CALIFORNIA
ACTUARIAL VALUE OF STATE RETIREMENT SYSTEMS**

Name of Plan	Market Value of Assets	Actuarial Value of Assets⁽³⁾	Actuarial Obligation	Unfunded Actuarial Accrued Liability	Funded Ratio (Market Value)	Funded Ratio (Actuarial Value)
Public Employees' Retirement Fund Schools Pool (PERS) ⁽¹⁾	\$64.846 billion	—	\$92.071 billion	\$27.225 billion	70.4%	—
State Teachers' Retirement Fund Defined Benefit Program (STRS) ⁽²⁾	\$211.367 billion	\$190.451 billion	\$297.603 billion	\$107.152 billion	65.7%	64.0%

Figures as of June 30, 2018.

⁽¹⁾ As of June 30, 2018, the PERS provided pension benefits to 1,264,318 active and inactive program members and 694,570 retirees, beneficiaries, and survivors.

⁽²⁾ As of June 30, 2018, the STRS Defined Benefit Program had approximately 647,653 active and inactive program members and 301,859 retirees and benefit recipients.

⁽³⁾ PERS no longer uses an actuarial value of assets and only uses the market value of assets.

Source: PERS State and Schools Actuarial Valuation, STRS Defined Benefit Program Actuarial Valuation, PERS Comprehensive Annual Financial Report 2017-18 and STRS Comprehensive Annual Financial Report 2017-18.

California State Teachers' Retirement System. STRS is a defined benefit program and member benefits are determined pursuant to the Education Code and are generally determined based on a member's age, final compensation and years of credited service. As a result of the California Public Employees' Pension Reform Act of 2013 (Chapter 296, Statutes of 2012), there are two benefit structures for members that apply according to the members' first date of hire to perform STRS creditable activities.

Members first hired on or before December 31, 2012 are 100% vested in retirement benefits after five years of credited service and are eligible for “normal” retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2% of final compensation (as defined in the Education Code) for each year of credited service (up to 2.4% of final compensation for members retiring after age 60), and members who retire on or after January 1, 2011 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to \$400 per month. Members first hired on or after January 1, 2013 who retire at age 62 are eligible for a benefit equal to 2% of final compensation for each year of credited service (up to 2.4% of final compensation for members retiring after age 62). Additional benefits under both benefit structures include a 2% cost of living increase (computed on a simple, non-compounded, basis based on the initial allowance) on each September 1 following the first anniversary of the effective date of the benefit.

Prior to fiscal year 2014-15, neither the STRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. As a result, the combined employer, employee and State contributions to STRS were not sufficient to pay actuarially required amounts. Assembly Bill 1469 (“A.B. 1469”), enacted in connection with the adoption of the 2014-15 State budget authorizes shared contribution increases among the program’s three contributors – STRS members, employers and the State. Defined Benefit Program contribution rate increases for all contributing parties will be incrementally phased-in over the next several years, with the first increases having taken effect July 1, 2014. The rate increases authorized by A.B. 1469 are projected to fund the STRS Defined Benefit Program fully in 32 years.

Employer contribution rates, including those of the District, will increase through fiscal year 2020-21 as shown in the following table. Beginning fiscal year 2021-22, employer contribution rates will be set each year by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

<u>Effective Date</u>	<u>Prior Rate</u>	<u>AB 1469 Increases</u>	
		<u>Increase</u>	<u>Total</u>
July 1, 2017	8.25%	6.18%	14.43%
July 1, 2018	8.25	8.03	16.28
July 1, 2019	8.25	8.85	17.10
July 1, 2020	8.25	10.15	18.40

The State contributions are set pursuant to the Education Code. As of July 1, 2019 the State will contribute 7.828% of members’ annual earnings to the defined benefit plan. The employee contribution rate for STRS members first hired on or before December 31, 2012 to perform STRS creditable activities (i.e., STRS 2% at 60 members) is 10.25% for fiscal year 2019-20. The employee contribution rate for STRS members first hired on or after January 1, 2013 to perform STRS creditable activities (i.e., STRS 2% at 62 members) is 10.205% for fiscal year 2019-20.

The State Teachers' Retirement Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the defined benefit plan. STRS actuarial consultant determines the actuarial value of the defined benefit plan’s assets by using a one-third smoothed recognition method of the difference between the actual market value of assets to the expected actuarial value of assets. Accordingly, the actuarial value of assets will not reflect the entire impact of certain investment gains or losses on an actuarial basis as of the date of the valuation or legislation enacted subsequent to the date of the valuation.

In February 2017, the State Teacher's Retirement Board voted to revise the actuarial methods and assumptions beginning with the STRS Defined Benefit Program for fiscal year 2016. The actuarial assumptions set forth in the 2016 STRS actuarial valuation use a 7.25% investment rate of return for measurements as of June 30, 2016 and an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, 3.50% wage growth, and 2.75% inflation. The STRS unfunded liability will vary based on actuarial assumptions, actual returns on investments and contribution rates.

The Defined Benefit Program of the California State Teachers' Retirement System, June 30, 2018 Actuarial Valuation (the "2018 STRS Actuarial Valuation") states that for fiscal year 2017-18 the funded ratio increased by 1.4% over the previous year, mainly due to the return on the Actuarial Value of Assets (8.3%) that exceeded the assumed return (7.0%). However, the funded ratio as a whole has decreased by approximately 23% over the past 10 years primarily due to a combination of returns that have, on a smoothed basis, been less than the actuarial assumption, contributions less than the actuarially calculated amount, and changes in the actuarial assumptions that have increased the Actuarial Obligation. The alternate funded ratio using the Fair Market Value of assets has increased since the last valuation. This increase is due to the greater than expected return on assets during the 2017-18 fiscal year.

California Public Employees' Retirement System. PERS is a defined benefit program and member benefits are determined pursuant to the Public Employees' Retirement Law and are generally determined based on a member's age, final compensation and years of credited service.

Member contribution rates are determined by the Public Employees' Retirement Law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by statute. For fiscal year 2019-20, the employee contribution rate for classic plan members is 7.0% of monthly salary and the estimated employee contribution rate for PEPRA members is 7.0% of monthly salary. The employer contribution rate increased from 18.062% of covered payroll for fiscal year 2018-19, to 20.733% of covered payroll for fiscal year 2019-20.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The new amortization and smoothing policy was used for the first time in the June 30, 2014 actuarial valuations. These valuations were performed in early 2015 and set employer contribution rates for the fiscal year 2015-16.

The actuarial methods and assumptions used for determining the rates are based on those adopted by Board of Administration of PERS. At its December 21, 2016 meeting, the PERS Board of Administration approved a discount rate assumption decrease from its current rate of 7.50% to 7.00% over the next three years. For the School Pool, the discount rate was lowered for the first time to 7.375% effective with the June 30, 2017 actuarial valuation, impacting the Schools Pool employer contribution rates beginning in fiscal year 2018-19. The discount rate was lowered further to 7.25% for the June 30, 2018 actuarial valuation, and will be lowered again to 7.00% for the June 30, 2019 actuarial valuation. Lowering the discount rate will result in increases in both the normal cost and the accrued liabilities which will result in higher required employer contributions. The District cannot predict how these changes will affect its contribution levels.

On December 20, 2017, the PERS Board of Administration adopted new actuarial demographic assumptions to update various assumptions including mortality, retirement rates and inflation. These new

assumptions were applied beginning with the June 30, 2018 valuation for the schools pool, setting employer contribution rates for fiscal year 2019-20. As a result, the June 30, 2018 actuarial valuation assumes a reduced inflation rate of 2.625% per year and reduced payroll growth of 2.875% per year. The actuarial funding method used in the PERS Schools Pool Actuarial Valuation as of June 30, 2018 (the “2018 PERS Actuarial Valuation”) is the “Individual Entry Age Normal Cost Method.” The PERS Schools Pool Actuarial Valuation as of June 30, 2018 assumes, among other things, a 7.25% discount rate, projected 2.625% inflation per year, and projected payroll growth of 2.875% per year. The prescribed discount rate will reduce to 7.00% per year, projected 2.50% inflation per year, and projected payroll growth of 2.75% per year as of the June 30, 2019 actuarial valuation. At its February 12, 2018 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization policy once again. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 30-year period with the increases or decreases in the rate spread directly over a 5-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 20-year period rather than a 30-year period. The new amortization policy will be used for the first time in the June 30, 2019 actuarial valuations.

Both PERS and STRS are operated on a statewide basis and, based on available information, STRS and PERS both have unfunded liabilities. PERS may issue certain pension obligation bonds to reach funded status. Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282. The amounts of the pension/award benefit obligation (PERS) or actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution.

STRS and PERS each issue separate comprehensive annual financial reports that include financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from www.calstrs.com or by written request mailed to STRS, P.O. Box 15275, Sacramento, California 95851-0275, and copies of the PERS annual financial report may be obtained from www.calpers.ca.gov or by written request mailed to the CalPERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information presented in those reports is not incorporated by reference in this Official Statement.

Pension Reform Act of 2013 (Assembly Bill 340)

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

The provisions of AB 340 went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the District, had a five-year window to negotiate compliance with AB 340 through collective bargaining. A city, public agency or school district could require employees to pay their half of the costs of PERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

PERS has predicted that the impact of AB 340 on employers, including the District and other employers in the STRS system, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in lower retirement benefits than employees currently earn. Additionally, PERS has noted that AB 340 changes may have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

With respect to STRS, for employees hired after January 1, 2013, members will pay the greater of either (1) at least 50 percent of the cost of their retirement plan, rounded to the nearest one-quarter percent, or (2) the contribution rate paid by current members. The member contribution rate could be increased from this level through collective bargaining or may be adjusted based on other factors. Public 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 make to STRS as a result of the implementation of AB 340 (being its future contributions for the normal costs of new employees), and as a result of negotiations with its employee associations, or, notwithstanding the adoption of AB 340, resulting from any legislative changes regarding STRS employer contributions that may be adopted in the future.

More information about AB 340 can be accessed through the PERS's web site at www.calpers.ca.gov and through the STRS website at www.calstrs.com. The references to these internet websites are shown for reference and convenience only; the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.

Other Post-Employment Benefits ("OPEB")

The Governmental Accounting Standards Board (the "GASB") released its Statement Number 45 ("Statement Number 45"), which requires municipalities to account for other post-employment benefits (meaning other than pension benefits) ("OPEB") liabilities much like municipalities are required to account for pension benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most municipalities and public sector organizations. OPEBs generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. Statement Number 45 was phased in over a three-year period based upon the entity's revenues. Statement Number 45 became effective for the District beginning in fiscal year 2008-09.

In June 2015, GASB voted to approve a new standard that aimed to improve the accounting and financial reporting for OPEB by state and local governments. Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("Statement Number 75") requires the recognition of the entire OPEB liability, new disclosures and notes in financial reporting, supplemental information, and a more comprehensive measure of OPEB expense. These changes followed a comprehensive review of the effectiveness of preexisting standards of accounting and reporting. GASB expects that the requirements of Statement Number 75 will improve the decision-usefulness of financial information and will enhance its value for assessing accountability and inter-period equity. Statement Number 75 replaces Statement Number 45 became effective beginning in fiscal year 2017-18.

The District's health care plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides health benefits to eligible retirees based on agreements entered into with the PETA, the CSEA and unrepresented groups. The required contribution is based on

projected pay-as-you-go financing requirements. Membership of the Plan consists of 27 retirees currently receiving benefits and 417 active members.

The District provides employer paid medical benefits to eligible retirees and their eligible dependents through age 65 up to an annual maximum. Certificated employees may also be eligible for an early retirement program that provides some enhanced benefits prior to age 60. Eligibility for retiree health benefits requires at least 12 years of service at retirement for certificated and management personnel and at least 15 years of service for classified personnel.

Total Compensation Systems, Inc., has prepared an actuarial valuation dated February 27, 2019 (the "2019 Actuarial Report"), covering the District's retiree health benefits with a valuation date of June 30, 2017 and a measurement date of June 30, 2018. Certain assumptions incorporated in the 2019 Actuarial Valuation include a 3.8% discount rate, a 2.75% inflation rate, a 2.75% annual increase for salaries, and various other assumptions. The District had a total OPEB liability ("TOL") of \$9,792,727 as of June 30, 2017 and a TOL of \$10,303,727 as of June 30, 2018. The 2019 Actuarial Report describes the TOL the liability that would have accumulated if all actuarial assumptions are exactly met and the District expensed the service cost every year for all past and current employees and retirees. The District also had a net OPEB liability ("NOL") of \$10,303,727, which the 2019 Actuarial Report describes as the excess of the TOL over the value of the plan assets. Under GASB Statement 74 and Statement 75, in order for assets to count toward offsetting the TOL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants. The District has not established an irrevocable trust for OPEB assets.

According to the 2019 Actuarial Valuation, the District's annual OPEB expense for the fiscal year ending June 30, 2019 of \$1,088,919, which is comprised of a service cost of \$726,098 plus interest on the TOL of \$379,469, minus \$16,639 of recognized assumption changes. This annual expense does not include the estimated \$339,982 in contributions made by the District.

According to the 2019 Actuarial Report, the District has a "pay-as-you-go" annual OPEB expense, or cost of providing retiree health benefits, estimated at \$339,982 for fiscal year 2017-18, will be \$390,422 million for fiscal year 2018-19 and will be \$446,254.

For additional information about the District's Plan, as well as information regarding a previous actuarial valuation, see District's financial statements attached hereto as APPENDIX H. A copy of the latest actuarial valuation is available upon request from the District at the address listed on the first page of the forepart of this Official Statement. The District may impose a charge for copying, handling and mailing such requested documents.

GASB 67 and 68

On June 25, 2012, GASB voted to approve two new standards that aimed to improve the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, Financial Reporting for Pension Plans, revised existing guidance for the financial reports of most pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, revised and established new financial reporting requirements for most governments that provide their employees with pension benefits.

Statement 67 replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50, Pension Disclosures as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. Statement 67 builds upon the existing framework for financial reports of defined

benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

Statement 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The provisions in Statement 67 became effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 became effective for fiscal years beginning after June 15, 2014. For more information on the District's proportionate share of net pension liabilities, See APPENDIX H – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018"– Note 11 herein.

Insurance

The District participates in three joint powers agreements (the "JPAs") for insurance programs: the Riverside Schools Insurance Authority, the Riverside County Employer/Employee Partnership, and the Riverside Schools Risk Management Authority. The JPAs provide, respectively, property and liability insurance coverage, health and welfare benefits, and workers compensation insurance coverage. The relationship between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

Average Daily Attendance and Enrollment

The table below sets forth the enrollment and Average Daily Attendance ("ADA") for the District for fiscal years 2013-14 through 2017-18 and projections for fiscal year 2018-19 and 2019-20.

**PERRIS ELEMENTARY SCHOOL DISTRICT
TOTAL AVERAGE DAILY ATTENDANCE AND ENROLLMENT**

Fiscal Year	Average Daily Attendance			Enrollment		
	District⁽¹⁾	Charter School	Total	District⁽¹⁾	Charter School	Total
2013-14	4,726	873	5,599	4,965	917	5,882
2014-15	4,685	852	5,537	4,935	886	5,821
2015-16	4,743	875	5,618	4,966	916	5,882
2016-17	4,763	887	5,650	5,029	934	5,963
2017-18	4,774	875	5,649	5,009	912	5,921
2018-19 ⁽²⁾	4,620	901	5,521	4,862	934	5,796
2019-20 ⁽²⁾	4,582	901	5,483	4,824	934	5,758

⁽¹⁾ Does not include attendance at charter school.

⁽²⁾ Projected.

Source: The District.

Developer Fees

The District collects developer fees pursuant to the State Government Code Section 65995, which originally allowed collection of \$1.50 per square foot of habitable space on domestic housing and \$0.25 per square foot on commercial/industrial developments. These square-foot amounts are periodically adjusted for inflation.

For Fiscal Years ended June 30, 2014 through 2018, the District collected \$582,623, \$73,759, \$150,161, \$1,312,370, and \$520,864, respectively, in developer fees. The District projects collecting approximately \$575,000 in developer fees in Fiscal Year 2018-19.

Population

The populations of the City of Perris, the County and the State during the period from 2015 through 2019 are set forth in the following table.

**CITY OF PERRIS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
Population Figures⁽¹⁾
2015 through 2019**

Year	City of Perris	County of Riverside	State of California
2015	72,726	2,318,762	38,915,880
2016	74,005	2,348,213	39,189,035
2017	77,311	2,382,640	39,500,973
2018	76,260	2,412,536	39,740,508
2019	76,971	2,440,124	39,927,315

⁽¹⁾ As of January 1 of the respective year.

Source: California State Department of Finance.

Assessed Valuations

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. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.

The State-reimbursed exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, 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. No reimbursement is made by the State for such exemptions.

Economic and other factors beyond the District’s control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the District’s outstanding general obligation bonds, including the Bonds.

Shown in the following tables are the assessed valuations of property in the District during the past eight fiscal years, the assessed valuation by jurisdiction for fiscal year 2018-19, the assessed valuation and parcels by land use in the District for fiscal year 2018-19 and the per parcel assessed valuation of single-family homes in the District for fiscal year 2018-19.

PERRIS ELEMENTARY SCHOOL DISTRICT Summary of Assessed Valuations

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2011-12	\$1,940,315,212	\$41,725	\$ 57,295,905	\$1,997,652,842
2012-13	1,815,631,164	14,500	67,026,032	1,882,671,696
2013-14	1,878,468,051	14,500	77,413,548	1,955,896,099
2014-15	2,027,677,034	14,500	89,481,413	2,117,172,947
2015-16	2,140,956,438	14,500	69,047,305	2,210,018,243
2016-17	2,314,456,061	14,500	101,033,776	2,415,504,337
2017-18	2,432,888,735	14,500	143,214,655	2,576,117,890
2018-19	2,568,314,439	0	174,490,434	2,742,804,873

Source: California Municipal Statistics, Inc.

**PERRIS ELEMENTARY SCHOOL DISTRICT
2018-19 Assessed Valuation by Jurisdiction**

<u>Jurisdiction</u>	<u>Assessed Valuation in School District</u>	<u>% of School District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>% of Jurisdiction in School District</u>
City of Lake Elsinore	\$ 1,937,280	0.07%	\$ 6,198,621,290	0.03%
City of Perris	1,973,775,411	71.96	\$ 6,277,259,688	31.44%
Unincorporated Riverside County	767,092,182	27.97	\$ 43,011,850,793	1.78%
Total District	\$2,742,804,873	100.00%		
Riverside County	\$2,742,804,873	100.00%	\$280,327,986,244	0.98%

Source: California Municipal Statistics, Inc.

**PERRIS ELEMENTARY SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use**

<u>Non-Residential:</u>	<u>2018-19 Assessed Valuation⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Agricultural/Rural	\$ 46,616,141	1.82%	117	0.77%
Commercial/Office	377,162,700	14.69	369	2.44
Vacant Commercial/Industrial	69,264,642	2.70	200	1.32
Government/Social/Institutional	1,405,636	0.05	422	2.79
Vacant Other/Unclassified Vacant	45,539,997	1.77	1,085	7.17
Subtotal Non-Residential	\$ 539,989,116	21.03%	2,193	14.50%
<u>Residential:</u>				
Single Family Residence	\$1,494,177,698	58.18%	7,285	48.16%
Condominium/Townhouse	1,266,347	0.05	8	0.05
Mobile Homes, Lots and Parks	278,628,448	10.85	2,823	18.66
2+ Residential Units/Apartments	125,844,316	4.90	254	1.68
Vacant Residential	128,408,514	5.00	2,564	16.95
Subtotal Residential	\$2,028,325,323	78.97%	12,934	85.50%
Total	\$2,568,314,439	100.00%	15,127	100.00%

⁽¹⁾ Local Secured Assessed Valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

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PERRIS ELEMENTARY SCHOOL DISTRICT
Per Parcel 2018-19 Assessed Valuation of Single-Family Homes

	<u>No. of Parcels</u>	<u>2018-19 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single-Family Residential	7,285	\$1,494,177,698	\$205,103	\$182,828

<u>2018-19 Assessed Valuation</u>	<u>No. of Parcels⁽¹⁾</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$24,999	33	0.453%	0.453%	\$ 618,711	0.041%	0.041%
\$25,000 - \$49,999	160	2.196	2.649	6,197,363	0.415	0.456
\$50,000 - \$74,999	253	3.473	6.122	16,214,618	1.085	1.541
\$75,000 - \$99,999	474	6.507	12.629	42,219,513	2.826	4.367
\$100,000 - \$124,999	780	10.707	23.336	88,308,370	5.910	10.277
\$125,000 - \$149,999	884	12.135	35.470	121,623,197	8.140	18.417
\$150,000 - \$174,999	844	11.585	47.056	136,914,227	9.163	27.580
\$175,000 - \$199,999	697	9.568	56.623	130,594,046	8.740	36.320
\$200,000 - \$224,999	609	8.360	64.983	129,415,407	8.661	44.982
\$225,000 - \$249,999	662	9.087	74.070	157,188,667	10.520	55.502
\$250,000 - \$274,999	540	7.412	81.482	141,393,193	9.463	64.965
\$275,000 - \$299,999	325	4.461	85.944	92,724,210	6.206	71.170
\$300,000 - \$324,999	210	2.883	88.826	65,392,235	4.376	75.547
\$325,000 - \$349,999	196	2.690	91.517	65,990,485	4.417	79.963
\$350,000 - \$374,999	124	1.702	93.219	44,947,916	3.008	82.972
\$375,000 - \$399,999	60	0.824	94.043	23,147,043	1.549	84.521
\$400,000 - \$424,999	59	0.810	94.852	24,233,870	1.622	86.143
\$425,000 - \$449,999	51	0.700	95.553	22,280,766	1.491	87.634
\$450,000 - \$474,999	52	0.714	96.266	24,134,786	1.615	89.249
\$475,000 - \$499,999	40	0.549	96.815	19,419,120	1.300	90.549
\$500,000 and greater	232	3.185	100.000	141,219,955	9.451	100.000
Total	<u>7,285</u>	<u>100.000%</u>		<u>\$1,494,177,698</u>	<u>100.000%</u>	

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

Appeals of Assessed Value; Proposition 8 Reductions

A property owner may appeal a county assessor’s determination of assessed value based on Proposition 8, passed by the voters in November 1978 (“Proposition 8”), or based on a challenge to the base year value.

Proposition 8 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. Property owners may apply for a Proposition 8 reduction of their property tax assessment with the County board of equalization or assessment appeals board. In most cases, an appeal is based on the property owner’s belief that market conditions cause the property to be worth less than its current assessed value. Proposition 8 reductions may also be unilaterally applied by the county assessor.

Any reduction in the assessed value granted as a result of a Proposition 8 appeal, or unilateral reassessment by the county assessor, applies to the year for which the application or reassessment is

made. These reductions are subject to annual review and the assessed values are adjusted back to the original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it becomes subject to the annual inflationary factor growth rate allowed under Article XIII A.

Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is made and 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 change of ownership or new construction date.

The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate assessed valuation of property within the District due to appeals, as with any reduction in assessed valuation due to other causes, will result in an increase of the tax rate levied upon all property subject to taxation within the District for the payment of principal of and interest on the Bonds, when due.

Effect of Natural Disaster on Assessed Valuations

As referenced under “– Assessed Valuations” herein, assessed valuations are subject to change in each year, and such changes may result from a variety of factors, including natural disasters.

In recent years, there have been several notable natural disasters throughout the State. These include drought conditions throughout the State, which led to a State-wide drought State of Emergency issued in January, 2014, and certain executive orders issued in 2015 and 2016 aimed to reduce water usage in local communities. The drought was declared to have ended in 2017 due to record-level precipitation in late 2016 and early 2017, with the exception of Fresno, Kings, Tulare and Tuolumne counties, where emergency drinking water projects are currently in place to address diminished groundwater supplies.

In addition, wildfires have occurred in recent years in different regions of the State. The District did not sustain any serious property losses as a result of these recent fires. However, serious and significant property damage has resulted in other areas of the State due to fire damage. On September 21, 2018, Governor Brown signed a number of measures into law addressing issues related to increased wildfire risk in the State, including forest management, mutual aid for fire departments, emergency alerts and safety mandates.

On August 27, 2018, the California Natural Resources Agency released its Fourth Climate Change Assessment, which included as key findings that the frequency of drought and the amount of acres burned by wildfire in the State would both increase in the future. This report details significant economic impact to the State as a result of these and other natural disasters. The report is publicly available at <http://www.climateassessment.ca.gov/>. The reference to this internet website is shown for reference and convenience only; the information contained within the website may not be current, has not been reviewed by the District and is not incorporated herein by reference.

The District cannot predict or make any representations regarding the effects that natural disasters, such as fire, drought or extended drought conditions, earthquakes, or other related natural or man-made conditions, have or may have on the value of taxable property within the District, or to what extent the effects said natural disasters might have had on economic activity in the District or throughout the State. See below under the heading “– Appeals and Potential Reduction of Assessed Valuations.”

Tax Rates, Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a “floating lien date”). For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of “situs” growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent 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. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. 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 recordation 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, bank accounts or possessory interests belonging or assessed to the taxpayer.

The County levies and collects all property taxes for property falling within its taxing boundaries.

The table on the following page set forth secured tax charges levied and delinquencies in the District for fiscal years 2013-14 through 2017-18.

PERRIS ELEMENTARY SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

<u>Fiscal Year</u>	<u>Secured Tax Charge⁽¹⁾</u>	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
2013-14	\$ 467,665.70	\$13,752.19	2.94%
2014-15	1,113,957.92	27,411.99	2.46
2015-16	983,585.40	32,588.01	3.31
2016-17	1,255,390.54	46,280.83	3.69
2017-18	1,439,386.58	42,861.66	2.98

⁽¹⁾ Bond debt service levy only.
Source: California Municipal Statistics, Inc.

Teeter Plan

The County has adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing with Section 4701) of the Revenue and Taxation Code of the State (also known as the “Teeter Plan”). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under the Teeter Plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County’s general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan, the County was required to distribute to participating local agencies 95% of the then-accumulated, secured roll property tax delinquencies and to place the remaining 5% in a tax losses reserve fund. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan will be paid as taxes are collected. Since the District maintains funds in the County Treasury, the District is included in the Teeter Plan.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board of Supervisors shall receive a petition for its discontinuance joined in by resolutions adopted by two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. In the event that the Teeter Plan was terminated, receipt of revenue of *ad valorem* taxes in the District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District. The District knows of no consideration by the County to discontinue the Teeter Plan.

Tax Rates

The following table sets forth typical tax rates levied in Tax Rate Area 8-018 for fiscal years 2014-15 through 2018-19.

PERRIS ELEMENTARY SCHOOL DISTRICT
Summary of Ad Valorem Tax Rates
Typical Tax Rates per \$100 of Assessed Valuation (TRA 8-018⁽¹⁾)

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
General	1.00000	1.00000	1.00000	1.00000	1.00000
Perris Elementary School District	.05588	.04699	.05491	.06000	.05754
Perris Union High School District	.06303	.06236	.06092	.05675	.05243
Mt. San Jacinto Community College District	-	.01394	.01320	.01320	.01320
Metropolitan Water District	.00350	.00350	.00350	.00350	.00350
Total	<u>1.12241</u>	<u>1.12679</u>	<u>1.13253</u>	<u>1.13345</u>	<u>1.12667</u>

⁽¹⁾ 2018-19 assessed valuation of TRA 8-018 is \$302,757,722, which is 11.04% of the district's total assessed valuation.

Source: California Municipal Statistics, Inc.

Largest Taxpayers

The twenty largest local secured taxpayers in the District and their assessed valuations for 2018-19 are shown in the following table:

PERRIS ELEMENTARY SCHOOL DISTRICT
Largest 2018-19 Local Secured Taxpayers

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2018-19 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1.	CR&R Inc.	Commercial	\$ 41,924,099	1.63%
2.	GM Gabrych Family LP	Commercial	33,797,872	1.32
3.	Nuevo Perris	Commercial	31,400,000	1.22
4.	FR Cal Harvill Road	Commercial	27,237,273	1.06
5.	Rubio Holdings	Commercial	22,015,695	0.86
6.	Wal Mart Stores Inc.	Commercial	19,253,126	0.75
7.	Centex Home	Residential Development	16,338,181	0.64
8.	Gardenlife LM	Undeveloped	15,756,309	0.61
9.	Park Towne Apartments Inc.	Apartments	15,271,601	0.59
10.	Redlands Towne Square	Apartments	13,417,110	0.52
11.	Isaac Alchalel	Commercial	12,780,818	0.50
12.	WLPX Perris Venue	Undeveloped	12,742,459	0.50
13.	Perris Garden Investors	Apartments	12,675,185	0.49
14.	Ringmaster Square	Commercial	11,777,267	0.46
15.	Lake Perris Village MHC	Commercial	10,830,442	0.42
16.	Smith Orange County Partners	Commercial	8,932,344	0.35
17.	Darlene Harada	Commercial	8,427,586	0.33
18.	TSV Reco	Undeveloped	8,200,000	0.32
19.	Sang C. Lee	Commercial	7,675,000	0.30
20.	145 Malbert	Commercial	6,758,140	0.26
			<u>\$337,210,507</u>	<u>13.13%</u>

⁽¹⁾ 2018-19 Local Secured Assessed Valuation: \$2,568,314,439

Source: California Municipal Statistics, Inc.

Employment

The following chart compares labor force, employment, civilian employment and the unemployment rate in the City of Perris, the State of California and the United States during the period from 2014 through 2018.

CITY OF PERRIS, STATE OF CALIFORNIA, UNITED STATES LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Years 2014 through 2018

<u>Year and Area</u>	<u>Labor Force</u>	<u>Civilian Employment</u>	<u>Civilian Unemployment</u>	<u>Unemployment Rate (%)</u>
<u>2014</u>				
City of Perris	28,900	25,500	3,400	11.8
California	18,714,700	17,310,900	1,403,800	7.5
United States	155,920,000	146,319,000	9,601,000	6.2
<u>2015</u>				
City of Perris	29,400	26,500	2,900	9.7
California	18,851,100	17,681,800	1,169,200	6.2
United States	157,140,000	148,847,000	8,293,000	5.3
<u>2016</u>				
City of Perris	29,500	27,400	2,200	7.4
California	19,044,500	18,002,800	1,041,700	5.5
United States	159,197,000	151,443,000	7,754,000	4.9
<u>2017</u>				
City of Perris	30,200	28,300	1,800	6.1
California	19,205,300	18,285,500	919,800	4.8
United States	160,314,000	153,338,000	6,976,000	4.4
<u>2018</u>				
City of Perris	30,600	29,100	1,500	4.9
California	19,398,200	18,582,800	815,400	4.2
United States	162,070,000	155,764,000	6,306,000	3.9

Source: State of California Employment Development Department; U.S. Department of Labor, Bureau of Labor Statistics.

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Principal Employers

The following table lists the top ten employers in the City of Perris as of June 30, 2018.

CITY OF PERRIS Principal Employers

	<u>Employer</u>	<u>Number of Employees</u>
1.	Ross Stores Inc.	1,921
2.	Perris Union High School District	938
3.	Perris Elementary School District	780
4.	Lowe's CA Regional Distribution Center	762
5.	Eastern Municipal Water District	611
6.	NFI Industries	560
7.	National Stores Inc.	485
8.	California Truss Co. Inc.	375
9.	Home Depot Distribution Center	263
10.	CR&R Waste	262

Source: City of Perris Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018.

District Investments

The Treasurer and Tax Collector of Riverside County (the "Treasurer") manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County's Treasury Pool.

The composition and value of investments under management in the Treasury Pool vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally.

For a further discussion of the County's Treasury Pool, see APPENDIX F – COUNTY OF RIVERSIDE POOLED INVESTMENT FUND.

State Funding of Education

The State Constitution requires that from all State revenues there will first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education. As discussed below, school districts in the State receive a significant portion of their funding from State appropriations.

On June 27, 2013, the State adopted a new method for funding school districts commonly referred to as the "Local Control Funding Formula." The Local Control Funding Formula will be implemented in stages, beginning in fiscal year 2013-14 and will be fully implemented in fiscal year 2018-19. See "– *Local Control Funding Formula*" below for more information. Prior to adoption of the

Local Control Funding Formula, the State used a revenue limit funding system, described below under “–*Revenue Limit Funding System.*”

Revenue Limit Funding System. School districts in the State have historically received most of their revenues under a formula known as the “revenue limit.” Generally, revenue limits were calculated for each school district by multiplying the ADA for such district by a base revenue limit per unit of ADA. Revenue limit calculations were subject to adjustment to provide cost of living adjustments (“COLAs”) and to equalize revenues among school districts of the same type. The revenue limit system of funding has been replaced by the LCFF. A description of the revenue limit system is included herein as the District has historically received financial assistance from the State pursuant to this method of appropriations.

Each school district’s revenue limit, which was funded by State moneys and local ad valorem property taxes from the general 1% *ad valorem* property tax levy, was allocated based on the ADA of each school district for either the current or preceding school year. Generally, State Aid to a school district amounted to the difference between the school district’s revenue limit and the school district’s local property tax allocation from the general 1% *ad valorem* property tax levy.

Local Control Funding Formula. Effective in fiscal year 2013-14, the State established the LCFF, a new system for funding school districts, charter schools and county offices of education. The LCFF replaces the revenue limit funding system, as well as many categorical programs. The LCFF distributes State resources to schools through a guaranteed base funding grant per unit of ADA (a “Base Grant”). The Base Grants per unit of ADA for each grade span are: (i) \$6,845 for grades K-3; (ii) \$6,947 for grades 4-6; (iii) \$7,154 for grades 7-8; and (iv) \$8,289 for grades 9-12. Full implementation of the LCFF was accomplished in fiscal year 2018-19. During the implementation period, an annual transition adjustment was calculated for each school district, equal to such district’s proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. Beginning in fiscal year 2014-15, the Base Grants were adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will now be subject to appropriation for such adjustment in the annual State budget.

The Base Grants for grades K-3 are subject to adjustments of 10.4% to cover the costs of class size reduction. Unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. The Base Grants for grades 9-12 are subject to adjustments of 2.6% for the provision of career technical education.

School districts that serve students of limited English proficiency (“EL” students), students from low income families that are eligible for free or reduced priced meals (“LI” students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated; if the school district has students with both limited English proficiency and eligibility for reduced price meals, for instance, such students will not be duplicated for purposes of determining the additional funding grants. Foster students automatically qualify for free or reduced priced meals. A supplemental grant add-on (each, a “Supplemental Grant”) is authorized for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by such districts’ percentage of unduplicated EL/LI student enrollment. School districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a “Concentration Grant”) equal to 50% of the applicable Base Grant multiplied the percentage of such district’s unduplicated EL/LI student enrollment in excess of the 55% threshold.

The following table shows a breakdown of the District’s ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2015-16 through 2017-18 and projections for fiscal years 2018-19 and 2019-20.

**PERRIS ELEMENTARY SCHOOL DISTRICT
ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE**

Fiscal Year		Average Daily Attendance ⁽¹⁾			Total ADA	Enrollment ⁽²⁾	
		K-3	4-6	7-8		Total Enrollment	% of EL/LI Enrollment
2015-16	Charter	378.82	276.32	220.01	875.15	916	91.16
	District	2,702.55	2,041.65	–	4,744.20	4,966	93.31
2016-17	Charter	370.88	280.37	886.66	886.66	934	89.19
	District	2,712.78	2,050.50	–	4,763.28	5,029	92.31
2017-18	Charter	365.03	279.14	230.78	874.91	912	88.81
	District	2,744.12	2,029.12	–	4,773.54	5,009	92.56
2018-19 ⁽³⁾	Charter	368.04	286.39	246.50	900.93	934	87.09
	District	2,742.52	1,877.16		4,619.68	4862	92.49
2019-20 ⁽³⁾	Charter	368.04	286.39	246.50	900.93	934	86.01
	District	2,719.52	1,862.16		4,581.68	4824	92.84

⁽¹⁾ Except for fiscal year 2019-20, reflects P-2 ADA.

⁽²⁾ As of October report submitted to the California Basic Educational Data System. For purposes of calculating supplemental funding grants, a school district’s percentage of unduplicated EL/LI students is based on a rolling average of such district’s EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

⁽³⁾ Projected.

Source: The District.

The LCFF provides for a permanent economic recovery target (“ERT”) add-on for school districts that would have received greater funding levels under the revenue limit system. The ERT is equal to the difference between the revenue limit allocations such districts would have received under the prior system in Fiscal Year 2020-21, and the target LCFF allocations owed to such districts in the same year. The ERT add-on will be paid incrementally over the implementing period of the LCFF. The District does not qualify for the ERT add-on.

The sum of a school district’s adjusted Base, Supplemental and Concentration Grants will be multiplied by such district’s P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, will yield a district’s total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district’s share of applicable local property taxes.

As of July 1, 2014, school districts are required to develop a three-year Local Control and Accountability Plan (each, an “LCAP”). County Superintendent of Schools and the State Superintendent of Public Instruction will review and provide support to the districts and county offices of education under

their jurisdiction. In addition, the fiscal year 2013-14 State Budget created the California Collaborative for Education Excellence (the “Collaborative”) to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. The State Superintendent of Public Instruction may direct the Collaborative to provide additional assistance to any district, county office, or charter school. For those entities that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction has authority to make changes to the district or county office’s local plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is so persistent and acute as to warrant revocation. 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.

State Assistance

Districts’ principal funding formulas and revenue sources are derived from the budget of the State of California. The following discussion of the California State budget has been obtained from publicly available information which the District believes to be reliable; however neither District nor the Underwriter guarantee the accuracy or completeness of this information and have not independently verified such information. *Additional information regarding State budgets is available at various State-maintained websites, including www.dof.ca.gov.* These websites are not incorporated herein by reference and neither the District nor the Underwriter makes any representation as to the accuracy of the information provided therein.

Fiscal Year 2019-20 State Budget

On June 27, 2019, Governor Gavin Newsom signed the fiscal year 2019-20 budget (the “2019-20 State Budget”). The 2019-20 State Budget projects general fund revenues in the amount of \$138.05 billion in fiscal year 2018-19 and \$143.81 billion in fiscal year 2019-20. The 2019-20 State Budget projects that the State will end fiscal year 2018-19 with a reserve balance of approximately \$19.75 billion, comprised of an approximate balance of \$5.39 billion in the Special Fund for Economic Uncertainties (“SFEU”) and an approximate balance of \$14.36 billion in the Budget Stabilization Account (“BSA”). The 2019-20 State Budget projects that the State will end fiscal year 2019-20 with an approximately \$17.93 billion reserve balance, comprised of approximately \$1.41 billion in the SFEU and approximately \$16.52 billion in the BSA. The 2019-20 State Budget includes a deposit of approximately \$377 million to the PSSSA, however, such deposit did not trigger the school district reserve cap. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS– Proposition 2” in the forepart of this Official Statement.

The 2019-20 State Budget describes the State’s financial situation as balanced, with a strong fiscal foundation as a result of paying down debts and building up reserves. The 2019-20 State Budget acknowledges the State’s hard-won recovery and is centered on making necessary investments for a more effective government, promoting affordability and opportunity, and supporting justice and dignity for all Californians. For example, the 2019-20 State Budget includes \$4.5 billion to eliminate debts and reverse deferrals, \$5.5 billion to build reserves, and \$4.3 billion to pay down unfunded retirement liabilities. The 2019-20 State Budget also addresses the unprecedented natural disasters which have occurred over the prior two years by proposing a one-time \$50 million general fund expenditure for local grants and to immediately begin a comprehensive statewide education campaign on disaster preparedness and safety. The 2019-20 State Budget also includes a series of proposals to address early childhood education and improving early childhood health and wellness, and also creates a new “California EITC” by more than doubling the size of the State’s earned income tax credit to \$1 billion.

Under the 2019-20 State Budget, general fund expenditures for fiscal year 2019-20 are \$147.8 billion (an increase of approximately \$5.1 billion from fiscal year 2018-19 general fund expenditures), of which \$58.8 billion (40%) is allocated to K-12 education. The 2019-20 State Budget provides Proposition 98 funding of \$81.1 billion for fiscal year 2019-20.

The 2019-20 State Budget included the following significant adjustments affecting California K-12 school districts:

- Proposition 98 Settle Up – An increase of \$686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through 2017-18.
- Classified School Employees Summer Assistance Program – An increase of \$36 million one-time Proposition 98 General Fund to provide an additional year of funding for this program, which provides a state match for classified employee savings used to provide income during summer months.
- AB 1840 Adjustments – An increase of \$3.6 million one-time Proposition 98 General Fund for Inglewood Unified School District and \$514,000 one-time Proposition 98 General Fund for Oakland Unified School District, amounting to 75 percent of the operating deficit of these districts, pursuant to Chapter 426, Statutes of 2018 (AB 1840).
- Special Olympics – An increase of \$4 million one-time non-Proposition 98 General Fund for the Special Olympics of Northern and Southern California.
- Wildfire-Related Cost Adjustments – An increase of \$2 million one-time Proposition 98 General Fund to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. Additionally, an increase of \$727,000 one-time Proposition 98 General Fund to reflect adjustments to the state’s student nutrition programs resulting from wildfire-related losses. Further, the Budget holds both school districts and charter schools impacted by the 2018 wildfires harmless for state funding for two years.
- Breakfast After the Bell – An increase of \$500,000 one-time Proposition 98 General Fund to increase participation in the Breakfast After the Bell school nutrition program.
- Homeless Youth Education – An increase of \$500,000 one-time Proposition 98 General Fund for the San Diego Unified School District to support the education of homeless youth.
- California Association of Student Councils – An increase of \$150,000 one-time non-Proposition 98 General Fund to provide leadership development opportunities for financially disadvantaged students.
- San Francisco Unified School District Excess Tax Correction – An increase of \$149.1 million one-time Proposition 98 General Fund to reflect a technical adjustment to excess property taxes related to a misallocation of these funds in 2016-17. Specifically, San Francisco did not properly calculate the excess tax allocation for the school district, which received taxes that should have been allocated to the county and city and special districts.

Additional Information. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” Various analyses of the budget may be found at the website of the LAO at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found via the website of the State Treasurer, www.treasurer.ca.gov. The information presented in these websites is not incorporated by reference in this Official Statement.

Future State Budgets. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address any future budget deficits and cash management practices. Future State budgets will be affected by national and State economic conditions over which the District has no control, and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues, deferred revenues or increased expenses for the District, the District will be required to make adjustments to its budget and cash management practices. In the event current or future State Budgets decrease the District’s revenues or increase required expenditures by the District from the levels assumed by the District, the District will be required to generate additional revenues, curtail programs or services, or use its reserve funds to ensure a balanced budget.

Financial Statements of the District

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. For the District’s most recent available audited financial statements, see APPENDIX H – “AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.”

The following table contains accounting data abstracted from financial statements prepared by the District’s independent auditors for the fiscal years 2013-14 through 2017-18.

PERRIS ELEMENTARY SCHOOL DISTRICT
Summary of General Fund Sources and Expenditures
Fiscal Years 2013-14 to 2017-18

	General Fund Fiscal Year Ended June 30, 2014	General Fund Fiscal Year Ended June 30, 2015	General Fund Fiscal Year Ended June 30, 2016	General Fund Fiscal Year Ended June 30, 2017	General Fund Fiscal Year Ended June 30, 2018
REVENUES					
Revenue limit/LCFF sources	\$ 32,902,441	\$ 38,427,423	\$ 44,574,764	\$ 47,722,583	\$ 49,266,866
Federal sources	4,858,109	4,994,136	5,120,203	5,245,548	7,815,925
Other state sources	4,471,645	5,264,824	7,140,057	6,062,063	5,962,839
Other local sources	1,297,404	730,012	519,546	621,587	91,585
Total Revenues	<u>43,529,599</u>	<u>49,416,395</u>	<u>57,354,570</u>	<u>59,651,781</u>	<u>63,137,215</u>
EXPENDITURES					
Instructional services:					
Instruction	28,148,316	29,487,746	32,526,457	37,558,250	40,702,042
Instruction-related services:					
Supervision of instruction	1,922,962	2,429,117	2,164,080	2,426,089	1,563,314
Instructional library, media and technology	210,458	212,263	245,361	334,752	326,617
School site administration	2,444,753	2,712,659	3,281,252	3,525,964	3,500,204
Pupil support services:					
Home-to-school transportation	1,089,344	1,125,123	1,152,320	1,186,829	1,204,351
Food services	-	40	-	-	3,724
All other pupil services	2,438,191	2,788,343	2,908,010	4,278,357	4,656,935
General administration services:					
Data processing services	114,649	155,217	298,452	221,729	216,723
Other general administration	2,616,692	2,844,272	3,097,231	3,231,822	4,100,453
Plant services	4,082,079	4,625,158	4,380,037	5,416,065	4,777,131
Transfers of indirect costs	(394,523)	(650,264)	(624,611)	(621,512)	(680,432)
Capital Outlay	850,323	45,753	177,391	263,865	248,938
Intergovernmental	395,711	560,842	524,288	479,002	452,272
Debt Service					
Principal	-	-	-	-	200,000
Interest	-	-	-	-	-
Total Expenditures	<u>43,918,955</u>	<u>46,336,269</u>	<u>50,130,268</u>	<u>58,301,212</u>	<u>61,272,272</u>
Excess (Deficiencies) of Revenues over (Under) Expenditures	<u>(389,356)</u>	<u>3,080,126</u>	<u>7,224,302</u>	<u>1,350,569</u>	<u>1,864,943</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	123,248	-	54,878
Interfund transfers out	(6,845,614)	(644,240)	(5,058,427)	(634,529)	(57,352)
Total Other Financing Sources and Uses	<u>(6,845,614)</u>	<u>(644,240)</u>	<u>(4,935,179)</u>	<u>(634,529)</u>	<u>(2,474)</u>
Net Change in Fund Balances	(7,234,970)	2,435,886	2,289,123	716,040	1,862,469
Fund Balances, July 1	\$14,472,307	\$7,237,337	\$9,673,223	\$11,962,346	\$12,678,386
Fund Balances, June 30	<u>\$7,237,337</u>	<u>\$9,673,223</u>	<u>\$11,962,346</u>	<u>\$12,678,386</u>	<u>\$14,540,855</u>

Budgets of the District

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 file with the county superintendent of schools a tentative budget by July 1 in each fiscal year and an adopted budget by September 8 of each fiscal year. After approval of the adopted budget, the school district's administration may submit budget revisions for governing board approval.

School districts in California must also conduct a review of their budgets according to certain standards and criteria established by the State Department of Education. A written explanation must be provided for any element in the budget that does not meet the established standards and criteria. The district superintendent or designee must certify that such a review has been conducted and the certification, together with the budget review checklist and a written narrative, must accompany the budget when it is submitted to the governing board for approval. The balanced budget requirement makes appropriations reductions necessary to offset any revenue shortfalls.

Furthermore, county superintendent of schools offices are required to review district budgets, complete the budget review checklist and conduct an analysis of any budget item that does not meet the established standards. A copy of the completed checklist, together with any comments or recommendations, must be provided to the district and its governing board by November 1. By November 30, every district must have an adopted and approved budget, or the county superintendent of schools will impose one.

Under the provisions of California Assembly Bill 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. A school district's interim report must include a certification of whether or not it is able to meet its financial obligations. The certifications are classified as positive, qualified, or negative. A positive certification is assigned when the district is projected to will meet its financial obligations for the current and two subsequent fiscal years. A qualified certification is assigned when the district projects it may not meet its financial obligations for the current or two subsequent fiscal years. A negative certification is assigned when a district projects it will be unable to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year. Pursuant to the State Education Code, prior to the execution and delivery of certificates of participation by a school district with a qualified or negative certification, the County Superintendent of Schools must determine that the district's repayment of the certificates of participation is probable. The District has not received a qualified or negative certification on an interim report in the prior five fiscal years.

Presented on the following page are the District's Adopted Budgets for fiscal years 2015-16 through 2019-20. The District adopted its budget for fiscal year 2019-20 on June 20, 2019. The District's Adopted Budget for fiscal year 2019-20 projects negative net changes in fund balance for the next three fiscal years, with balances declining from an ending General Fund balance of approximately \$12,011,705 projected in fiscal year 2019-20, to approximately \$9,993,430 projected in fiscal year 2020-21, and approximately \$8,067,527 projected in fiscal year 2021-22. The reasons for these declines include (i) increases in required contributions by the District to STRS and PERS as well as an increasing contribution to the District's Special Education program; (ii) a change to State budgeting practices in the 2018-19 State Budget for funding wherein additional funds related to the implementation of the LCFF were received in fiscal year 2018-19 to fully fund the LCFF, and such funds will not be received in future fiscal years, only COLA; and (iii) a decline in enrollment projections as noted under the heading

“Average Daily Attendance and Base Revenue Limit” herein for fiscal year 2019-20 only. The District expects the rate of spending to decline in these three fiscal years, as displayed by the decline of approximately \$3.5 million from fiscal year 2018-19 to 2019-20 when compared to a decline of \$2.0 million from fiscal year 2019-20 to 2020-21 and \$1.9 million from fiscal year 2020-21 to 2021-22. The District is currently developing a strategy to address these declines.

**PERRIS ELEMENTARY SCHOOL DISTRICT
GENERAL FUND ADOPTED BUDGETS
FISCAL YEARS 2015-16 THROUGH 2019-20**

	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20
REVENUES:					
Revenue Limit Sources	\$43,962,434	\$48,756,767	\$49,074,702	\$52,509,089	\$53,459,968
Federal	5,549,994	6,526,112	5,645,225	150,000	6,428,922
Other State	5,333,302	5,862,488	4,288,300	2,520,995	5,212,823
Other Local	(148,728)	(538,316)	(423,337)	560,000	(1,030,574)
Contributions	-	-	-	(8,232,943)	-
Total Revenues	<u>54,697,002</u>	<u>60,607,051</u>	<u>58,584,890</u>	<u>47,507,141</u>	<u>64,071,139</u>
EXPENDITURES:					
Certificated Salaries	23,407,307	26,023,115	28,384,604	26,218,810	32,601,023
Classified Salaries	6,085,732	6,616,045	7,058,544	5,841,374	7,694,699
Employee Benefits	8,528,610	11,834,963	12,957,061	10,897,485	16,493,575
Books and Supplies	5,625,003	5,123,078	4,701,163	3,077,582	3,015,625
Services and Other Operating Expenditures	7,918,246	10,315,082	8,004,021	2,029,830	5,820,149
Capital Outlay	110,000	180,795	135,000	258,000	1,447,194
Other Outgo (excluding Transfers of Indirect Costs)	525,558	573,761	573,761	-	1,045,211
Other Outgo (Transfers of Indirect Costs)	(643,533)	(492,631)	(574,593)	(939,657)	(842,882)
Total Expenditures	<u>51,556,923</u>	<u>60,174,208</u>	<u>61,239,561</u>	<u>47,383,424</u>	<u>67,569,313</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	<u>3,140,079</u>	<u>432,843</u>	<u>(2,654,671)</u>	<u>(71,253)</u>	<u>(3,792,893)</u>
OTHER FINANCING SOURCES AND USES:					
Interfund Transfers Out	1,628,169	1,737,997	692,296	194,970	294,719
Interfund Transfers In	-	420,330	-	-	-
Total Other Financing Sources and Uses	<u>1,628,169</u>	<u>1,317,667</u>	<u>692,296</u>	<u>194,970</u>	<u>294,719</u>
Net Change in Fund Balances	1,511,910	(884,824)	(3,346,967)	(71,253)	(3,498,174)
Fund Balance, Beginning of Year	<u>8,743,491</u>	<u>10,306,272</u>	<u>8,821,257</u>	<u>11,945,171</u>	<u>15,509,879</u>
Fund Balance, End of Year	<u>\$10,255,401</u>	<u>\$9,421,448</u>	<u>\$5,474,290</u>	<u>\$11,873,918</u>	<u>\$12,011,705</u>

⁽¹⁾ Totals may not add due to rounding.
Source: The District.

District Debt

The following table is a statement of the District’s direct and estimated overlapping bonded debt as of May 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.

Column 1 in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in Column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

**PERRIS ELEMENTARY SCHOOL DISTRICT
Estimated Direct and Overlapping Bonded Debt**

2018-19 Assessed Valuation: \$2,742,804,873

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/19</u>
Metropolitan Water District	0.094%	\$ 45,167
Eastern Municipal Water District Improvement District No. U-9	20.565	528,726
Mt. San Jacinto Community College District	3.009	5,195,039
Perris Union High School District	16.279	16,768,785
Perris Elementary School District	100.	28,546,242
Perris Elementary School District Community Facilities District No. 2002-1	100.	1,350,000
Perris Union High School District Community Facilities District No. 91-1	100.	9,515,000
City of Perris Community Facilities Districts	19.735-100.	27,449,423
Riverside County Community Facilities District No.87-1	0.894	21,680
Riverside County Flood Control District, Zone No. 4	4.814	707,177
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$ 90,127,239</u>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	0.978%	\$ 7,589,153
Riverside County Pension Obligation Bonds	0.978	2,384,853
Perris Union High School District Certificates of Participation	16.279	1,128,145
Perris Elementary School District Certificates of Participation	100.	6,670,000⁽¹⁾
City of Lake Elsinore General Fund Obligations	0.031	6,429
Western Municipal Water District General Fund Obligations	0.069	6,224
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$ 17,784,804</u>
Less: Riverside County supported obligations		25,037
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$ 17,759,767</u>
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>		 \$ 28,520,327
GROSS COMBINED TOTAL DEBT		\$136,432,370 ⁽²⁾
NET COMBINED TOTAL DEBT		\$136,407,333

⁽¹⁾ Excludes issue to be sold, but includes the Prior Certificates.

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

Source: California Municipal Statistics, Inc.

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$28,546,242)	1.04%
Total Overlapping Tax and Assessment Debt.....	3.29%
Combined Direct Debt (\$30,176,242)	1.28%
Gross Combined Total Debt	4.97%
Net Combined Total Debt.....	4.97%

Ratio to Redevelopment Incremental Valuation (\$838,433,213):

Total Overlapping Tax Increment Debt	3.40%
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APPENDIX B

THE LEASED PREMISES AND BASE RENTAL SCHEDULE

The District has leased certain real property located at 555 Alpine Dr., Perris California, currently being used as a middle school, leased by the District from the Corporation under the Sublease. The estimated value of the Leased Premises as of the date hereof is no less than \$13,986,159.

Base Rental Schedule

<u>Lease Payment Dates</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total</u>
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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions contained in the Trust Agreement, the Sublease, the Site Lease and the Assignment Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions thereof.

DEFINITIONS

“*Additional Rental*” means those amounts specified in the Sublease and summarized herein under the heading “SUBLEASE – Rent – Rental Payments – *Additional Rental*”.

“*Base Rental Account*” means the Base Rental Account created within the Certificate Fund pursuant to the Trust Agreement.

“*Business Day*” means a day which is not a Saturday or Sunday or a day on which banking institutions are authorized or required by law to be closed for commercial banking purposes in the States of California, Minnesota and New York.

“*Certificate Fund*” means the Certificate Fund created pursuant to the Trust Agreement.

“*Certificate Insurer*” means the Build America Mutual Assurance Company, or any successor thereto or assignee thereof.

“*Closing Date*” means the date of delivery of the Certificates to the initial purchasers thereof.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Costs of Issuance*” means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Sublease, the Site Lease, the Assignment Agreement, the Certificates, the Preliminary Official Statement and the Official Statement pertaining to the Certificates; rating agency fees; market study fees; legal fees and expenses of counsel with respect to execution and delivery of the Certificates; including Independent Counsel; any computer and other expenses incurred in connection with the Certificates; any financial advisory fees; the initial fees and expenses of the Trustee and any paying agent (including without limitation, origination fees and first annual fees payable in advance); any fees of the Escrow Agent or Verification Agent, any fees or expenses related to the prepayment of the Prior Certificates or the discharge of the Prior Trust Agreement, or any documents related to the Prior Certificates, and any other fees and expenses incurred in connection with the execution and delivery of the Certificates, to the extent such fees and expenses are approved by the District.

“*Earnings Fund*” means the Earnings Fund created pursuant to the Trust Agreement.

“*Escrow Agent*” means U.S. Bank National Association, as escrow agent under the Escrow Agreement.

“*Escrow Agreement*” means the Escrow Agreement, dated as of August 1, 2019, by and between the District and the Escrow Agent, with respect to the prepayment of the Prior Certificates.

“*Excess Earnings Account*” means the Excess Earnings Account created within the Earnings Fund pursuant to the Trust Agreement.

“*Fiscal Year*” means the fiscal year of the District, which as of the date of the Trust Agreement is the period from July 1 to and including the following June 30.

“*Independent Counsel*” means an attorney or firm of attorneys of recognized national standing in the field of municipal finance selected by the District.

“*Interest Account*” means the Interest Account created within the Certificate Fund pursuant to the Trust Agreement.

“*Interest Payment Date*” means March 1 and September 1 in each year, commencing September 1, 2019, until the maturity or earlier prepayment date of the Certificates.

“*Investment Earnings*” means the investment earnings received in respect of money on deposit in any fund or account established pursuant to the Trust Agreement.

“*Investment Earning Account*” means the Investment Earnings Account created within the Earnings Fund pursuant to the Trust Agreement.

“*Late Payment Rate*” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank, N.A.) plus 3%, and (ii) the then applicable highest rate of interest on the Certificates and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as the Certificate Insurer, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to the Certificate Insurer shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

“*Lease Year*” means the period from the Closing Date through August 31, 2019 and thereafter the period from each September 1 to and including the following August 31, during the term of the Sublease.

“*Moody’s*” means Moody’s Investors Service, a Delaware corporation, and its successors and assigns.

“*Office of the Trustee*” means the corporate trust office of the Trustee located in Los Angeles, California, provided, however, that the Trustee may designate in writing to the District and the Owners such other office or agency from time to time for purposes of registration, transfer, exchange or payment of the Certificates.

“*Outstanding*” when used as of any particular time with respect to Certificates, means all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(1) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(2) Certificates for the payment or prepayment of which funds or eligible securities in the necessary amount shall have theretofore been deposited with the Trustee in accordance with the provisions of the Trust Agreement described under “—*Defeasance*” below (whether on or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“*Owner*” means the registered owner of any Certificate, as indicated in the Certificate register maintained by the Trustee in accordance with the Trust Agreement.

“*Prepayment Account*” means the Prepayment Account created within the Certificate Fund pursuant to the Trust Agreement.

“*Principal Account*” means the Principal Account created within the Certificate Fund pursuant to the Trust Agreement.

“*Prior Certificates*” means the District’s outstanding Certificates of Participation (2004 School Facility Bridge Funding Program) being prepaid with the proceeds of the Certificates.

“*Prior Trust Agreement*” means the Trust Agreement, dated as of August 1, 2004, by and among the District, the Corporation and U.S. Bank National Association, as trustee.

“*Qualified Investments*” means any of the following to the extent then permitted by the general laws of the State of California applicable to investments by school districts:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following Federal agencies and provided such obligations are

backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Farmers Home Administration (FmHA) – Certificates of beneficial ownership
- b. Federal Housing Administration Debentures (FHA)
- c. General Services Administration – Participation certificates
- d. Government National Mortgage Association (GNMA or “Ginnie Mae”) – GNMA-guaranteed mortgage-backed bonds; GNMA-guaranteed pass-through obligations (participation certificates)
- e. U.S. Maritime Administration – Guaranteed Title XI financing
- f. U.S. Department of Housing and Urban Development (HUD) – Project Notes; Local Authority Bonds

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Federal Home Loan Bank System — Senior debt obligations (Consolidated debt obligations)
- b. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mae”) — Participation Certificates (Mortgage-backed securities); Senior debt obligations
- c. Federal National Mortgage Association (FNMA or “Fannie Mae”) — Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal.)
- d. Student Loan Marketing Association (SLMA or “Sallie Mae”) — Senior debt obligations
- e. Resolution Funding Corp. (REFCORP) — Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
- f. Farm Credit System — Consolidated systemwide bonds and notes

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAAM; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2.

(5) Certificates of deposit (“CDs”) secured at all times by collateral described in (1) and/or (2) above. CDs must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short term obligations are rated “A-1+” or better by S&P and “Prime-1” by Moody’s.

The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral.

(6) CDs, savings accounts, deposit accounts or money market deposits which are fully insured by Federal Deposit Insurance Corporation, including BIF and SAIF.

(7) Investment Agreements, including guaranteed investment agreements.

(8) Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P.

(9) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest long-term rating categories assigned by such agencies.

(10) Federal funds or bankers acceptance which a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1+” by S&P.

(11) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase agreements must satisfy the following criteria:

a. Repurchase agreements must be between the District and a dealer bank or securities firm

(1) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SEPC and which are rated A or better by S&P and Moody’s, or

(2) Banks rated “A” or above by S&P and Moody’s.

b. The written repurchase agreement contract must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments

- (b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
- (2) The term of the repurchase agreement may be up to 30 days
- (3) The collateral must be delivered to the District, Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
- (4) The Trustee has a perfected first priority security interest in the collateral.
- (5) Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement.
- (6) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.
- (7) Valuation of Collateral
 - (a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
 - (b) The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee or the District to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Trustee or the District, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.
- c. Legal opinion which must be delivered to the District: Repurchase agreement meets guidelines under state law for legal investment of public funds.

(12) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

“*Related Document*” means the Trust Agreement, the Site Lease, the Sublease, the Assignment Agreement or any other transaction document.

“*Reserve Fund Credit Policy*” means an insurance policy, surety bond, letter of credit or other credit facility deposited with the Trustee pursuant to the applicable provisions of the Trust Agreement.

“*Reserve Requirement*” means, with respect to the Certificates, subject to the provisions of the Trust Agreement permitting deposit of a Reserve Fund Credit Policy, \$_____ provided, however, that as of any date of calculation, the Reserve Requirement shall not exceed the lesser of (i) 10% of the principal amount of the Certificates Outstanding, (ii) the maximum Base Rental payable by the District in any Lease Year between the date of calculation and the expiration of the Sublease, and (iii) 125% of the average annual Base Rental on the Certificates Outstanding.

“*S&P*” means S&P Global Ratings, and its successors and assigns, except that if such company shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the District (other than Moody’s).

“*Tax and Nonarbitrage Certificate*” means the Tax and Nonarbitrage Certificate with respect to the Certificates provided to the Independent Counsel by the District on the Closing Date.

TRUST AGREEMENT

Payment of Certificates

Interest with respect to any Certificate shall be payable on each Interest Payment Date to the Owner thereof as of the close of business on the Record Date, each interest to be paid by check of the Trustee, sent to the Owner by first-class mail, postage prepaid, at his address as it appears on the Certificate register maintained by the Trustee in accordance with the Trust Agreement; provided however that at the option of any Certificate Owner of at least \$1,000,000 in aggregate principal amount of Certificates, interest payments will be wired to an account at a financial institution within the United States designated by such Owner in writing prior to the applicable Record Date to the Trustee for such purpose. Payments of defaulted interest shall be paid by check to the Owners as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the Owners not less than ten days prior thereto. If any Interest Payment Date or maturity date falls on a day which is not a Business Day, then amounts due with respect to the Outstanding Certificates on such Interest Payment Date or maturity date shall be paid on the next succeeding Business Day, but interest with respect to the Outstanding Certificates shall accrue, as applicable, only to such Interest Payment Date or maturity date. Principal and premium, if any, with respect to the Certificates is payable upon surrender thereof at the Office of the Trustee upon maturity or the earlier prepayment thereof. The principal, interest and premium, if any, with respect to the Certificates shall be payable in lawful money of the United States of America.

Transfer and Exchange

The registration of any Certificate may be transferred upon the Certificate register as provided in the Trust Agreement upon surrender of such Certificate to the Trustee. Such

Certificate shall be endorsed or accompanied by delivery of the written instrument of transfer set forth in the form of the appropriate Certificate attached to the Trust Agreement, duly executed by the Owner or his duly authorized attorney, and payment of such reasonable transfer fees as the Trustee may establish. Upon such registration of transfer, a new Certificate or Certificates of the same type, tenor, for the same aggregate principal amount, maturity and interest rate and in the same authorized denominations will be executed and delivered to the transferee in exchange therefor.

Certificates may be exchanged at the Office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations of the same type, tenor, maturity and interest rate. All Certificates surrendered in any such exchange will thereupon be canceled by the Trustee. The Trustee may charge the Owner a reasonable sum for each new Certificate executed and delivered upon any exchange and the Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee is not required to register the transfer or exchange of any Certificate that has been called or is subject to being called for prepayment, during a period beginning at the opening of business 15 days before any selection of Certificates to be prepaid through the close of business on the applicable payment date, except for the unprepaid portion of any Certificate prepaid only in part.

Registered Owner Treated as Absolute Owner

The District and the Trustee will deem and treat the person in whose name any Outstanding Certificate shall be registered upon the Certificate register as provided in the Trust Agreement as the absolute owner of such Certificate, whether the principal or interest with respect to such Certificate shall be overdue or not, for the purpose of receiving payment of principal, premium (if any) and interest with respect to such Certificate and for all other purposes, and any such payments so made to any such Owner or upon his order shall be valid and effective to satisfy and discharge the liability upon such Certificate to the extent of the sum or sums so paid, and neither the District nor the Trustee will be affected by any notice to the contrary. The District agrees, to the extent permitted by law, to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, while acting in good faith and without gross negligence hereunder, in so treating such Owner.

Non-presentment of Certificates

Except as otherwise provided in the Trust Agreement, in the event any Certificates are not presented for payment when the principal thereof becomes due, if funds sufficient to pay such Certificates are held by the Trustee for the benefit of the Owner or Owners thereof, all liability of the District to the Owner or Owners thereof for the payment of the portion of Base Rental corresponding to the principal amount with respect to such Certificates will forthwith cease, terminate and be completely discharged and thereupon it shall be the duty of the Trustee to hold such funds (subject to the provisions of the Trust Agreement described below under “—Unclaimed Money”), without liability for interest thereon, for the benefit of the Owner or

Owners of such Certificates who will thereafter be restricted exclusively to such funds for any claim of whatever nature on, or with respect to, such Certificates.

Unclaimed Money

All money which the Trustee has received from any source and set aside for the purpose of paying any of the Certificates will be held in trust for the respective Owners of such Certificates, but any money which is so set aside or deposited by the Trustee and which remains unclaimed by the Owners of such Certificates for a period of two years after the date on which any payment with respect to such Certificates shall have become due and payable will be paid to the District; provided, however, that the Trustee, before making any such payment, will, at the expense of the District cause notice to be mailed to the Owners of such Certificates, by first-class mail, postage prepaid to the effect that such money has not been claimed and that after a date named therein any unclaimed balance of such money then remaining will be returned to the District. Thereafter, the Owners of such Certificates may look only to the District for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee will have no responsibility with respect to such money. The unclaimed money provisions provided in the Trust Agreement are subject to all applicable escheat laws.

Funds and Accounts

Costs of Issuance Fund

The Trust Agreement establishes a “Costs of Issuance Fund.” There shall be deposited in the Costs of Issuance Fund a portion of the proceeds of the Certificates as described in this Official Statement under “ESTIMATED SOURCES & USES OF PROCEEDS.” The Trustee will disburse money from the Costs of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case, promptly after receipt of, and in accordance with, a request from the District in the form as provided for in the Trust Agreement. Any amounts remaining in the Costs of Issuance Fund on the earlier of (i) six months after the Closing Date, or (ii) the date on which the District has notified the Trustee in writing that all Costs of Issuance have been paid, shall be transferred first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and thereafter to the Base Rental Account of the Certificate Fund and the Costs of Issuance Fund shall be closed.

Establishment and Application of Certificate Fund

The Trust Agreement establishes a “Certificate Fund.” The Certificate Fund shall be maintained by the Trustee until all Base Rental is paid in full pursuant to the terms of the Sublease, or until such earlier date as there are no Certificates Outstanding. Within the Certificate Fund, the Trustee shall establish the Base Rental Account, the Interest Account, the Principal Account and the Prepayment Account.

Base Rental Account. Base Rental and proceeds of rental interruption insurance with respect to the Leased Premises, if any, allocable to Base Rental received by the Trustee are to be deposited in the Base Rental Account. On each Interest Payment Date, monies in the Base Rental Account are to be transferred to the Interest Account and/or the Principal Account as described

below. Any amounts remaining in the Base Rental Account on an Interest Payment Date after the transfers referred to in the preceding sentence have been made are to be deposited into the following funds and accounts in the order of priority indicated: (i) the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement with respect to the Certificates; (ii) the Interest Account to the extent necessary to make the total amount so deposited equal to the amount of the interest component of the next succeeding Base Rental payment; and (iii) the Principal Account to the extent necessary to make the total amount so deposited equal to the amount of the principal component of the next succeeding Base Rental payment which has a principal component. Amounts not required to be so deposited are to be remitted to the District. Any delinquent Base Rental payments and any proceeds of rental interruption insurance with respect to the Leased Premises deposited in the Base Rental Account are to be applied first to the Interest Account for the immediate payment of interest payments past due, second to the Principal Account for immediate payment of principal past due according to the tenor of any Certificate, and then to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement with respect to the Certificates. Any remaining money representing delinquent Base Rental payments and any proceeds of rental interruption insurance will remain on deposit in the Base Rental Account to be applied in the manner provided in the Trust Agreement.

Interest Account. The Trustee is required to transfer from the Base Rental Account to the Interest Account on each Interest Payment Date an amount which, together with monies on deposit in the Interest Account (or to be deposited therein pursuant to the terms of the Trust Agreement on or prior to such Interest Payment Date), equals the interest then due on such Interest Payment Date with respect to the Certificates in accordance with the terms of the Trust Agreement.

Principal Account. The Trustee is required to transfer from the Base Rental Account to the Principal Account on each Interest Payment Date or maturity date an amount which, together with monies on deposit in the Principal Account, equals the principal then due or required to be prepaid on such Interest Payment Date or maturity date with respect to the Certificates in accordance with the terms of the Trust Agreement.

Prepayment Account. Any proceeds of insurance (other than rental interruption insurance or workers' compensation insurance) or awards in respect of a taking under the power of eminent domain not required to be used for repair, reconstruction or replacement of the Leased Premises, and any other amounts provided for the prepayment of Certificates in accordance with the applicable provisions of the Trust Agreement, are to be deposited by the Trustee in the Prepayment Account. On the scheduled prepayment date, the Trustee shall withdraw from the Prepayment Account and pay to the Owners entitled thereto the prepayment price of the Certificates prepaid on such date.

Establishment and Application of Reserve Fund

The Trust Agreement establishes a "Reserve Fund." The Reserve Fund is to be maintained by the Trustee until the Base Rental is paid in full pursuant to the Sublease and until there are no longer any Certificates Outstanding. There is to be deposited in the Reserve Fund all

amounts required to be deposited therein pursuant to the applicable provisions of the Trust Agreement, provided that such requirement may be satisfied by a Reserve Fund Credit Policy.

If on any Interest Payment Date the amounts in the Principal Account and the Interest Account of the Certificate Fund are less than the principal and interest payments, respectively, due with respect to the Certificates on such date, the Trustee is required to transfer from the Reserve Fund for credit to the Principal Account or the Interest Account of the Certificate Fund amounts sufficient to make up such deficiencies and only in the event such amounts are insufficient to make up such deficiency may the Trustee make a claim upon the Reserve Fund Credit Policy for such purpose. In the event of any transfer pursuant to this paragraph, the Trustee shall, within five days thereafter, provide written notice to the District and the Certificate Insurer of the amount and the date of such transfer. The District must pay as Additional Rental an amount equal to such transfer to the Trustee as soon as possible from any lawful amounts. In addition, the District shall restore any decrease in value of the securities held therein below the Reserve Requirement as determined under the Trust Agreement within one year of the valuation date.

If on any date that is 3 Business Days prior to an Interest Payment Date, the amount on deposit in the Interest Account and the Principal Account, together with available moneys in the Reserve Fund, is insufficient to pay the principal and interest payments due with respect to the Certificates on such Interest Payment Date, the Trustee shall no later than 1:00 p.m. New York time on such date 3 Business Day prior to such Interest Payment Date make a claim for payment under the Reserve Fund Credit Policy, if any, in accordance with the provisions thereof, in an amount that, together with other available moneys in the Reserve Fund will be sufficient to make said deposit in the Interest Account and the Principal Account. If and to the extent that, in addition to the Reserve Fund Credit Policy, another credit facility is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, drawings thereunder and under the Reserve Fund Credit Policy, and repayment of expenses with respect thereto, shall be made on a pro-rata basis (calculated by reference to the policy limits available thereunder).

The Trustee shall, not less frequently than semiannually, transfer amounts in excess of the Reserve Requirement (based on the valuation described below under “—Valuation of Investments”) (other than funds required to be transferred to the Investment Earnings Account) to the Base Rental Account of the Certificate Fund.

Establishment and Application of Earnings Fund

The Trust Agreement establishes an “Earnings Fund.” The Earnings Fund is to be maintained by the Trustee until the Trustee receives notification from the District that it be closed. The Trust Agreement also establishes in the Earnings Fund a separate account designated as the “Investment Earnings Account,” and a separate account designated as the “Excess Earnings Account.” The Trustee is to transfer all Investment Earnings on deposit in the funds and accounts established under the Trust Agreement (other than the Excess Earnings Account) to the Investment Earnings Account. All Investment Earnings on amounts on deposit in the Excess Earnings Account of the Earnings Fund are to be retained therein. Amounts on deposit in the Investment Earnings Account are to be transferred to the Excess Earnings Account pursuant to written instructions from the District in accordance with the provisions of the District’s Tax and

Nonarbitrage Certificate. Upon such transfer, any amount remaining in the Investment Earnings Account or any amount on deposit in the Excess Earnings Account that exceeds the amount required to be maintained therein are to be transferred by the Trustee pursuant to the instructions of the District in accordance with the provisions of the District's Tax and Nonarbitrage Certificate. Except as set forth in the preceding sentence, amounts on deposit in the Excess Earnings Account may only be applied to payments made to the United States in accordance with written instructions of the District.

Repair or Replacement; Application of Insurance Proceeds and Condemnation Awards

If the Leased Premises or any portion thereof is stolen, damaged or destroyed, the District shall continuously and diligently repair or replace the Leased Premises or such portion thereof that has been stolen, damaged or destroyed, unless the District elects not to repair or replace the Leased Premises in accordance with the provisions described below. If the Leased Premises or any portion thereof shall be taken by eminent domain proceedings, the District shall take such action as is reasonably necessary to obtain compensation for a taking by eminent domain at least equal to the proportionate amount of Outstanding Certificates related to the Leased Premises or the portion thereof taken.

In the event the Trustee receives proceeds of any insurance as provided in the Trust Agreement on account of any damage, destruction or taking of the Leased Premises or any portion thereof, the Trustee shall establish in trust a special account designated the "Special Account." Any such proceeds shall be held by the Trustee in the Special Account and made available for, and to the extent necessary be applied to, the cost of repair or replacement of such Leased Premises or portion thereof. Pending such application, such proceeds may be invested by the Trustee, as directed in writing by the District, in Qualified Investments that mature not later than such times as monies are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the District shall notify the Trustee in writing within 90 days of the receipt by the Trustee of insurance or condemnation proceeds, whether the District intends to replace or repair the Leased Premises or the portion thereof in respect of which such proceeds were received, in which event the District shall promptly deposit with the Trustee the full amount of any insurance deductible to be credited to the Special Account. The District shall replace or repair the Leased Premises or such portion thereof as required in the Sublease, unless (i) the District deposits the full amount of any insurance deductible necessary to prepay the Certificates relating to the Leased Premises or such portion thereof into the Prepayment Account (in the manner described below) and (ii) the Base Rental payable with respect to the remaining portion of the Leased Premises is sufficient to pay the principal and interest due with respect to the Certificates, respectively, after the date on which Certificates relating to the Leased Premises or such portion thereof are prepaid. The proceeds of any insurance (other than rental interruption insurance and workers' compensation insurance), including the proceeds of any self-insurance fund or of any condemnation award, not applied to repairing or replacing damaged, destroyed or taken property, or in respect of which notice in writing by the District of its intention to apply the same to the work of repairing or replacing the property damaged, destroyed or taken shall not have been given to the Trustee, together with the full amount of any insurance deductible, within six months after receipt of such proceeds by the Trustee, or which the District shall at any time

during such period have notified the Trustee in writing are not to be so applied, shall forthwith be deposited into the Prepayment Account and applied to the prepayment of Certificates.

Title Insurance

Proceeds of any policy of title insurance received by the Trustee in respect of any portion of the Leased Premises is located are to be applied and disbursed by the Trustee upon written direction of the District as follows:

(a) If the District determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Premises and will not result in an abatement of Base Rental payable by the District under the Sublease, such proceeds are to be deposited into the Reserve Fund to the extent that the amounts therein are less than the Reserve Requirement. Amounts not required to be so deposited are to be remitted to the District and used for any lawful purpose thereof; or

(b) If any portion of the Leased Premises has been affected by such title defect, and if the District determines that such title defect will result in an abatement of Base Rental payable by the District under the Sublease, then the Trustee must immediately deposit such proceeds in the Prepayment Account and such proceeds shall be applied to the prepayment of Certificates.

Investments Authorized

Subject to the restrictions contained in the tax covenant in the Trust Agreement, money held by the Trustee in any fund or account under the Trust Agreement are to be invested by the Trustee in Qualified Investments pending application as provided therein subject to the direction of the District, are to be registered in the name of the Trustee where applicable, as Trustee, and are to be held by the Trustee, where applicable. If the District fails to provide the Trustee direction with respect to any monies subject to investment, the Trustee shall, nevertheless, invest such monies in those investments described in clause (4) of the definition of Qualified Investments.

Valuation of Investments

For the purpose of determining the amount in any fund or account under the Trust Agreement, except for the Reserve Fund, all Qualified Investments shall annually be valued at the amortized cost of such investments (exclusive of accrued interest). For purposes of determining the amount in the Reserve Fund, Qualified Investments shall be valued not less often than semiannually on each Interest Payment Date at the amortized cost of such investments (exclusive of accrued interest).

Application of Investment Earnings

The Trustee is required to deposit, as and when received, all Investment Earnings on amounts on deposit in all funds, accounts and subaccounts maintained by it under the Trust Agreement (except the Excess Earnings Account) into the Investment Earnings Account, provided, that Investment Earnings on amounts on deposit in the Reserve Fund are to be retained

therein to the extent that the amount on deposit in such account is less than the Reserve Requirement with respect to the Certificates; and thereafter transferred to the Base Rental Account.

Amendments to the Trust Agreement

Except as set forth in the next succeeding paragraph, the Trust Agreement may be amended only in writing by agreement among the District, the Corporation and the Trustee, and the Owners of a majority in aggregate principal amount of Certificates then Outstanding. In addition, no such modification or amendment may (i) extend the maturity of or reduce the interest rate on any Certificate or otherwise alter or impair the obligation of the District to pay the principal, interest or prepayment premium, if any, at the time and place and at the rate and in the currency provided therein of any Certificate without the express written consent of the Owner of such Certificate, (ii) reduce the percentage of Certificates required for the written consent to any such amendment or modification, or (iii) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Notwithstanding the preceding paragraph, the Trust Agreement and the rights and obligations provided hereby may also be modified or amended at any time without the consent of any Owners upon the written agreement of the District, the Corporation and the Trustee as to any of the following but only (1) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Trust Agreement, (2) in regard to questions arising under the Trust Agreement that the District, the Corporation and the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement and that shall not affect adversely the interests of the Owners of the Certificates then Outstanding, (3) to qualify the Trust Agreement under the Trust Indenture Act of 1939, as amended, or corresponding provisions of Federal laws from time to time in effect, or (4) for any other reason, provided such modification or amendment does not affect adversely the interests of the Owners of the Certificates then Outstanding; provided that the District, the Corporation and the Trustee may rely in entering into any such amendment or modification hereof upon the opinion of Independent Counsel stating that the requirements of this sentence have been met with respect to such amendment or modification and that amendment will not affect the exclusion from gross income for federal income tax purposes of that portion of the Base Rental designated and comprising interest with respect to the Certificates. No amendment may impair the right of any Owner to receive such Owner's proportionate share of principal and interest in accordance with the terms of his or her Certificate.

Any amendment, supplement, modification to, or waiver of, the Trust Agreement that requires the consent of Owners or adversely affects the rights and interests of the Certificate Insurer shall be subject to the prior written consent of the Certificate Insurer.

The Certificate Insurer's prior written consent is required for all amendments and supplements to the Related Documents, with the exception of amendments and supplements:

(i) To cure any ambiguity or formal defect or omissions or to correct any inconsistent provisions in the transaction documents or in any supplement thereto, or

(ii) To grant or confer upon the holders of the Certificates any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the holders of the Certificates, or

(iii) To add to the conditions, limitations and restrictions on the issuance of bonds or other obligations under the provisions of the Related Documents other conditions, limitations and restrictions thereafter to be observed, or

(iv) To add to the covenants and agreements of the District in the Related Documents other covenants and agreements thereafter to be observed by the District or to surrender any right or power therein reserved to or conferred upon the District.

Amendments to Sublease and Site Lease

The Site Lease and the Sublease may be amended in writing by agreement between the Corporation and the District, with the prior written consent of the Trustee and the Certificate Insurer, but no such amendment will become effective as to the Owners unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Site Lease and the Sublease and the rights and obligations provided thereby may also be modified or amended at any time with the consent of the Trustee and the Certificate Insurer but without the consent of any Owners, upon the written agreement of the District and the Corporation, but only (1) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Site Lease or the Sublease, (2) in regard to questions arising under the Sublease that the District and the Corporation may deem necessary or desirable and not inconsistent with the Sublease and that shall not affect adversely the interests of the Owners of the Certificates then Outstanding, (3) to effect any substitution of the Leased Premises in accordance with the Sublease, or (4) for any other reason, provided such modification or amendment does not affect adversely the interests of the Owners of the Certificates then Outstanding; provided that the District and the Corporation may rely in entering into any such amendment or modification thereof, and the Trustee may rely in giving its consent thereto, upon the opinion of Independent Counsel stating that the requirements of this sentence have been met with respect to such amendment or modification.

Any amendment, supplement, modification to, or waiver of, the Site Lease, Sublease, Assignment Agreement or any other transaction document, including the underlying security agreement that requires the consent of Owners or adversely affects the rights and interests of the Certificate Insurer shall be subject to the prior written consent of the Certificate Insurer

Tax Covenant

In order to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates, the District covenants in the Trust Agreement to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code. In furtherance of this covenant, the District agrees to comply with its Tax and Nonarbitrage Certificate as a source of guidance for compliance with such provisions. The Trustee hereby

agrees to comply with any instructions received from the District which the District indicates must be followed in order to comply with the District's Tax and Nonarbitrage Certificate.

Notwithstanding any other provision of the Trust Agreement to the contrary, upon the District's failure to observe, or refusal to comply with, the foregoing covenant, no person other than the Trustee or the Owners of the Certificates will be entitled to exercise any right or remedy provided to the above Owners under the Trust Agreement on the basis of the District's failure to observe, or refusal to comply with, the covenant.

Events of Default

The following shall be "events of default" under the Trust Agreement and the terms "events of default" and "default" shall mean, whenever they are used in the Trust Agreement, any one or more of the following events:

(a) An event of default shall have occurred under the clause of the Sublease described in clause (i) or (ii) under "~~—Sublease—Default by District—Defaults~~" herein.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement or the Sublease, other than such failure as may constitute an event of default under clause (a) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given **to** the District by the Trustee or to the District and the Trustee by the Owners of not less than a majority in aggregate principal amount of Certificates then Outstanding; provided, however, that if the failure stated in the notice cannot be corrected within such period, then such period will be extended so long as corrective action is instituted by the District within such period and diligently pursued until the default is corrected, but only if such extension (i) would not materially adversely affect the interest of any Owner and (ii) does not exceed a total of 90 days.

Notice of Events of Default; Remedies on Default

In the event the District is in default, the Trustee is required to give notice of such default to the Owners of the Certificates and the Certificate Insurer. Such notice must state that the District is in default and shall provide a brief description of such default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Certificate Owners. The notice provided for in the Trust Agreement shall be given by mail to the Owners within 30 days of the Trustee's knowledge of such occurrence of default. The Certificate Insurer shall have the right to notify the Trustee that an Event of Default has occurred.

Upon the occurrence and continuance of any event of default, the Trustee with the consent and at the direction of the Certificate Insurer, shall proceed to exercise the remedies set forth in the Sublease or available to the Trustee under the Trust Agreement.

Action by Owners

In the event the Trustee fails to take any action with respect to an event of default under the Sublease or the Trust Agreement, the Owners of a majority in aggregate principal amount of

the series of Certificates then Outstanding with respect to which a default has occurred may institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Sublease or the Trust Agreement, but only if such Certificate Owners shall have first made written request of the Trustee after the right to exercise such powers or right of action shall have arisen, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted therein or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee shall have been offered security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within 90 days.

Application of Proceeds in Event of Default

All payments received by the Trustee with respect to the rental of the Leased Premises after the occurrence and continuation of an event of default under the Trust Agreement or the Sublease (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Corporation's right, title and interest in the Site Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Trust Agreement or the Sublease, are to be deposited into the Base Rental Account and as soon as practicable thereafter applied:

(a) to the payment of all reasonable fees, expenses, including fees of its attorneys and agents and all other amounts due the Trustee under the Trust Agreement;

(b) to the payment of all amounts then due with respect to Certificates for interest, in respect of which, or for the benefit of which, money has been collected (other than Certificates that have matured or otherwise become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable on such Certificates;

(c) to the payment of all amounts then due with respect to Certificates for principal and premium, if any, in respect of which, or for the benefit of which, money has been collected (other than Certificates that have matured or otherwise become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable on such Certificates;

(d) to the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Requirement;

(e) to the payment of Additional Rental (including amounts then due to the Certificate Insurer to the extent not included in clause (a) or (b) above) then due and payable; and

(f) to the extent any amounts remain, to the Prepayment Account of the Certificate Fund.

Defeasance

If all Outstanding Certificates executed and delivered pursuant to the Trust Agreement shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal and interest with respect to all Certificates Outstanding, as and when the same become due and payable;

(b) by the deposit by the District with the Trustee, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Reserve Fund, without the need for further investment, is fully sufficient to pay all the Certificates Outstanding, respectively, including all principal, premium (if any will be incurred) and interest at or before their respective maturity dates, notwithstanding that any Certificates shall not have been surrendered for payment; or

(c) by depositing with the Trustee, in trust, (i) lawful money, (ii) non-callable direct obligations of the United States of America (“Treasuries”) or security fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, (iii) subject to the prior consent of the Certificate Insurer, evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (iv) subject to the prior consent of the Certificate Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (v) subject to the prior consent of the Certificate Insurer, securities eligible for “AAA” defeasance under then-existing criteria of S&P or any combination thereof, shall be used to effect defeasance of the Certificates unless the Certificate Insurer otherwise approves, which in the opinion of Independent Counsel, are permitted under regulations issued pursuant to Section 149(b) of the Code and will not impair the tax exemption of interest with respect to the Certificates, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay and discharge all Certificates Outstanding (including all principal, premium (if any will be incurred) and interest) at or before their respective maturity dates, notwithstanding that any Certificates shall not have been surrendered for payment;

then, provided that, if all such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice, all obligations of the Trustee and the District under the Trust Agreement with respect to all such outstanding Certificates shall cease and terminate, except as specifically set forth in the Trust Agreement and the obligation to pay or cause to be paid from the amounts deposited with it to the Owners of the Certificates all sums due with respect thereto and the obligation of the District to pay to the Trustee the amounts owing to the Trustee under the applicable provisions of the Trust Agreement and the obligation of the District to disburse monies in the Excess Earnings Account to the federal government pursuant to the District’s Tax and Nonarbitrage Certificate. In the event such Certificates are not

by their terms subject to prepayment within the next succeeding 60 days of such discharge, the District shall have given the Trustee in form satisfactory to its instructions to mail, as soon as practicable after such discharge, a notice to the Owners of such Certificates that the deposit required by subsections (b) or (c) above has been made with the Trustee and that said Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment date upon which monies are expected, to be available for the payment of the principal or prepayment price, if applicable, on said Certificates (other than Certificates which have been purchased by the Trustee at the direction of the District or purchase or otherwise acquired by the District and delivered to the Trustee as provided in the Trust Agreement prior to the mailing of the notice of prepayment referred to in the previous sentence).

Notwithstanding anything in the Trust Agreement to the contrary, a defeasance pursuant to subsection (c) above shall not be effective until the District shall obtain (i) a report of an independent firm of nationally recognized certified public accountants as shall be acceptable to the Certificate Insurer verifying the sufficiency of the escrow established to pay the Certificates in full on the maturity or prepayment date (the "Verification Report"), which shall be acceptable to the Certificate Insurer, (ii) an escrow agreement, which, among other things, shall require a new Verification Report and a new Defeasance Opinion at any time the securities referred to in subsection (c) above are substituted for new securities, (iii) an opinion of Independent Counsel to the effect that the Certificates are no longer Outstanding under the Trust Agreement (the "Defeasance Opinion"), which shall be acceptable to the Certificate Insurer, and (iv) a certificate of discharge of the Trustee with respect to the Certificates. Each Verification and Defeasance Opinion shall be addressed to the District, the Trustee, the Certificate Insurer and the Corporation. Certificates shall be deemed "Outstanding" under the Trust Agreement unless and until they are in fact paid and retired or the above criteria are met.

Certificate Insurance Provisions

Payment Provisions under the Certificate Insurance Policy.

In the event that principal and/or interest due on the Certificates shall be paid by the Certificate Insurer pursuant to the Certificate Insurance Policy, the Certificates shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the District to the registered owners will continue to exist and shall run to the benefit of the Certificate Insurer, and the Certificate Insurer shall be subrogated to the rights of such registered owners.

In the event that on the second (2nd) business day prior to any payment date on the Certificates, or Trustee has not received sufficient moneys to pay all principal of and interest on the Certificates due on such payment date, the Trustee shall immediately notify the Certificate Insurer or its designee on the same business day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Certificate Insurer or its designee.

In addition, if the Trustee has notice that any holder of the Certificates has been required to disgorge payments of principal of or interest on the Certificates pursuant to a final, non-

appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Trustee shall notify the Certificate Insurer or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of the Certificate Insurer.

The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Certificates as follows:

- (i) If there is a deficiency in amounts required to pay interest and/or principal on the Certificates, the Trustee shall (a) execute and deliver to the Certificate Insurer, in form satisfactory to the Certificate Insurer, an instrument appointing the Certificate Insurer as agent and attorney-in-fact for such holders of the Certificates in any legal proceeding related to the payment and assignment to the Certificate Insurer of the claims for interest on the Certificates, (b) receive as designee of the respective holders (and not as paying agent) in accordance with the tenor of the Certificate Insurance Policy payment from the Certificate Insurer with respect to the claims for interest so assigned, (c) segregate all such payments in a separate account (the "Certificate Insurer Policy Payment Account") to only be used to make scheduled payments of principal of and interest on the Certificates, and (d) disburse the same to such respective holders; and
- (ii) If there is a deficiency in amounts required to pay principal of the Certificates, the Trustee shall (a) execute and deliver to the Certificate Insurer, in form satisfactory to Certificate Insurer, an instrument appointing the Certificate Insurer as agent and attorney-in-fact for such holder of the Certificates in any legal proceeding related to the payment of such principal and an assignment to Certificate Insurer of the Certificates surrendered to the Certificate Insurer, (b) receive as designee of the respective holders (and not as paying agent) in accordance with the tenor of the Certificate Insurance Policy payment therefore from the Certificate Insurer, (c) segregate all such payments in the Certificate Insurer Policy Payment Account to only be used to make scheduled payments of principal of and interest on the Certificates, and (d) disburse the same to such holders.

The Trustee shall designate any portion of payment of principal on the Certificates paid by the Certificate Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Certificates registered to the then current holder, whether DTC or its nominee or otherwise, and shall issue a replacement Certificates to the Certificate Insurer, registered in the name directed by the Certificate Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's

failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of principal or interest payable by the District on any Certificate or the subrogation or assignment rights of Certificate Insurer.

Payments with respect to claims for interest on and principal of Certificates disbursed by the Trustee from proceeds of the Certificate Insurance Policy shall not be considered to discharge the obligation of the District with respect to such Certificates, and Certificate Insurer shall become the owner of such unpaid Certificates and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise. The Related Documents shall not be discharged or terminated unless all amounts due or to become due to Certificate Insurer have been paid in full or duly provided for.

Irrespective of whether any such assignment is executed and delivered, the District, the Corporation and Trustee agree for the benefit of the Certificate Insurer that:

- (A) They recognize that to the extent the Certificate Insurer makes payments directly or indirectly (*e.g.*, by paying through the Trustee), on account of principal of or interest on the Certificates, the Certificate Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the District, with interest thereon, as provided and solely from the sources stated in the Related Documents and the Certificates; and
- (B) They will accordingly pay to the Certificate Insurer the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Certificates, but only from the sources and in the manner provided therein for the payment of principal of and interest on the Certificates to holders, and will otherwise treat the Certificate Insurer as the owner of such rights to the amount of such principal and interest.

Additional Payments.

The District agrees unconditionally that it will pay or reimburse the Certificate Insurer on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that the Certificate Insurer may pay or incur, including, but not limited to, fees and expenses of the Certificate Insurer's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Related Documents ("Administrative Costs"). For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of the Certificate Insurer spent in connection with the actions described in the preceding sentence. The District agrees that failure to pay any Administrative Costs on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to the Certificate Insurer until the date the Certificate Insurer is paid in full.

Notwithstanding anything in the Trust Agreement to the contrary, the District agrees to pay to the Certificate Insurer (I) a sum equal to the total of all amounts paid by the Certificate Insurer under the Certificate Insurance Policy (“the Certificate Insurer Policy Payment”); and (II) interest on such the Certificate Insurer Policy Payments from the date paid by the Certificate Insurer until payment thereof in full by the District, payable to the Certificate Insurer at the Late Payment Rate per annum (collectively, “the Certificate Insurer Reimbursement Amounts”) compounded semi-annually. Notwithstanding anything to the contrary, including without limitation the post default application of revenue provisions, the Certificate Insurer Reimbursement Amounts shall be, and the District hereby covenants and agrees that the Certificate Insurer Reimbursement Amounts are, payable from and secured by a lien on and pledge of the same revenues and other collateral pledged to the Certificates on a parity with debt service due on the Certificates.

Exercise of Rights by the Certificate Insurer.

The rights granted to the Certificate Insurer under the Related Documents to request, consent to or direct any action are rights granted to the Certificate Insurer in consideration of its issuance of the Certificate Insurance Policy. Any exercise by the Certificate Insurer of such rights is merely an exercise of the Certificate Insurer’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Certificates and such action does not evidence any position of Certificate Insurer, affirmative or negative, as to whether the consent of the holders of the Certificate or any other person is required in addition to the consent of Certificate Insurer.

The Certificate Insurer As Third Party Beneficiary.

The Certificate Insurer is recognized as and shall be deemed to be a third party beneficiary of the Related Documents and may enforce the provisions of the Related Documents as if it were a party thereto.

Control by the Certificate Insurer Upon Default.

Anything in the Related Documents to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, the Certificate Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Certificates or the Trustee for the benefit of the holders of the Certificates under any Related Document. No default or event of default may be waived without the Certificate Insurer’s written consent.

The Certificate Insurer as Owner.

Upon the occurrence and continuance of a default or an event of default, the Certificate shall be deemed to be the sole owner of the Certificates for all purposes under the Related Documents, including, without limitations, for purposes of exercising remedies and approving amendments.

Special Provisions for Certificate Insurance Default.

If an Insurer Default shall occur and be continuing, then, notwithstanding anything in the Trust Agreement to the contrary, (1) if at any time prior to or following an Insurer Default, the Certificate Insurer has made payment under the Certificate Insurance Policy, to the extent of such payment the Certificate Insurer shall be treated like any other holder of the Certificates for all purposes, including giving of consents, and (2) if the Certificate Insurer has not made any payment under the Certificate Insurance Policy, the Certificate Insurer shall have no further consent rights until the particular Insurer Default is no longer continuing or the Certificate Insurer makes a payment under the Certificate Insurance Policy, in which event, the foregoing clause (1) shall control. For purposes of this paragraph, "Insurer Default" means: (A) the Certificate Insurer has failed to make any payment under the Certificate Insurance Policy when due and owing in accordance with its terms; or (B) the Certificate Insurer shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take action for the purpose of effecting any of the foregoing; or (C) any state or federal agency or instrumentality shall order the suspension of payments on the Certificate Insurance Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the Certificate Insurer (including without limitation under the New York Insurance Law).

Initial Reserve Fund Credit Policy Provisions

The District shall repay any draws under the Initial Reserve Fund Credit Policy and pay all related reasonable expenses incurred by the Certificate Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Certificate Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (A) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such changes are announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Certificates, and (B) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such bank, banking association or trust company bank as the Certificate Insurer in its sole and absolute discretion shall specify.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Certificate Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Certificate Insurer on account of principal due, the coverage under the Initial Reserve Fund Credit Policy will be increased by a like amount, subject to the terms of the Initial Reserve Fund Credit Policy.

All cash and investments in the Reserve Fund established for the Certificates shall be transferred to the Certificate Fund for payment of the debt service on the Certificates before any drawing may be made on the Initial Reserve Fund Credit Policy or any other Reserve Fund Credit Instrument in lieu of cash.

Payment of any Policy Cost shall be made prior to replenishment of any cash amounts. Draws on all Reserve Fund Credit Instruments (including the Initial Reserve Fund Credit Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Reserve Fund Credit Instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

If the District shall fail to pay any Policy Costs in accordance with the requirements of paragraph (a) above, the Certificate Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Trust Agreement other than (i) acceleration of the maturity of the Certificates, or (ii) remedies which would adversely affect owners of the Certificates.

The Trust Agreement shall not be discharged until all Policy Costs owing to the Certificate Insurer shall have been paid in full. The District's obligation to pay such amount shall expressly survive payment in full of the Certificates

The Trust Agreement shall require the Trustee to ascertain the necessity for a claim upon the Initial Reserve Fund Credit Policy in accordance with the provisions of paragraph (a) hereof and provide notice to the Certificate Insurer at least three business days prior to each date upon which interest or principal is due on the Certificates. The Initial Reserve Fund Credit Policy shall expire on the earlier of the date the Certificates are no longer outstanding and the final maturity date of the Certificates.

SUBLEASE

Agreement to Sublease

Pursuant to the Sublease, the Corporation subleases the Leased Premises to the District, and the District agrees to pay the Base Rental and the Additional Rental as provided in the Sublease for the use and possession of the Leased Premises. The term of the Sublease begins on the Closing Date and ends on the earliest of (a) September 1, 20__, or (b) at such earlier date as

the Certificates and all other amounts due under the Sublease and under the Trust Agreement have been paid or provision for their payment shall have been made in accordance with the provisions of the Trust Agreement, or (c) the date of termination of the Sublease due to casualty or condemnation in accordance with the applicable terms thereof, or (d) the date on which the District has exercised its option to purchase the Corporation's right, title and interest in the Leased Premises pursuant to the terms thereof described under "Option to Purchase" below; *provided, however*, that, to the extent permitted by law, (i) if Base Rental has been abated in any year in accordance with the Sublease or if the Certificates are otherwise not paid in full by September 1, 20__, the term of the Sublease shall be extended until such time as the aggregate amount of abated Base Rental payments has been paid but in no event beyond September 1, 20__, and (ii) the Sublease shall not terminate until all Additional Rental owed by the Lessee pursuant to the applicable provisions of the Sublease described below under "—Rent—Rental Payments" and all amounts due to the Certificate Insurer have been paid.

Transfer of Title

Upon the termination of the Sublease, all of the Corporation's right, title and interest in the Leased Premises will be transferred directly to the District or, at the option of the District, to any assignee or nominee of the District, in accordance with the provisions of the Sublease, free and clear of any interest of the Corporation. No termination, assignment (other than to the Trustee in accordance with the Trust Agreement and Assignment Agreement), transfer or sublease of the Sublease or Site Lease shall be permitted without the prior written consent of the Certificate Insurer.

Rent

Rental Payments

The District agrees to make the following payments under the Sublease:

Base Rental. The District agrees to pay, from legally available funds, Base Rental in the amounts set forth in the table entitled "Base Rental Payments" in this Official Statement, a portion of which constitutes principal payable with respect to the Certificates and a portion of which constitutes interest payable with respect to the Certificates. The Base Rental payable by the District shall be due on each March 1 and September 1 during the Lease Term. Base Rental payable on March 1 in any year shall be for the period September 1, of the prior year to the last day of March of such year, and Base Rental payable on September 1 in any year shall be for the period March 1 of such year to the last day of September of such year. The obligation of the District to pay Base Rental shall commence on the Closing Date.

To secure the performance of its obligation to pay Base Rental, the District will deposit the Base Rental payable on March 1 of any year with the Trustee on or before February 15 of such year and shall deposit the Base Rental payable on September 1 of any year with the Trustee on or before August 15 of such year, in each case for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit shall be made on the next succeeding Business Day. In no event shall the amount of Base Rental payable on any date exceed the aggregate amount of principal and

interest required to be paid or prepaid on such date with respect to the Outstanding Certificates, according to their tenor.

Additional Rental. In addition to the Base Rental described above, the District agrees in the Sublease to pay as Additional Rental all of the following:

(i) All taxes and assessments of any nature whatsoever, including but not limited to excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Leased Premises or upon any interest of the Corporation, the Trustee or the Owners therein or in the Sublease;

(ii) Insurance premiums, if any, on all insurance required under the applicable provisions of Sublease;

(iii) All fees and expenses (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) of the Trustee and any paying agent in connection with the Trust Agreement;

(iv) Any other fees, costs or expenses incurred by the Corporation and the Trustee in connection with the execution, performance or enforcement of the Sublease or any assignment hereof or of the Trust Agreement or any of the transactions contemplated thereby or related to the Leased Premises;

(v) Reimbursement of draws on the Reserve Fund or restoration of decrease in the value of securities held in the Reserve Fund to the extent required by the Trust Agreement;

(vi) Reimbursement of draws on any Reserve Fund Credit Policy and the payment of accrued interest thereon;

(vii) Payment of amounts due and payable to any Reserve Insurer or the Certificate Insurer under the Sublease or the Trust Agreement in respect of the initial Reserve Fund Credit Policy or the Certificate Insurance Policy not payable as Base Rental; and

(viii) Payment to the Trustee for deposit to the Certificate Fund replenishment requirement under the Trust Agreement, including all amounts required to repay draws and policy costs under or related to the Reserve Fund Credit Policy.

Amounts constituting Additional Rental payable under the Sublease shall be paid by the District directly to the person or persons to whom such amounts shall be payable. The District shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee, the Certificate Insurer, or the Corporation to the District stating the amount of Additional Rental then due and payable and the purpose thereof.

Except for the Certificates, the District shall not issue or incur, directly or indirectly, any additional certificates, notes, bonds or other indebtedness that are (i) payable from or secured by

the lease payments or rentals payable under the Sublease or (ii) secured by, or granted a lien on, the Leased Premises.

Rental Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Account, the Interest Account or the Principal Account of the Certificate Fund or in the Reserve Fund established pursuant to the Trust Agreement, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the District for payments in respect of the Sublease or to the Trustee for payments in respect of the Certificates, rental payments due under the Sublease shall be subject to abatement during any period in which, by reason of material damage, destruction, theft or condemnation of the Leased Premises or any portion thereof, or defects in title to the Leased Premises, there is substantial interference with the use and possession of the Leased Premises or any portion thereof by the District. The amount of annual rental abatement shall be such that the resulting rental payments in any Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii) or (iii) above, do not exceed the annual fair rental value of the portions of the Leased Premises as to which such damage, destruction, theft, condemnation or title defect does not substantially interfere with the use and possession of the Leased Premises by the District, as evidenced by a certificate of the District. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation, theft or discovery of such title defect and ending with the restoration of the Leased Premises or portion thereof to tenantable condition or correction of the title defect. In the event of any such damage, destruction, theft, condemnation or title defect, the Sublease shall continue in full force and effect, except as set forth in the sections of the Sublease described under “—Application of Insurance Proceeds” and “—Eminent Domain” below.

Triple Net Lease

The Sublease is intended to be a triple net lease. The District agrees in the Sublease that the rentals provided for therein are to be an absolute net return to the Corporation free and clear of any expenses, charges or set-offs whatsoever.

Replacement, Maintenance and Repairs

The District is obligated, at its own expense, during the term of the Sublease, to maintain the Leased Premises, or cause the same to be maintained, in good order, condition and repair and to repair or replace any portion of the Leased Premises that is destroyed or damaged to such an extent as there is substantial interference with the use and possession of the Leased Premises or any portion thereof by the District which would result in the abatement of rental payments, whether or not there are sufficient insurance proceeds to pay for such repair or replacement; provided, however, that the District shall not be required to repair or replace any such portion of the Leased Premises if there shall be applied to the prepayment of Outstanding Certificates insurance proceeds or other legally available funds sufficient to prepay (i) all of the Certificates Outstanding, or (ii) any portion thereof such that the resulting rental payments payable pursuant to the Sublease in any Lease Year following such partial prepayment are sufficient to pay in such

Lease Year the principal and interest with respect to all Certificates to remain Outstanding, to the extent it is due and payable, immediately after such partial prepayment.

Insurance

The District is obligated to secure and maintain or cause to be secured and maintained at all times with insurers of recognized responsibility and such insurers shall be rated in the two (2) highest rating categories of S&P Moody's, *provided*, that insurance coverage provided by Southern California ReLiEF, Protected Insurance Program for Schools and Community Colleges, or any similar pooled insurance program of governmental entities shall not be subject to any rating requirement, or through a program of self-insurance to the extent specifically permitted as described below, all coverage on the Leased Premises set forth below:

(1) A policy or policies of casualty insurance against loss or damage to the Leased Premises against fire, lightning and all other risks covered by an extended endorsement (excluding earthquake, flood and smoke from agricultural smudging or industrial operations). Such insurance shall be maintained at any time in an amount not less than the lesser of the full replacement value of the Leased Premises or the aggregate principal amount of Certificates at such time Outstanding. The term "full replacement value" as used in the Sublease shall mean the cost of repair or replacement of the Leased Premises, without deduction for depreciation. Such insurance may at any time include a deductible clause providing for a reasonable deductible not to exceed \$100,000, which may be satisfied by self-insurance satisfactory to the Corporation; provided, however, that in the event the District is unable to secure and maintain, or cause to be secured and maintained, the insurance required under this clause (1), the District shall self-insure to the extent necessary to enable it to repair or replace the Leased Premises in accordance with the provisions of the Sublease;

(2) Comprehensive general liability coverage against claims for damages including death, personal injury, bodily injury or property damage arising from operations involving the Leased Premises. Such insurance shall afford protection with a combined single limit of not less than \$500,000 per occurrence with respect to bodily injury, death or property damage liability, or such greater amount as may from time to time be recommended by the District's risk management officer or an independent insurance consultant retained by the District for that purpose, provided, however, that the District's obligations under this clause (2) may be satisfied by self-insurance satisfactory to the Corporation;

(3) Boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed in an amount not less than \$2,000,000 per accident; provided, however, that the District's obligations under this clause (3) may be satisfied by self-insurance satisfactory to the Corporation;

(4) Workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or

supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the District in connection with the Leased Premises and to cover full liability for compensation under any such act; provided, however, that the District's obligations under this clause (4) may be satisfied by self-insurance satisfactory to the Corporation;

(5) Rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Premises as a result of any of the hazards covered by the insurance required pursuant to clause (1) above, in an amount sufficient at all times to pay the total rent payable under this Sublease for a period adequate to cover the period of repair or replacement. Such policy shall provide that the amount payable thereunder shall not be less than an amount equal to two times the maximum amount of Base Rental for the entire Leased Premises for any Fiscal Year for the term of this Sublease. The provider of such insurance shall be rated at least "A" by A.M. Best & Company *provided, however*, that the District's obligations under this clause (4) may be satisfied by rental interruption insurance coverage provided by Southern California ReLiEF, Protected Insurance Program for Schools and Community Colleges, or any similar pooled insurance program of governmental entities satisfactory to the Corporation, and that such pooled insurance program shall not be subject to any rating requirement, and *provided further*, that the District may not satisfy provision through self-insurance which relies solely on payment of claims from its own reserves. The Trustee shall be the beneficiary under such policy; and

(6) A CLTA policy or policies of title insurance for the Leased Premises in an amount not less than the initial aggregate principal amount of the Certificates. Such policy or policies of title insurance shall show title to the Leased Premises in the name of the District, the Corporation, and/or the Trustee, subject to the Site Lease, the Sublease and such other encumbrances as will not, in the opinion of the Corporation, materially affect the use and possession of the Leased Premises and will not result in the abatement of Base Rental payable by the District under the Sublease. The policies may not permit the title insurer (i) to purchase any Certificates in lieu of providing payment under the policy unless, upon purchase, such Certificates are canceled, or (ii) to settle claims with any person other than the Trustee, acting with the consent of the Certificate Insurer.

The District will, prior to or simultaneously with the execution and delivery of the Certificates, furnish a title insurance policy in form and substance acceptable to the Certificate Insurer. The face amount of the title insurance policy shall not be less than the principal amount of the Certificates. The Trustee shall be the beneficiary under such policy.

All policies or certificates issued by the respective insurers for insurance, with the exception of workers' compensation insurance, are required to provide that such policies or certificates shall not be canceled or materially changed without at least 30 days' prior written notice to the Trustee. At the request of the Trustee, no more than once per calendar year during the Lease Term, a certificate of the District stating whether all policies or self-insurance required by the Sublease have been obtained and are in full force and effect and certifying that all insurance requirements under the Sublease have been complied with by the District shall be deposited with the Trustee by the District on or before each anniversary of the Closing Date. The

Trustee may conclusively rely upon such certificate of the district and shall have no duty to review the adequacy or sufficiency of such insurance.

All policies or certificates of insurance provided for in the Sublease shall name the District as a named insured, and the Corporation and the Trustee as additional insureds. All policies or certificates of insurance maintained under clauses (1), (3), (5) and (6) above, shall name the Trustee as loss payee, and the proceeds of such insurance shall be deposited with the Trustee for application pursuant to the Trust Agreement. All proceeds of insurance maintained under clauses (2) and (4) shall be deposited with the District.

Notwithstanding the generality of the foregoing, with the exception of the rental interruption insurance required by clause (5) above and title insurance required by clause (6) above, the District shall not be required to maintain or cause to be maintained more insurance than is specifically referred to above or any policies of insurance other than standard policies of insurance with standard deductibles offered by reputable insurers at a reasonable cost on the open market (in which event the District shall be required to self-insure to the extent required above). Should earthquake coverage secured under clause (1) be procured, it may be maintained throughout the Lease Term unless the District shall in its sole discretion determine that such earthquake coverage is not commercially reasonable. Upon any determination by the District that commercial insurance is unavailable at a reasonable cost or is not commercially reasonable, the District shall self-insure for the particular risk under consideration; provided however, that in no event shall the District self-insure through self-insurance which relies solely on payment of claims from its own reserves for the perils identified in clause (5).

Any self-insurance maintained by the District described above, wherein the District pays such claims solely in reliance on its own reserves, shall comply with the following terms:

- (1) The self-insurance program must be approved in writing by an independent insurance consultant;
- (2) The self-insurance program must include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid; the adequacy of each such fund shall be evaluated on an annual basis by the independent insurance consultant; and any deficiencies in any self-insured claims reserve fund must be remedied in accordance with the recommendation of aforementioned independent insurance consultant;
- (3) The self-insured claims reserve fund must be held in a separate trust fund by an independent trustee, which may be the Trustee serving as such under the Trust Agreement; and
- (4) In the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by the independent insurance consultant, shall be maintained.

All permitted self-insurance shall be annually reviewed by an independent insurance consultant who shall provide the Trustee and the Certificate Insurer with a report as to the sufficiency thereof. The Trustee may conclusively rely upon such report.

For avoidance of doubt, the requirements described above, including the review and certification by an independent insurance consultant described above shall not be required if the District provides self-insurance through Southern California ReLiEF, Protected Insurance Program for Schools and Community Colleges, or any similar pooled insurance program of governmental entities.

The District represents, warrants and covenants that neither the Leased Premises nor any portion thereof is located in the Federal Emergency Management Agency 100 year flood plain.

Liens

The District is obligated under the Sublease to promptly pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished or to be furnished to or for, in, upon or about the Leased Premises and which may be secured by any mechanic's, materialman's or other lien against the Leased Premises, or the interest of the Corporation therein, and shall cause each such lien to be fully discharged and released; provided, however, that the District or the Corporation (i) may contest any such claim or lien without payment thereof so long as such non-payment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the District is obligated to forthwith pay and discharge such judgment or lien, or (ii) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty or forfeiture.

Application of Insurance Proceeds

General. Proceeds of insurance received in respect of destruction of or damage to any portion of the Leased Premises by fire, earthquake or other casualty or event shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If there is an abatement of rental payments pursuant to the Sublease as a result of such casualty or event, and the District elects pursuant to the Trust Agreement to apply such insurance to the prepayment of Certificates rather than to the replacement or repair of the destroyed or damaged portion of the Leased Premises, then the Sublease shall terminate with respect to the destroyed or damaged portion of the Leased Premises as of the later of the date of such election by the District or the date the amount required by the Trust Agreement is received by the Trustee. If the District elects, pursuant to the Trust Agreement to apply such proceeds to the replacement or repair of the portion of the Leased Premises which has been damaged or destroyed, in the event there has been an abatement of rental payments pursuant to the Sublease, then rental payments shall again begin to accrue with respect thereto upon repair or replacement of such portion of the Leased Premises.

Title Insurance. Proceeds of title insurance received with respect to the Leased Premises shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement.

Eminent Domain

If the Leased Premises, or so much thereof as to render the remainder of the Leased Premises unusable for the District's purposes under the Sublease, shall be taken under the power of eminent domain, then the Sublease shall terminate as of the day possession shall be so taken, or, if the District is the condemnor, then the Sublease shall terminate as of the date of entry of the interlocutory judgment.

If less than a substantial portion of the Leased Premises shall be taken under the power of eminent domain, and the remainder is useable for the District's purposes, then the Sublease shall continue in full force and effect as to the remaining portions of the Leased Premises, subject only to such rental abatement as is required by the Sublease. The District and the Corporation hereby waive the benefit of any law to the contrary. Any award made in eminent domain proceedings for the taking shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If the District elects, pursuant to the Trust Agreement, to apply such proceeds to the replacement of the condemned portion of the Leased Premises, in the event there has been an abatement of rental payments pursuant to the Sublease, then rental payments shall again begin to accrue with respect thereto upon replacement of such portion of the Leased Premises.

Assignment and Sublease

The District shall not mortgage, sell, pledge, assign or transfer any interest of the District in the Sublease by voluntary act or by operation of law, or otherwise; provided, however, that the District may sublease all or any portion of the Leased Premises, may grant concessions to others involving the use of any portion of the Leased Premises, whether such concessions purport to convey a leasehold interest or a license to use a portion of the Leased Premises, and may assign its right to purchase the Corporation's right, title and interest in the Leased Premises pursuant to the Sublease. Subject to the limitations set forth in the Sublease, the District shall at all times remain liable for the performance of the covenants and conditions on its part to be performed under the Sublease, notwithstanding any subletting or granting of concessions which may be made. Nothing contained in the Sublease shall be construed to relieve the District of its obligations to pay Base Rental and Additional Rental as provided in the Sublease or to relieve the District of any other obligations contained in the Sublease.

No sublease, release, sale, or substitution of the Leased Premises subject to (i) the Site Lease or the Sublease or (ii) any mortgage, deed of trust, or other document evidencing a security interest in, or otherwise pledged, directly or indirectly, to secure the Certificates, shall occur without the prior written consent of the Certificate Insurer. Without limiting the generality of the foregoing, no portion of the Leased Premises may be released following the partial prepayment of lease payments or rentals, the partial redemption of the Certificates, or the exercise of a purchase option or similar right, unless in each case the Certificate Insurer shall have provided its prior written consent to such release.

Release and Substitution of Leased Premises

Notwithstanding the foregoing, if no default or event of default has occurred and is continuing under the Sublease, the District may acquire from the Corporation free and clear of

the Corporation's rights under the Sublease, the Leased Premises upon substituting therefor, and subjecting to the terms of the Sublease, another Leased Premises (or a portion thereof) which has an annual fair rental value at least equal to 100% of the maximum amount of Base Rental payments becoming due in the then current Lease Year and in any subsequent Lease Year. As soon as practicable after the Corporation has received from the District (i) a written notice of the District's intention to substitute for the Leased Premises (or a portion thereof) a new Leased Premises, (ii) a certificate of the District that the total fair rental value of the new Leased Premises is at least equal to 100% of the maximum amount of Base Rental and Additional Rental payments becoming due in the then current Lease Year and in any subsequent Lease Year, (iii) evidence that an amendment to the Sublease reflecting a new Leased Premises description has been recorded in the Office of the Recorder of the County of Riverside, and (iv) evidence that the new Leased Premises satisfies the conditions of the Sublease, the Corporation shall execute and deliver to the District a quitclaim deed conveying to the District or its nominee the Corporation's right, title and interest in the Leased Premises for which substitution was sought. In no event shall the Corporation transfer title to the Leased Premises (or any portion thereof) to the District if any amounts are then due to the Corporation pursuant to the terms of the Sublease.

Default by District

Defaults

If the District (i) fails to deposit with the Trustee any Base Rental payment required to be so deposited by the close of business on the day such deposit is required to be deposited; (ii) fails to pay any item of Additional Rental as and when the same shall become due and payable; or (iii) breaches any other terms, covenants or conditions contained in the Sublease or the Trust Agreement, and fails to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation, or its assignee or the Certificate Insurer, to the District, or, if such breach cannot be remedied within such 30-day period, shall fail to institute corrective action within such 30-day period and diligently pursue the same to completion, then and in any such event the District shall be deemed to be in default under the Sublease. A default under the Sublease shall constitute a default under the Trust Agreement.

Upon the occurrence of an event of default under the Sublease, the Corporation shall have the right, with or without terminating the Sublease, to re-enter and take possession of the Leased Premises, and to sell its interest in the Sublease or sublease or assign the Leased Premises or any part thereof. There shall be no provisions restricting use of the Leased Premises after termination of or default under the Sublease, including restrictions related to the tax-exempt status of the Certificates.

So long as the Certificate Insurance Policy is in effect and the Certificate Insurer is not in default in respect of its payment obligations thereunder, the Certificate Insurer shall be (i) deemed to be the sole and exclusive Owner of the Certificates for purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies and (ii) entitled to direct and control the enforcement of all remedies granted under the Sublease and the Site Lease.

Remedies

Without limiting any other remedies available to the Corporation under the Sublease or at law, the Corporation shall have the right, at its option, without any further demand or notice

(i) so long as the Corporation does not terminate the Sublease or the District's right to possession of the Leased Premises, to enforce all of its rights and remedies thereunder, including the right to recover Base Rental payments as they become due pursuant to Section 1951.4 of the California Civil Code by pursuing any remedy available in law or in equity;

(ii) as agent for the District, to retake possession of the Leased Premises and sublease the same or any portion thereof for the account of the District, holding the District liable for any difference between the amounts thereby received and the amounts payable by the District under the Sublease; provided, however, that such retaking and reletting be done with the consent of the District, which consent is hereby irrevocably given; and

(iii) to terminate the Sublease, retake possession of the Leased Premises and sublease the same, and the District agrees to surrender immediately possession of the Leased Premises, and to pay to the Corporation all damages recoverable at law that the Corporation may incur by reason of the default by the District, including Base Rental due and payable prior to the default; and

(iv) to exercise any other right or remedy which may be available to it under applicable law or to proceed by appropriate court action or to enforce the terms thereof or to recover damages for the breach thereof.

In addition, unless and until the Sublease has been terminated pursuant to the terms thereof, the District shall be liable for all unpaid rent and other amounts due under the Sublease before or during the exercise of any of the foregoing remedies and for all legal fees, taxes, governmental charges and other costs and expenses incurred by reason of the occurrence of any event of default or the exercise of the Corporation's remedies with respect thereto. Notwithstanding any other provision of the Sublease or the Trust Agreement to the contrary, in no event shall the Corporation or any assignee of the rights of the Corporation under the Sublease have the right to accelerate the payment of any Base Rental under the Sublease. Notwithstanding any other provision of the Sublease, the Corporation shall, after payment of its reasonable fees and expenses, including those of its attorneys, (i) apply any amounts received from the exercise of its remedies under the Sublease after an event of default to the satisfaction of all Base Rental, Additional Rental and all other amounts due or to become due under the Sublease, and (ii) to the extent any such moneys remain after all of such payments are made, shall dispose of such excess in accordance with the terms of the Sublease.

Option to Purchase

The District has the exclusive right and option, which shall be irrevocable during the term of the Sublease, to purchase the Corporation's right, title and interest in the Leased Premises, but only if the District is not in default under the Sublease or the Trust Agreement and

only in the manner described under this heading and as provided in the Sublease. The option price for the purchase of the Corporation's right, title and interest in the Leased Premises in any Lease Year shall be the amount necessary to pay all principal, premium, if any, and interest with respect to the Certificates payable from the Base Rental under the Sublease on the date of such purchase in accordance with the requirements of the Trust Agreement. Subject to the Sublease, the District shall exercise its option to purchase by giving notice thereof to the Trustee not later than ten days prior to the Business day on which it desires to purchase the Corporation's right, title and interest in the Leased Premises. If the Business Day on which the District intends to exercise its option under the Sublease is not a Payment Date set forth in the "Base Rental" table in this Official Statement, the option price shall be the amount necessary to pay all outstanding principal, premium, if any, and interest with respect to the Certificates payable from the Base Rental under the Sublease on the date of such purchase plus an amount equal to the amount of interest to accrue with respect to such Certificates until the next succeeding Payment Date.

If the Business Day on which the District intends to exercise its option under the Sublease is a date on which Certificates are subject to optional prepayment, then the District shall give notice to the Trustee of its intention to exercise its option hereunder not later than ten days prior to the date on which the Trustee is required to send notice of prepayment to the Owners pursuant to the Trust Agreement, and on such purchase date the District must deposit with the Trustee an amount equal to the option price, which amount shall be in addition to the Base Rental due on such date. If the Business Day on which the District intends to exercise its option under the Sublease is not a date on which the Certificates are subject to optional prepayment, then the option price shall be payable in installments. Each such installment (x) will be payable at each time at which a payment of Base Rental would have been payable had such option not been exercised until the due date of the final installment referred to in the proviso set forth below in this paragraph, and (y) will equal the principal component of each Base Rental payment referred to in clause (x) above. Each such installment will bear interest until paid at a rate equal to the rate which would have been payable with respect to the payments of Base Rental referred to in clause (x) above. At the option of the District, the final installment shall be payable on (A) the final maturity date of the Certificates Outstanding, or (B) the first date on which the Certificates are subject to optional prepayment pursuant to the Trust Agreement; provided, however, that the District must designate the date of such final installment not later than the date on which the purchase option is exercised, and provided further, that the District may not choose a final installment date described in clause (A) of this sentence if to do so would in the opinion of Independent Counsel adversely affect the exclusion from gross income for federal or State income tax purposes of the interest portion of any component of Base Rental.

In order to secure its obligations to pay the installments referred to in the immediately preceding paragraph, the District, concurrently with the exercise of its option under the Sublease, must deposit or cause to be deposited with the Trustee, in trust, cash or investments of the type described the Trust Agreement provisions relating to defeasance in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay the installments (including all principal and interest) referred to above at the times at which such installments are required to be paid. Such deposit shall be in addition to the Base Rental due on such date. The excess, if any, of the amount so deposited over the installments actually required to be paid by the District shall be remitted to the District.

SITE LEASE

Lease

Under the Site Lease, the District will lease the Leased Premises to the Corporation for \$1.00 per year payable in advance, the receipt of which is acknowledged by the District in the Site Lease.

Term

The term of the Site Lease will commence on the date of recordation thereof and end on the date of termination of the Sublease; provided, however, that if , in exercise of its remedies under the provision of the Sublease described above under “—Sublease—Default”, the Corporation terminates the Sublease, then the Site Lease shall not terminate, and the terms hereof shall end September 1, 20__, or at such earlier time as the District’s obligations under the Sublease and the Trust Agreement have been paid (including amounts owed to the Certificate Insurer). No termination, assignment (other than to the Trustee in accordance with the Trust Agreement and Assignment Agreement), transfer, release, disposition or sublease of the Site Lease, the Premises or any portion thereof shall be permitted without the prior written consent of the Certificate Insurer.

Eminent Domain

The Site Lease provides that if the whole or any part of the Leased Premises is taken under the power of eminent domain, the interest of the Corporation will be recognized and is determined to be the aggregate amount of unpaid Base Rental with respect to the Leased Premises under the Sublease through the remainder of its term. Any proceeds shall be paid to the Trustee, as assignee of the interest of the Corporation under the Site Lease, in accordance with the terms of the Sublease and the Trust Agreement.

Default

In the event that the Corporation or its assignee shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, the District may exercise any and all remedies granted by law, except that no merger of the Site Lease and of the Sublease shall be deemed to occur as a result thereof; provided, however, that the District shall have no power to terminate the Site Lease by reason of any default on the part of the Corporation or its assignee if (i) such termination would affect or impair the assignment by the Corporation of its right, title and interest in the Sublease pursuant to the Assignment Agreement, or (ii) such termination would prejudice the exercise of the remedies provided in the Sublease and described above under “—Sublease—Default”. So long as any such assignee of the Corporation or any successor in interest to the Corporation shall duly perform the terms and conditions of the Site Lease, such assignee shall be deemed to be and shall become the tenant of the District hereunder and shall be entitled to all of the rights and privileges granted under any such assignment.

ASSIGNMENT AGREEMENT

Pursuant to the Assignment Agreement, the Corporation assigns and transfers to the Trustee, for the benefit of the owners of the Certificates, all of the Corporation's rights, title and interest in and to the Site Lease and the Sublease (excepting only the Corporation's right to indemnification in accordance with the Sublease and its rights to receive notices thereunder), including the Corporation's right to receive Base Rental, as well as its rights to enforce payment of such Base Rental when due or otherwise to protect its interests in the event of a default or termination by the District under the Sublease. The Base Rental and other rights of the Corporation assigned under the Assignment Agreement are to be applied and the rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

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APPENDIX D

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances 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 Certificates, (b) Certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, 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 Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Certificates. The Certificates will be executed and delivered 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 Certificate will be executed and delivered for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The foregoing internet address is included for reference only, and the information on this internet site is not incorporated by reference herein.*

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates 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 certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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 notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) 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 Certificates are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any and interest payments on the Certificates 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 the District or Trustee, 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, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, 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.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Certificates are required to be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Certificates will be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

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

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Certificates, the following provisions will govern the payment, transfer and exchange of the Certificates.

The principal with respect to the Certificates and any premium and interest upon the redemption thereof prior to maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Certificates at the office of the Trustee, initially located in Los Angeles, California. Interest with respect to the Certificates will be paid by the Trustee by check or draft mailed to the person whose name appears on the registration books of the Trustee as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least \$1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Trustee as of the Record Date.

Any Certificate may be exchanged for a Certificate of any authorized denomination upon presentation and surrender at the office of the Trustee, initially located in Los Angeles, California, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Trustee. A Certificate may be transferred only on the Certificate registration books upon presentation and surrender of the Certificate at such office of the Trustee together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Trustee. Upon exchange or transfer, the Trustee shall complete, authenticate and deliver a new Certificate or Certificates of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Certificate surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Trustee will be required to exchange or transfer any Certificate during the period from the Record Date through the next Interest Payment Date.

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APPENDIX E

FORM OF OPINION OF SPECIAL COUNSEL

[Closing Date]

Perris Elementary School District
143 East First St.
Perris, California 92570

Perris School District School Facilities Corporation
c/o Perris Elementary School District
143 East First St.
Perris, California 92570

Re: \$ _____ Perris Elementary School District Refunding Certificates of Participation,
Series 2019

Ladies and Gentlemen:

We have acted as Special Counsel in connection with the sale, execution and delivery of the above-captioned certificates (the “**Certificates**”), undivided proportionate interests in the Sublease and Option to Purchase, dated as of August 1, 2019 (the “**Sublease**”), by and between the Perris Elementary School District (the “**District**”) and the Perris School District School Facilities Corporation, a California nonprofit public benefit corporation (the “**Corporation**”), including the right to receive base rental payments made the District thereunder (the “**Base Rental**”). The Certificates will be executed and delivered pursuant to the Trust Agreement dated as of August 1, 2019 (the “**Trust Agreement**”), by and among the District, the Corporation and the U.S. Bank National Association, as trustee (the “**Trustee**”). Capitalized terms used but not defined herein shall have the meaning ascribed to such term as set forth in the Trust Agreement.

The Corporation has acquired and will acquire a leasehold interest in certain real property (the “**Leased Premises**”) pursuant to the Site and Facilities Lease, dated as of August 1, 2019 (the “**Facilities Lease**”), by and between the District and the Corporation. Pursuant to the Sublease, the District will simultaneously lease the Leased Premises from the Corporation in consideration for which the District will pay Base Rental.

The Corporation and the Trustee have entered into an Assignment Agreement, dated as of August 1, 2019 (the “**Assignment Agreement**”), pursuant to which the Corporation has transferred all of its rights, title and interest (other than as provided in such Assignment Agreement) in and to the Sublease, including the right to receive Base Rental, to the Trustee for the benefit of the owners of the Certificates.

The Certificates will be issued by the District (i) provide for the prepayment of the District’s Certificates of Participation (2004 School Facility Bridge Funding Program) (the “**Prior Certificates**”), (ii) provide for the payment of a premium for a debt service reserve surety policy, and (iii) to pay costs incident to executing and delivering the Certificates. A portion of each Base Rental payment is designated as interest and a portion is designated as principal. The District has covenanted in the Sublease to take such action as may be necessary to include all Base Rental and Additional Rental with

respect to the Leased Premises due in each fiscal year in its annual budget, and to make the necessary annual appropriations for all such rental payments (except to the extent such payments are abated). The District, however, is not obligated to levy or pledge any form of taxation for the payment of rental for the Leased Premises, nor has the District covenanted to do so. The payment of Base Rental is subject to abatement during any period in which, by reason of material damage, destruction, condemnation or title defect, there is substantial interference with the right of the District to the use and occupancy of the Leased Premises.

As Special Counsel we have examined copies certified to us as being true and complete copies of the proceedings of the District in connection with the execution and delivery of the Certificates. Our services as Special Counsel were limited to an examination of the transcript of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of officers of the District and others as we have considered necessary for the purposes of this opinion.

On the basis of such examination, and in reliance thereon, and of our consideration of such questions of law as we have deemed relevant in the circumstances, we are of the opinion that:

1. The Sublease, the Facilities Lease and the Trust Agreement have been duly and validly authorized, executed and delivered by the District and, assuming such documents constitute the valid and binding obligations of the other parties thereto, constitute the legally valid and binding obligations of the District enforceable in accordance with their respective terms.

2. The Assignment Agreement has been duly and validly authorized, executed and delivered by the Corporation and, assuming the Assignment Agreement constitutes the valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Corporation enforceable in accordance with its terms.

3. Under existing statutes, regulations, rulings and court decisions, the portion of each Base Rental payment due and payable under the Sublease designated as and comprising interest and received by or allocated to the Owners of the Certificates is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the “Code”). In addition, the portion of each Base Rental payment designated as and comprising interest and received by or allocated to the Owners of the Certificates is not a specific item of tax preference for purposes of the Code’s alternative minimum tax liability.

4. The portion of each Base Rental payment due and payable under the Sublease designated as and comprising interest and received by or allocated to the Owners of the Certificates is exempt from personal income taxes of the State of California under present state law.

Except as stated in the preceding two paragraphs, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Certificates. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Certificates, or the interest with respect to the Certificates, if any action is taken with respect to the Certificates or the proceeds thereof upon the advice or approval of other counsel.

In rendering the opinions set forth in paragraphs 3 and 4 above, we are relying upon representations and covenants of the District in the Trust Agreement and in the District’s Tax and Nonarbitrage Certificate concerning the investment and use of Certificate proceeds, the rebate to the federal government of certain earnings thereon and the use of the property financed or refinanced with the

proceeds of the Certificates. In addition, we have assumed that all such representations are true and correct and that the District will comply with such covenants. We express no opinion with respect to the exclusion of interest with respect to the Certificates from gross income under Section 103(a) of the Code in the event that any of such representations are untrue or the District fails to comply with such covenants, unless such failure to comply is based on our advice or opinion. Except as stated above, we express no opinion as to any federal tax consequences of the Ownership of, receipt of interest with respect to, or disposition of the Certificates.

The opinions set forth in paragraphs 1 and 2 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the enforcement of creditors' rights generally. The enforceability of the Sublease, the Facilities Lease and the Trust Agreement is subject to the effect of general principals of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law. Without limiting the foregoing opinion, we advise you that we have not made or undertaken to make any investigation of the state of title to any of the real property or ownership of any personal property described in the Sublease or the Facilities Lease, or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material related to the Certificates.

We call attention to the fact that the opinions expressed herein and the exclusion of the portion of Base Rental payments designated as and comprising interest and received by or allocated to the Owners of the Certificates may be affected by actions taken or omitted or events occurring or not occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken, omitted, occur or fail to occur.

Respectfully submitted,

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APPENDIX F

COUNTY OF RIVERSIDE POOLED INVESTMENT FUND

The Treasurer and Tax Collector (the “Treasurer”) of the County of Riverside (the “County”) manages, in accordance with California Government Code Section 53600 et seq., funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County’s Pooled Investment Fund (the “Investment Fund”) as described below. The composition and value of investments under management in the Investment Fund vary from time to time, depending on the cash flow needs of the County and the other public agencies invested in the Investment Fund, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally. The Treasurer maintains a website, the address of which is <https://www.countytreasurer.org/>, on which the Treasurer periodically places information relating to the Investment Fund. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the purchase of Certificates.

The Treasurer maintains one Pooled Investment Fund (the “PIF”) for all local jurisdictions having funds on deposit in the County Treasury. As of June 30, 2019, the portfolio assets comprising the PIF had a market value of \$6,836,213,591.28.

State law requires that all operating moneys of the County, school districts, and certain special districts be held by the Treasurer. On June 30, 2018, the Auditor-Controller performed an analysis on the County Treasury, which resulted in the identification and classification of “mandatory” vs. “discretionary” depositors. The County Auditor-Controller reports that collectively, these mandatory deposits constituted approximately 80.62% of the funds on deposit in the County Treasury, while approximately 19.38% of the total funds on deposit in the County Treasury represented discretionary deposits.

While State law permits other governmental jurisdictions to participate in the County’s PIF, the desire of the Treasurer is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are to be made in accordance with the Treasurer’s 2018 Statement of Investment Policy, which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment. Investments are not authorized in reverse-repurchase agreements except for an unanticipated and immediate cash flow need that would otherwise cause the Treasurer to sell portfolio securities prior to maturity at a principal loss.

The investments in the Treasurer’s Pooled Investment Fund as of June 30, 2019 were as follows:

U.S. Treasury Securities	\$584,231,554.45	8.58%
Federal Agency Securities	3,865,922,356.83	56.76
Cash Equivalent & Money Market Funds	889,023,976.03	13.05
Commercial Paper	914,812,216.98	13.43
NCD	35,000,000.00	0.51
Medium Term Notes	288,841,412.34	4.824
Municipal Notes	233,302,074.65	3.43
Certificates of Deposit	-	-
Repurchase Agreements	-	-
Local Agency Obligations ⁽¹⁾	80,000.00	0.000
Total Book Value	\$6,811,213,591.28	100.00%

Book Yield	2.32%
Weighted Average Maturity (years)	1.057

⁽¹⁾Represents County Obligations issued by the Riverside District Court Financing Corporation.

As of June 30, 2019, the market value of the PIF was 100.46% of book value. The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

In keeping with Sections 53684 and 53844 of the California Government Code, all interest, income, gains and losses on the portfolio are distributed quarterly to participants based upon their average daily balance except for specific investments made on behalf of a particular fund. In these instances, Sections 53844 requires that the investment income be credited to the specific fund in which the investment was made.

The Board has established an “Investment Oversight Committee” in compliance with California Government Code Section 27131. Currently, the Committee is composed of the County Finance Director, the Treasurer, the County Superintendent of Schools, a school district representative and a public member at large. The purpose of the committee is to review the prudence of the County’s investment policy, portfolio holdings and investment procedures, and to make any findings and recommendations known to the Board. As of September 29, 2004, the State no longer required the County to have a local oversight committee; however, the County has elected to maintain the committee. The committee is utilized by the County to safeguard public funds and to perform other internal control measures.

The County has obtained a rating on the PIF of “Aaa-bf” from Moody’s Investors Service and “AAAf/S1” rating from Fitch Ratings. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

None of the District, the Financial Advisor or the Underwriter has made an independent investigation of the investments in the Investment Fund nor have they made an assessment or investigation of the current County Investment Policy. The value of the various investments in the Investment Fund will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Treasurer, with the consent of the Treasury Oversight Committee and the County Board of Supervisors, may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Investment Fund will not vary significantly from the values described herein.

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is entered into as of August 1, 2019 by Perris Elementary School District (the “**District**”) for the benefit of the Owners and Beneficial Owners of the Certificates (as hereinafter defined) in connection with the execution and delivery of \$_____ aggregate principal amount of Perris Elementary School District’s Refunding Certificates of Participation, Series 2019 (the “**Certificates**”).

WITNESSETH:

WHEREAS, the District executed and delivered its Certificates of Participation (2004 School Facility Bridge Funding Program) (the “**Prior Certificates**”); and

WHEREAS, the District desires to prepay all of its outstanding Prior Certificates; and

WHEREAS, the Board of Trustees of the District has adopted a resolution on June 13, 2019 authorizing and providing for the execution and delivery of the Certificates (the “**Resolution**”) for such purpose; and

WHEREAS, the District has entered into a Trust Agreement with U.S. Bank National Association, as trustee dated August 1, 2019 (the “**Trust Agreement**”) for the Certificates; and

WHEREAS, the Underwriter with respect to the Certificates is required to comply with the provisions of Rule 15c2-12 adopted by the United States Securities and Exchange Commission (the “**SEC**”) under the Securities Exchange Act of 1934, as amended (the “**1934 Act**”).

NOW THEREFORE, the District covenants and agrees for the benefit of the Owners and Beneficial Owners of the Certificates as follows:

SECTION 1. Definitions. The following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“Certificate Register” shall have the meaning provided in the Trust Agreement.

“Disclosure Representative” shall mean the Superintendent of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean the Fieldman, Rolapp & Associates, Inc., doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District.

“Financial Obligation” means (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 MSRB consistent with the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule (defined below). Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Owner” or “Certificate Owner,” whenever used herein with respect to a Certificate, shall mean the Person in whose name the ownership of such Certificate is registered on the Certificate Register.

“Person” shall mean an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the 1934 Act, as the same may be amended from time to time.

SECTION 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and the Beneficial Owners, and in order to assist the Underwriter in complying with Rule 15c2-12.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of each fiscal year of the District (March 31), commencing with the fiscal year of the District ending June 30, 2019, provide to the MSRB copies of an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are 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(f). The Annual Report shall be in electronic format and accompanied by identifying information as prescribed by the MSRB.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent. If by 15 business days prior to such date, the Dissemination Agent 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 subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent in a timely manner shall send a notice to the MSRB, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the contact information and format and identifying information requirements for the MSRB; and
- (ii) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain the CUSIP numbers of the Certificates and contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to the EMMA System as soon as practical after it has been made available to the District.

(b) Operating data, including the following information (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Outstanding indebtedness and lease obligations for the preceding fiscal year;

(ii) General fund budget and actual results for the preceding fiscal year;

(iii) Average daily attendance and State funding information, as may be reasonably available, for the preceding fiscal year;

(iv) Assessed valuations as shown on the most recent equalized assessment roll;

(v) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided by the District to the County; and

(vi) Largest local secured taxpayers as shown on the most recent equalized assessment roll.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the EMMA System or to the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the

occurrence of any of the following events with respect to the Certificates. The occurrence of any of the following events with respect to the Certificates shall be a Listed Event:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or 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 Certificates, or other material events affecting the tax status of the Certificates;
- (vii) modifications to rights of Certificate holders, if material;
- (viii) certificate calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the District

(Note: For purposes of this subsection, the event 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 U.S. 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);

- (xiii) 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;

- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) The Dissemination Agent shall, within one (1) business day of obtaining actual knowledge at his or her address listed in Section 12 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and, for any Listed Event that requires the District to determine if such event is material, request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event that requires it to determine if such event would constitute material information, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District obtains knowledge of the occurrence of a Listed Event that does not require it to determine if such event is material or has determined that knowledge of the occurrence of a Listed Event that requires such a determination would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request for a determination of materiality under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Such notice shall include the CUSIP numbers of the Certificates.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The District's and the Dissemination Agent's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. 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 Dissemination Agent. Upon such discharge, however, a new Dissemination Agent

must be appointed within 60 days. The Dissemination Agent may resign by providing 60 days written notice to the District. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the Interim Superintendent of the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that any of the following conditions is satisfied:

- (i) 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 Certificates, or the type of business conducted;
- (ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; or
- (iii) The amendment or waiver either (a) is approved by the Owners of the Certificates in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners of the Certificates, or (b) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Underwriter or the Owners of at least 25% of aggregate principal amount of the Certificates then Outstanding, shall), or any

Owner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Disclosure Certificate.

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 the extent permitted by law, to indemnify and save the Dissemination Agent, or his or her employees and agents, harmless against any loss, expense and liabilities which he or she may incur arising out of or in the exercise or performance of his or her powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding losses, expenses and 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 Certificates.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the District:

Perris Elementary School District
143 East First St.
Perris, California 92570
Attn: Superintendent

To the Dissemination Agent:

Applied Best Practices
1900 MacArthur Boulevard, Suite 1100
Irvine, California 92612

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter, the Owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. THIS DISCLOSURE CERTIFICATE SHALL BE GOVERNED BY THE LAWS OF CALIFORNIA DETERMINED WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAW.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the District has caused this Disclosure Certificate to be executed by its proper officer thereunto duly authorized, as of the day and year first above written.

PERRIS ELEMENTARY SCHOOL DISTRICT

By: _____
Title: Superintendent

APPLIED BEST PRACTICES, as Dissemination
Agent

By: _____
Title: Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: Perris Elementary School District

Name of Issue: Refunding Certificates of Participation Series 2019

Date of Execution and Delivery: August ____, 2019

NOTICE IS HEREBY GIVEN that PERRIS ELEMENTARY SCHOOL DISTRICT, CALIFORNIA (the “**District**”) has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Certificate, dated as of August 1, 2019 entered into by the District for the benefit of the Owners of the Certificates. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

**PERRIS ELEMENTARY SCHOOL
DISTRICT**, as Dissemination Agent

By: _____
Title: Superintendent

cc: Perris Elementary School District

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APPENDIX H

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

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**PERRIS ELEMENTARY
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018**



PERRIS ELEMENTARY SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2018

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FINANCIAL SECTION

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PERRIS ELEMENTARY SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2018

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Governing Board
Perris Elementary School District
Perris, 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 Perris Elementary School District, as of and for the fiscal 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Perris Elementary School District, as of June 30, 2018, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1.J. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$6,739,404 reduction of previously reported net position at July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

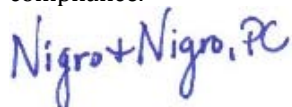
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 59 to 62 and the schedule of expenditures of federal awards on page 63 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 58 and 64 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
October 4, 2018

PERRIS ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2018

This discussion and analysis of Perris Elementary School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved from last year, as the net position increased by 3.3% to \$40.5 million.
- Total governmental revenues were \$80.6 million, about \$1.3 million more than expenses.
- The District's combined fund balances increased by \$2.5 million.
- The total cost of basic programs was \$79.4 million. Because a portion of these costs were paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was only \$62.7 million.
- Average daily attendance (grades K-6) increased by 14, or 0.3%.

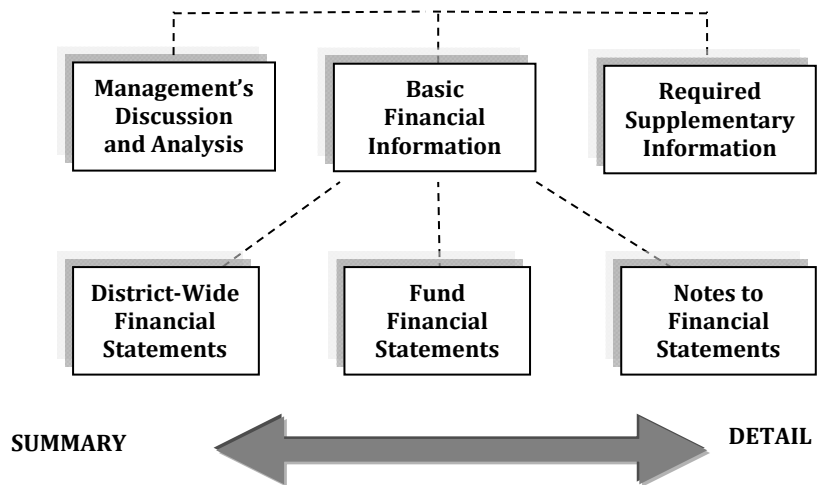
OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.

Figure A-1. Organization of Perris Elementary School District's Annual Financial Report

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



PERRIS ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

PERRIS ELEMENTARY SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018*

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

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

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

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

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

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

The District has two types of funds:

- *Governmental funds* – All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

PERRIS ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2018, than it was the year before – increasing 3.3% to \$40.5 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)
	2018	2017*	
Assets			
Current assets	\$ 45,383,120	\$ 42,028,178	\$ 3,354,942
Capital assets	94,428,684	93,650,582	778,102
Total assets	139,811,804	135,678,760	4,133,044
Deferred outflows of resources	20,440,879	14,980,593	5,460,286
Liabilities			
Current liabilities	4,486,632	3,547,245	939,387
Long-term liabilities	47,970,398	47,956,938	13,460
Net pension liability	62,758,192	57,105,782	5,652,410
Total liabilities	115,215,222	108,609,965	6,605,257
Deferred inflows of resources	4,490,004	2,795,193	1,694,811
Net position			
Net investment in capital assets	62,161,590	62,631,662	(470,072)
Restricted	12,707,781	11,860,603	847,178
Unrestricted	(34,321,914)	(35,238,070)	916,156
Total net position	\$ 40,547,457	\$ 39,254,195	\$ 1,293,262

* As restated

Changes in net position, governmental activities. The District's total revenues increased 2.3% to \$80.6 million (See Table A-2). The increase is due primarily to increases in state aid.

The total cost of all programs and services increased 0.9% to \$79.4 million. The District's expenses are predominantly related to educating and caring for students, 79.5%. The purely administrative activities of the District accounted for just 6.4% of total costs. A significant contributor to the increase in costs was negotiated salary and benefit increases.

PERRIS ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Revenues			
Program Revenues:			
Charges for services	\$ 594,857	\$ 1,402,005	\$ (807,148)
Operating grants and contributions	16,078,310	15,866,620	211,690
General Revenues:			
Federal and state aid not restricted	54,462,420	53,571,043	891,377
Property taxes	7,771,688	7,057,470	714,218
Other general revenues	1,738,074	930,028	808,046
Total Revenues	80,645,349	78,827,166	1,818,183
Expenses			
Instruction-related	52,409,678	52,208,340	201,338
Pupil services	10,670,628	10,693,081	(22,453)
Administration	5,060,113	4,218,755	841,358
Plant services	5,994,118	6,792,531	(798,413)
All other activities	5,217,550	4,756,685	460,865
Total Expenses	79,352,087	78,669,392	682,695
Increase (decrease) in net position	1,293,262	157,774	1,135,488
Total Net Position	\$ 40,547,457	\$ 39,254,195	\$ 1,293,262

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$41.5 million, which is above last year's ending fund balance of \$39.0 million. The primary cause of the increased fund balance is due to surpluses in the general and charter school funds.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2018
General Fund	\$ 12,678,386	\$ 63,137,215	\$ 61,272,272	\$ (2,474)	\$ 14,540,855
Charter School Fund	8,594,724	9,350,552	7,215,884	(54,878)	10,674,514
Child Development Fund	21,098	1,825,739	1,880,414	57,352	23,775
Cafeteria Fund	1,291,252	4,989,229	4,727,183	-	1,553,298
Deferred Maintenance Fund	777,993	308,232	60,065	-	1,026,160
Building Fund	6,596,882	72,011	2,158,989	-	4,509,904
Capital Facilities Fund	1,356,041	541,562	154,247	-	1,743,356
Special Reserve Fund (Capital Outlay)	5,590,166	76,276	459,105	-	5,207,337
Bond Interest and Redemption Fund	1,441,979	1,610,083	1,515,125	-	1,536,937
Debt Service Fund for Blended Component Units	635,129	1,330	-	-	636,459
	\$ 38,983,650	\$ 81,912,229	\$ 79,443,284	\$ -	\$ 41,452,595

PERRIS ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

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

- Revenues – increased by \$5.3 million primarily due to changes in federal and state funding.
- Salaries and benefits costs – increased \$2.8 million due to salary settlements.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues, the actual results for the year show that revenues exceeded expenditures by roughly \$1.9 million. Actual revenues were \$0.8 million less than anticipated, and expenditures were \$2.7 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested \$3.3 million in new capital assets, related to its ongoing bond construction program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$2.4 million.

Table A-4: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Land	\$ 7,894,151	\$ 7,894,151	\$ -
Improvement of sites	4,211,956	4,349,224	(137,268)
Buildings	77,181,443	77,891,521	(710,078)
Equipment	3,148,197	3,219,925	(71,728)
Construction in progress	1,992,937	295,761	1,697,176
Total	\$ 94,428,684	\$ 93,650,582	\$ 778,102

Long-Term Debt

At year-end the District had \$110.7 million in general obligation bonds, certificates of participation, net pension liabilities, and employment benefits – an increase of 5.4% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2018	2017*	
General obligation bonds	\$ 30,871,315	\$ 31,210,266	\$ (338,951)
Certificates of participation	6,945,000	7,210,000	(265,000)
Compensated absences	-	46,115	(46,115)
Net pension liability	62,758,192	57,105,782	5,652,410
Other postemployment benefits	10,154,083	9,490,557	663,526
Total	\$ 110,728,590	\$ 105,062,720	\$ 5,665,870

* As restated

PERRIS ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-19 State Budget

Final Budget Package Includes \$15.9 Billion in Total Reserves

The Legislature passed the final budget package on June 14, 2018. Total reserves in the final budget package are lower than the proposed level in the May Revision, but roughly the same as the level proposed by the Governor in January. The budget package also reflects various choices that shifted spending priorities compared to the Governor's proposal. In particular, the final budget package reduces payments for deferred maintenance by \$700 million—relative to the Governor's proposal—freeing up a like amount of funding. Correspondingly, the final budget package reflects higher General Fund spending for homeless grants and the universities, among others. The Governor signed the *2018-19 Budget Act* and 26 other budget related bills on June 27 and June 28, 2018.

Overall Spending

The budget assumed total state spending of \$197.2 billion (excluding federal and bond funds), an increase of 7% over revised totals for 2017-18. General Fund spending in the budget package is \$138.7 billion—an increase of \$11.6 billion, or 9%, over the revised 2017-18 level. Special fund spending increased \$1.3 billion, or 2%, over the revised 2017-18 level.

Considerable New Spending on Education

The budget package contains significant increases for every education segment. For elementary and secondary schools, the state surpasses the Local Control Funding Formula target rates set in 2013-14. For early education, the budget contains higher spending for more slots, rate increases, staff training, and facilities.

Proposition 98 Establishes Minimum Spending Level

This minimum spending requirement is commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 student attendance. The state can spend at the minimum guarantee or any level above it. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

Higher Proposition 98 Spending in 2016-17 and 2017-18

From the June 2017 budget plan to the June 2018 budget plan, spending increased \$252 million in 2016-17 and \$1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of \$789 million (on top of a previous \$536 million payment). After making the \$1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

2018-19 Spending up Notably Over Revised 2017-18 Level

For 2018-19, total Proposition 98 spending across all segments is \$78.4 billion, an increase of \$2.8 billion (3.7%) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67% increase in per capita personal income. Though the administration projects a 0.29% decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

PERRIS ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

\$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19

The enacted 2018-19 level is \$2.4 billion (3.6%) more than the revised 2017-18 level and \$3.2 billion (4.9%) more than the *2017-18 Budget Act* level. The budget increases spending per student by \$579 (5.2%) over the *2017-18 Budget Act* level, bringing Proposition 98 spending per student up to \$11,645.

Package Includes Mix of Ongoing and One-Time Spending

The budget includes \$5.7 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the \$5.7 billion, \$4 billion (70%) is ongoing and \$1.7 billion (30%) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes \$594 million in Proposition 51 bond authority for school facility projects and \$100 million in non-Proposition 98 funding for kindergarten school facilities.

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates

In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71% cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7% COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is \$3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to \$61.1 billion, a 6.4% increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants

The largest one-time spending initiative for K-12 education is \$1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated \$183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total \$145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, it is estimated that only \$202 million of the funding provided will count toward the K-12 mandates backlog. It is estimated that the total remaining mandate backlog at the end of 2018-19 will be \$668 million.

All of these factors were considered in preparing the Perris Elementary School District budget for the 2018-19 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District Business Office at (951) 657-3118.

PERRIS ELEMENTARY SCHOOL DISTRICT

Statement of Net Position

June 30, 2018

	Total Governmental Activities
ASSETS	
Cash	\$ 41,097,363
Investments	636,459
Accounts receivable	3,599,938
Inventories	49,360
Non-depreciable assets	9,887,088
Depreciable assets	116,071,694
Less accumulated depreciation	<u>(31,530,098)</u>
Total assets	<u>139,811,804</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	533,939
Deferred outflows of resources on pensions	19,570,405
Deferred outflows of resources on OPEB	<u>336,535</u>
Total deferred outflows of resources	<u>20,440,879</u>
LIABILITIES	
Accounts payable	4,264,069
Unearned revenue	222,563
Long-term liabilities:	
Portion due or payable within one year	995,564
Portion due or payable after one year	46,974,834
Net pension liability	<u>62,758,192</u>
Total liabilities	<u>115,215,222</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources on pensions	<u>4,490,004</u>
NET POSITION	
Net investment in capital assets	62,161,590
Restricted for:	
Capital projects	6,950,693
Debt service	2,173,396
Categorical programs	3,583,692
Unrestricted	<u>(34,321,914)</u>
Total net position	<u>\$ 40,547,457</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$ 45,847,405	\$ 6,838	\$ 9,105,471	\$ (36,735,096)
Instruction-Related Services:				
Supervision of instruction	1,919,764	4,456	313,897	(1,601,411)
Instructional library, media and technology	427,394	-	-	(427,394)
School site administration	4,215,115	722	261,024	(3,953,369)
Pupil Support Services:				
Home-to-school transportation	1,204,351	-	-	(1,204,351)
Food services	4,600,690	69,167	4,598,180	66,657
All other pupil services	4,865,587	-	204,519	(4,661,068)
General Administration Services:				
Data processing services	216,723	-	-	(216,723)
Other general administration	4,843,390	26,624	796,673	(4,020,093)
Plant services	5,994,118	43,282	687,483	(5,263,353)
Interest on long-term debt	2,267,024	443,768	-	(1,823,256)
Other outgo	464,607	-	111,063	(353,544)
Depreciation (unallocated)	2,485,919	-	-	(2,485,919)
Total Governmental Activities	\$ 79,352,087	\$ 594,857	\$ 16,078,310	(62,678,920)
General Revenues:				
Property taxes				7,771,688
Federal and state aid not restricted to specific purpose				54,462,420
Interest and investment earnings				393,917
Miscellaneous				1,344,157
Total general revenues				63,972,182
Change in net position				1,293,262
Net position - July 1, 2017, as originally stated				45,993,599
Restatement - change in accounting principle				(6,739,404)
Net position - July 1, 2017, as restated				39,254,195
Net position - June 30, 2018				\$ 40,547,457

PERRIS ELEMENTARY SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2018

	General Fund	Charter School Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 13,308,525	\$ 12,442,394	\$ 563,727	\$ 5,003,601	\$ 9,779,116	\$ 41,097,363
Investments	-	-	-	-	636,459	636,459
Accounts receivable	2,475,785	93,623	151,259	22,686	856,585	3,599,938
Due from other funds	2,664,887	32,331	57,352	200,000	-	2,954,570
Inventories	-	-	-	-	49,360	49,360
Total Assets	\$ 18,449,197	\$ 12,568,348	\$ 772,338	\$ 5,226,287	\$ 11,321,520	\$ 48,337,690
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 3,435,441	\$ 149,812	\$ 6,957	\$ 18,950	\$ 96,802	\$ 3,707,962
Unearned revenue	183,218	-	39,345	-	-	222,563
Due to other funds	289,683	1,744,022	702,261	-	218,604	2,954,570
Total Liabilities	3,908,342	1,893,834	748,563	18,950	315,406	6,885,095
Fund Balances						
Nonspendable	5,000	-	-	-	49,360	54,360
Restricted	1,799,416	230,978	-	5,207,337	9,930,594	17,168,325
Committed	-	-	-	-	1,026,160	1,026,160
Assigned	1,949,751	10,443,536	23,775	-	-	12,417,062
Unassigned	10,786,688	-	-	-	-	10,786,688
Total Fund Balances	14,540,855	10,674,514	23,775	5,207,337	11,006,114	41,452,595
Total Liabilities and Fund Balances	\$ 18,449,197	\$ 12,568,348	\$ 772,338	\$ 5,226,287	\$ 11,321,520	\$ 48,337,690

PERRIS ELEMENTARY SCHOOL DISTRICT

*Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018*

Total fund balances - governmental funds		\$	41,452,595
Amounts reported for governmental <i>activities</i> in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$125,958,782, and the accumulated depreciation is (\$31,530,098).			94,428,684
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(556,107)
Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded debt which has been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period was:			533,939
The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.			(62,758,192)
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
	Certificates of participation payable	6,945,000	
	General obligation bonds payable	30,871,315	
	Other postemployment benefits payable	<u>10,154,083</u>	(47,970,398)
In governmental funds, deferred outflows and inflows of resources related to other postemployment benefits are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources related to other postemployment benefits are reported. Deferred outflows related to OPEB were:			336,535
In governmental funds, deferred outflows and inflows of resources relating to pension are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. Deferred inflows and outflows relating to pensions for the period were:			
	Deferred outflows of resources		19,570,405
	Deferred inflows of resources		<u>(4,490,004)</u>
Total net position - governmental activities		\$	<u><u>40,547,457</u></u>

PERRIS ELEMENTARY SCHOOL DISTRICT

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2018*

	General Fund	Charter School Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	\$ 49,266,866	\$ 8,699,739	\$ -	\$ -	\$ 300,000	\$ 58,266,605
Federal sources	7,815,925	-	-	-	4,573,439	12,389,364
Other state sources	5,962,839	467,821	1,638,358	-	336,310	8,405,328
Other local sources	91,585	182,992	187,381	76,276	2,312,698	2,850,932
Total Revenues	63,137,215	9,350,552	1,825,739	76,276	7,522,447	81,912,229
EXPENDITURES						
Current:						
Instruction	40,702,042	4,267,579	1,230,675	-	-	46,200,296
Instruction-related services:						
Supervision of instruction	1,563,314	150,435	177,233	-	-	1,890,982
Instructional library, media and technology	326,617	64,102	-	-	-	390,719
School site administration	3,500,204	540,234	103,179	-	-	4,143,617
Pupil support services:						
Home-to-school transportation	1,204,351	-	-	-	-	1,204,351
Food services	3,724	-	-	-	4,422,393	4,426,117
All other pupil services	4,656,935	131,221	42,358	-	-	4,830,514
General administration services:						
Data processing services	216,723	-	-	-	-	216,723
Other general administration	4,100,453	534,026	-	-	112,840	4,747,319
Plant services	4,777,131	502,121	224,729	20,001	197,659	5,721,641
Transfers of indirect costs	(680,432)	359,663	102,240	-	218,529	-
Capital Outlay	248,938	666,503	-	-	2,149,063	3,064,504
Intergovernmental	452,272	-	-	-	-	452,272
Debt Service:						
Principal	200,000	-	-	65,000	510,000	775,000
Interest	-	-	-	374,104	1,005,125	1,379,229
Total Expenditures	61,272,272	7,215,884	1,880,414	459,105	8,615,609	79,443,284
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,864,943	2,134,668	(54,675)	(382,829)	(1,093,162)	2,468,945
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	54,878	-	57,352	-	-	112,230
Interfund transfers out	(57,352)	(54,878)	-	-	-	(112,230)
Total Other Financing Sources and Uses	(2,474)	(54,878)	57,352	-	-	-
Net Change in Fund Balances	1,862,469	2,079,790	2,677	(382,829)	(1,093,162)	2,468,945
Fund Balances, July 1, 2017	12,678,386	8,594,724	21,098	5,590,166	12,099,276	38,983,650
Fund Balances, June 30, 2018	\$ 14,540,855	\$ 10,674,514	\$ 23,775	\$ 5,207,337	\$ 11,006,114	\$ 41,452,595

PERRIS ELEMENTARY SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2018

Total net change in fund balances - governmental funds \$ 2,468,945

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	3,264,021	
Depreciation expense	<u>(2,485,919)</u>	778,102

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 775,000

Deferred charges on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded certificates which have been defeased. In governmental funds these charges are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the debt. The difference between current year charges and the current year amortization is: (29,535)

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (234,853)

In the governmental funds, if debt is issued at a premium, the premium is recognized as an other financing source or use in the period that it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period is: 63,804

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (53,390)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 46,115

In governmental funds, other postemployment benefits expenses are recognized when employer contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (326,991)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (2,193,935)

Change in net position of governmental activities \$ 1,293,262

PERRIS ELEMENTARY SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2018

	<u>Agency Fund</u> <u>Debt Service</u> <u>Fund for</u> <u>Special Tax Bonds</u>
ASSETS	
Investments	\$ 288,489
Total Assets	<u>\$ 288,489</u>
LIABILITIES	
Due to bondholders	\$ 288,489
Total Liabilities	<u>\$ 288,489</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Perris Elementary School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the Board of Trustees of the component units is essentially the same as the Board of Trustees of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Perris School District Facilities Corporation (the Corporation) financial activity is presented in the financial statements as the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Corporation.

The Perris Elementary School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

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

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Major Governmental Funds

The District reports the following major governmental funds:

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

Charter School Fund: This fund is used to account for the operations of the Innovative Horizons Charter School.

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

Special Reserve Fund for Capital Outlay Projects: This fund is used to account for funds set aside for Board designated construction projects.

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Reserve Funds:

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

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

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Projects Funds:

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

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

Debt Service Funds:

Bond Interest and Redemption Fund: This fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the repayment of certificates of participation.

Fiduciary Fund

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

Debt Service Fund for Special Tax Bonds: This fund is used to account for the accumulation of resources for the repayment of special tax bonds.

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting (continued)

Governmental Fund Financial Statements

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

3. 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. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts 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.

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.

C. Budgetary Data

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

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

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Encumbrances

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

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

1. Cash and Cash Equivalents

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

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. 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 combined balance sheet and revenue is recognized.

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

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Deferred Outflows/Inflows of Resources

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

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

6. Compensated Absences

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

7. 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 Perris Elementary School District Retiree Benefits Plan (“the Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan 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.

8. 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 District’s California State Teachers Retirement System (CalSTRS) and California Public Employees’ Retirement System (CalPERS) plans and addition 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. Investments are reported at fair value.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Fund Balances

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

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

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

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

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

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

10. Net Position

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

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

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Net Position (continued)

- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

F. Minimum Fund Balance Policy

During the 2010-11 fiscal year, pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unanticipated expenditures. Unassigned Fund Balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the District's governing board. In the event of projected revenue shortfalls, it is the responsibility of the Chief Business Official to report the projections to the District's governing board on a quarterly basis and shall be recorded in the minutes.

Any budget revision that will result in the Unassigned Fund Balance dropping below the minimum level will require the approval of a 2/3 vote of the District's governing board.

The fund balance of the District's General Fund is intended to contain reserves to provide stability and flexibility in response to unexpected adversity and/or opportunities. The target is to maintain an unrestricted fund balance of not less than 5% of combined general fund expenditures and other financing uses in the assigned fund balance category for economic uncertainty.

The rationale for this level of reserves is to provide the following:

- To meet state-required reserve levels in accordance with the standards and criteria adopted by the State Board of Education (Education Code 33128)
- To provide adequate cash to meet financial obligations
- To provide available funds to meet unanticipated or emergency financial obligations
- To provide stability during periods of economic distress

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.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Property Tax Calendar

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

H. Use of Estimates

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

I. New GASB Pronouncements

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

1. 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.

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. 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
 - Simplifying certain aspects of the alternative measurement method for OPEB
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

4. 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.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, are reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Fund
Pooled Funds:		
Cash in County Treasury	\$ 41,080,368	\$ -
Deposits:		
Cash in revolving fund	5,000	-
Cash awaiting deposit	11,995	-
Total Deposits	16,995	-
Total Cash	\$ 41,097,363	\$ -
Investments:		
US Bank - Money Market	\$ 636,459	\$ 288,489

Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2018, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2018, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Interest Rate Risk

The District’s investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District’s investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment.

Maturities of investments held at June 30, 2018, consisted of the following:

	Fair Value	Maturity		Level 2
		Less Than One Year	One Year Through Five Years	
Investment maturities:				
US Bank - Money Market	\$ 924,948	\$ 924,948	\$ -	

Investments - Credit Risk

The District’s investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2018, all investments represented governmental securities which were issued, registered and held by the District’s agent in the District’s name.

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had the following investment that represents more than five percent of the District’s net investments.

US Bank - Money Market	100%
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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.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value Measurements (continued)

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 date 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 Riverside County Treasury Investment Pool are not measured using the input levels above because the District’s transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District’s fair value measurements are as follows at June 30, 2018:

<u>Investment Type:</u>	<u>Fair Value</u>
US Bank - Money Market	<u>\$ 924,948</u>

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consisted of the following:

	<u>General Fund</u>	<u>Charter School Fund</u>	<u>Child Development Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government:						
Categorical aid programs	\$ 1,820,304	\$ -	\$ 64,582	\$ -	\$ 752,116	\$ 2,637,002
State Government:						
Lottery	209,719	38,890	-	-	-	248,609
Categorical aid programs	188,924	-	-	-	56,300	245,224
Local:						
Interest	55,294	54,733	3,460	22,686	35,680	171,853
Other local	201,544	-	83,217	-	12,489	297,250
Totals	<u>\$ 2,475,785</u>	<u>\$ 93,623</u>	<u>\$ 151,259</u>	<u>\$ 22,686</u>	<u>\$ 856,585</u>	<u>\$ 3,599,938</u>

PERRIS ELEMENTARY SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2018

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due/to other funds at June 30, 2018, consisted of the following:

General Fund due to Special Reserve Fund for Capital Outlay Projects for debt service payments	\$	200,000
General Fund due to Charter School for Title I, Part A, educator effectiveness costs, and in-lieu property taxes		32,331
General Fund due to Child Development Fund for Medical Administrative Activities		57,352
Charter School Fund due to General Fund for OPEB, indirect costs, educator effectiveness costs, and other charges		1,744,022
Cafeteria Fund due to General Fund for indirect costs and OPEB costs		218,604
Child Development Fund due to General Fund for OPEB, indirect costs, and temporary loan for cash flow purposes		<u>702,261</u>
Total	<u>\$</u>	<u>2,954,570</u>

B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended at June 30, 2018, consisted of the following:

General Fund to Child Development Fund to cover preschool programs	\$	57,352
Charter School Fund to General Fund for Educator Effectiveness costs		<u>54,878</u>
Total	<u>\$</u>	<u>112,230</u>

NOTE 5 – FUND BALANCES

At June 30, 2018, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Charter School Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable:						
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Stores inventories	-	-	-	-	49,360	49,360
Total Nonspendable	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,360</u>	<u>54,360</u>
Restricted:						
Categorical programs	1,799,416	230,978	-	-	-	2,030,394
Child nutrition program	-	-	-	-	1,503,938	1,503,938
Capital projects	-	-	-	5,207,337	6,253,260	11,460,597
Debt service	-	-	-	-	2,173,396	2,173,396
Total Restricted	<u>1,799,416</u>	<u>230,978</u>	<u>-</u>	<u>5,207,337</u>	<u>9,930,594</u>	<u>17,168,325</u>
Committed:						
Deferred maintenance program	-	-	-	-	1,026,160	1,026,160
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,026,160</u>	<u>1,026,160</u>
Assigned:						
MAA	242,024	-	-	-	-	242,024
Charter school program	-	1,836,136	-	-	-	1,836,136
One-time mandate costs	1,575,893	389,101	-	-	-	1,964,994
Donations	131,834	28,810	-	-	-	160,644
Modernization projects	-	8,189,489	-	-	-	8,189,489
Child development program	-	-	23,775	-	-	23,775
Total Assigned	<u>1,949,751</u>	<u>10,443,536</u>	<u>23,775</u>	<u>-</u>	<u>-</u>	<u>12,417,062</u>
Unassigned:						
Reserve for economic uncertainties	3,066,481	-	-	-	-	3,066,481
Remaining unassigned balances	7,720,207	-	-	-	-	7,720,207
Total Unassigned	<u>10,786,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,786,688</u>
Total	<u>\$ 14,540,855</u>	<u>\$ 10,674,514</u>	<u>\$ 23,775</u>	<u>\$ 5,207,337</u>	<u>\$ 11,006,114</u>	<u>\$ 41,452,595</u>

PERRIS ELEMENTARY SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2018

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 7,894,151	\$ -	\$ -	\$ 7,894,151
Construction in progress	295,761	1,697,176		1,992,937
Total capital assets not being depreciated	<u>8,189,912</u>	<u>1,697,176</u>	<u>-</u>	<u>9,887,088</u>
Capital assets being depreciated:				
Improvement of sites	6,277,994	-	-	6,277,994
Buildings	102,502,957	1,367,328	-	103,870,285
Equipment	5,723,898	199,517	-	5,923,415
Total capital assets being depreciated	<u>114,504,849</u>	<u>1,566,845</u>	<u>-</u>	<u>116,071,694</u>
Accumulated depreciation for:				
Improvement of sites	(1,928,770)	(137,268)	-	(2,066,038)
Buildings	(24,611,436)	(2,077,406)	-	(26,688,842)
Equipment	(2,503,973)	(271,245)	-	(2,775,218)
Total accumulated depreciation	<u>(29,044,179)</u>	<u>(2,485,919)</u>	<u>-</u>	<u>(31,530,098)</u>
Total capital assets being depreciated, net	<u>85,460,670</u>	<u>(919,074)</u>	<u>-</u>	<u>84,541,596</u>
Governmental activity capital assets, net	<u>\$ 93,650,582</u>	<u>\$ 778,102</u>	<u>\$ -</u>	<u>\$ 94,428,684</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amounts Due Within One Year
General obligation bonds:					
Principal	\$ 29,461,242	\$ -	\$ 510,000	\$ 28,951,242	\$ 405,000
Bond issuance premium	953,703	-	64,114	889,589	64,114
Bond issuance discount	(9,143)	-	(310)	(8,833)	(310)
Accreted interest	804,464	234,853	-	1,039,317	251,760
Total general obligation bonds	<u>31,210,266</u>	<u>234,853</u>	<u>573,804</u>	<u>30,871,315</u>	<u>720,564</u>
Certificates of participation	7,210,000	-	265,000	6,945,000	275,000
Compensated absences	46,115	-	46,115	-	-
Net pension liability	57,105,782	5,652,410	-	62,758,192	-
Other postemployment benefits	9,490,557	1,067,166	403,640	10,154,083	-
Totals	<u>\$ 105,062,720</u>	<u>\$ 6,954,429</u>	<u>\$ 1,288,559</u>	<u>\$ 110,728,590</u>	<u>\$ 995,564</u>

Note: Beginning balance of OPEB liability has been restated due to the implementation of GASB Statement No. 75.

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of participation payments are made by the General Fund and Special Reserve Fund for Capital Outlay Projects. OPEB costs are paid by the General Fund. Accumulated vacation and retirement incentive payments will be paid for by the fund for which the employee worked.

A. General Obligation Bonds

On November 7, 2006, a special election was held at which more than fifty-five percent of the voters in the District approved general obligation bonds, which authorized the issuance and sale of \$25 million in general obligation bonds. The bonds are general obligations of the District, and the county is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The bonds are being issued to finance the acquisition, construction, and modernization of District facilities, as well as to pay the costs of issuing the bonds.

On June 3, 2014, a special election was held at which more than fifty-five percent of the voters in the District approved general obligation bonds, which authorized the issuance and sale of \$40 million in general obligation bonds. The bonds are general obligations of the District, and the county is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. The bonds are being issued to finance the acquisition, construction, and modernization of District facilities, as well as to pay the costs of issuing the bonds.

2017 General Obligation Refunding Bonds

On April 4, 2017, the District issued \$5,640,000 of General Obligation Refunding Bonds, Series 2017. The bonds bear fixed interest rates ranging between 3.125% and 5.0% with annual maturities from August 1, 2017 through August 1, 2030.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred balance on defeased debt as of June 30, 2018 of (\$88,452) remain to be amortized.

A summary of outstanding bonds is shown below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018
2006(A)	8/22/2007	8/1/2033	4.0%-5.25%	\$ 7,999,571	\$ 389,571	\$ -	\$ 240,000	\$ 149,571
2006(B)	9/11/2013	8/1/2040	3.25%-5.0%	4,336,671	4,296,671	-	30,000	4,266,671
2006 (17)	4/4/2017	8/1/2046	4.0%-5.0%	2,500,000	2,500,000	-	-	2,500,000
2014(A)	9/10/2014	8/1/2044	2.5%-6.0%	12,340,000	12,135,000	-	195,000	11,940,000
2014 (17)	4/4/2017	8/1/2046	3.125%-5.0%	4,500,000	4,500,000	-	-	4,500,000
Ref. (17)	4/4/2017	8/1/2030	3.125%-5.0%	5,640,000	5,640,000	-	45,000	5,595,000
				<u>\$ 37,316,242</u>	<u>\$ 29,461,242</u>	<u>\$ -</u>	<u>\$ 510,000</u>	<u>\$ 28,951,242</u>
<u>Accreted Interest</u>								
				2006A	\$ 225,879	\$ 38,512	\$ -	\$ 264,391
				2006B	578,585	196,341	-	774,926
					<u>\$ 804,464</u>	<u>\$ 234,853</u>	<u>\$ -</u>	<u>\$ 1,039,317</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2018, were as follows:

A. General obligation bonds

Fiscal Year	Principal	Interest	Total
2018-19	\$ 405,000	\$ 1,093,762	\$ 1,498,762
2019-20	490,000	1,071,387	1,561,387
2020-21	590,000	1,044,787	1,634,787
2021-22	485,000	1,019,144	1,504,144
2022-23	560,000	994,713	1,554,713
2023-28	3,880,000	4,481,338	8,361,338
2028-33	4,649,021	5,316,089	9,965,110
2033-38	4,641,493	6,970,075	11,611,568
2038-43	6,885,728	5,169,619	12,055,347
2043-47	6,365,000	510,456	6,875,456
Total	\$ 28,951,242	\$ 27,671,370	\$ 56,622,612

B. Certificates of Participation

On November 1, 2011, the District issued \$8,395,000 of Refunding Certificates. The Certificates consist of lease payments bearing rates between 1.25%-5.50% with annual maturities from September 2012 through September 2034. The net proceeds of \$8,395,000 were used to refund all of the District's outstanding Certificates of Participation, originally issued in 2004.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded certificates are considered to be defeased, and the related liability has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. As of June 30, 2018, deferred balance on defeased debt of \$622,391 remain to be amortized.

The annual requirements to amortize certificates of participation outstanding as of June 30, 2018, are as follows:

B. Certificates of participation

Fiscal Year	Principal	Interest	Total
2018-19	\$ 275,000	\$ 352,110	\$ 627,110
2019-20	285,000	341,251	626,251
2020-21	295,000	329,138	624,138
2021-22	310,000	315,898	625,898
2022-23	320,000	301,000	621,000
2023-28	1,870,000	1,238,975	3,108,975
2028-33	2,425,000	667,563	3,092,563
2033-35	1,165,000	65,038	1,230,038
Total	\$ 6,945,000	\$ 3,610,973	\$ 10,555,973

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$1,410,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT VENTURES

The Perris Elementary School District participates in joint ventures under joint powers agreements with the Riverside Schools Insurance Authority (RSIA), the Riverside County Employer/Employee Partnership (REEP) for benefits, and the Riverside Schools Risk Management Authority (RSRMA). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The RSIA provides property and liability insurance coverage for its members, REEP provides health and welfare benefits coverage for its members, and RSRMA provides its members workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

Condensed financial information is as follows:

	RSIA Unaudited June 30, 2018	RSRMA Unaudited June 30, 2018	REEP Audited June 30, 2017
Total Assets	\$ 6,793,305	\$ 13,536,725	\$ 26,793,949
Total Liabilities	5,529,484	2,727,581	10,863,667
Total Net Position	<u>\$ 1,263,821</u>	<u>\$ 10,809,144</u>	<u>\$ 15,930,282</u>
Total Revenues	\$ 12,326,313	\$ 39,491,110	\$ 196,251,052
Total Expenses	11,199,103	38,850,735	193,858,422
Change in Net Position	<u>\$ 1,127,210</u>	<u>\$ 640,375</u>	<u>\$ 2,392,630</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 9 – 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 participated in the RSIA public entity risk pool 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 RSRMA public entity risk pool for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with REEP to provide employee medical, surgical and dental benefits.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished capital projects of approximately \$19.9 million to be paid from a combination of State and local funds.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2018.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS

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

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:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 49,908,033	\$ 15,289,255	\$ 2,199,666	\$ 5,923,292
CalPERS	12,850,159	4,281,150	2,290,338	2,733,447
Total	<u>\$ 62,758,192</u>	<u>\$ 19,570,405</u>	<u>\$ 4,490,004</u>	<u>\$ 8,656,739</u>

The details of each plan are as follows:

A. 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% 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.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Benefits Provided (continued)

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

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% 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 \$4,437,375.

Pension Liabilities, Pension Expenses, 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	\$ 49,908,033
State’s proportionate share of the net pension liability associated with the District	11,655,453
Total	<u>\$ 61,563,486</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

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 0.05396% and 0.05400%, resulting in a net decrease in the proportionate share of 0.0004%.

For the year ended June 30, 2018, the District recognized pension expense of \$5,923,292. In addition, the District recognized pension expense and revenue of \$526,143 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	\$ 4,437,375	\$ -
Net change in proportionate share of net pension liability	1,421,270	-
Difference between projected and actual earnings on pension plan investments	-	1,329,190
Changes of assumptions	9,246,046	-
Differences between expected and actual experience in the measurement of the total pension liability	184,565	870,476
Total	<u>\$ 15,289,255</u>	<u>\$ 2,199,666</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 outflows/(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. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability 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 7 years.

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 579,380
2020	2,520,548
2021	1,804,955
2022	503,288
2023	1,784,987
Thereafter	1,459,056
Total	<u>\$ 8,652,214</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions

Total pension liability for STRS 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
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

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

The 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.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 7.1%. 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 (7.1%) 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 73,280,837
Current discount rate (7.10%)	49,908,033
1% increase (8.10%)	30,939,419

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 \$2,439,178 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. 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 publically 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%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are 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 \$1,499,286.

Pension Liabilities, Pension Expenses, 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 \$12,850,159. 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 0.0726% and 0.0680%, resulting in a net increase in the proportionate share of 0.0046%.

For the year ended June 30, 2018, the District recognized pension expense of \$2,733,447. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 1,499,286	\$ -
Net change in proportionate share of net pension liability	-	2,139,043
Difference between projected and actual earnings on pension plan investments	444,528	-
Changes of assumptions	1,876,968	151,295
Differences between expected and actual experience in the measurement of the total pension liability	460,368	-
Total	<u>\$ 4,281,150</u>	<u>\$ 2,290,338</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 outflows/(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. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability 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 4 years.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 223,822
2020	750,671
2021	342,551
2022	(825,518)
2023	-
Thereafter	-
Total	<u>\$ 491,526</u>

Actuarial Methods and Assumptions

Total pension liability for 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%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

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 single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assests	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%. 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 18,906,702
Current discount rate (7.15%)	12,850,159
1% increase (8.15%)	7,825,750

C. 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 the Social Security as its alternative plan.

D. Payables to the Pension Plans

At June 30, 2018, the District reported payables of \$13,121 and \$5,933 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

PERRIS ELEMENTARY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information about the OPEB Plan

Plan description

The District's defined benefit OPEB plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided

The postretirement health plans and the District's obligation vary by employee group as described below.

Certificated and Management:

The annual maximum coverage provided by the District is up to the District single employee cost. The required service for eligible retirees is 12 years with a minimum age of 55.

Classified:

The annual maximum coverage provided by the District is up to the highest HMO rate. The required service for eligible retirees is 15 years with a minimum age of 55.

Employees covered by benefit terms

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	27
Active employees	417
Total	<u>444</u>

Medicare Premium Payment (MPP) Program

The Medicare Premium Payment Program is a cost-sharing multiple-employer other postemployment benefit plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers' Health Benefit Fund. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit 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 on a monthly basis.

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Total OPEB Liability

The District’s total OPEB liability of \$9,792,727 for the District Plan was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date. The District’s proportionate share of the net MPP Program OPEB liability of \$361,356 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

	District Plan	MPP Program
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	3.5 percent	N/A
Salary increases	2.75 percent	N/A
Healthcare cost trend rates	4.0 percent	3.58 percent
Retirees’ share of benefit-related costs	Retirees who continue with the District medical plan are offered a subsidy equal to the single employee cost	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	Total OPEB Liability
Balance at July 1, 2016	\$ 9,088,563
Changes for the year:	
Service cost	706,665
Interest	324,405
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	-
Benefit payments	(326,906)
Net changes	704,164
Balance at June 30, 2017	\$ 9,792,727

District Plan

The discount rate is 3.58% based on the Bond Buyer 20 Bond Index.

Mortality rates are based on the most recent rates used by CalPERS and CalSTRS for the pension valuations.

MPP Program

The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis, 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, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

PERRIS ELEMENTARY SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Total OPEB Liability (continued)

MPP Program (continued)

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among 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.

C. Changes in the Total OPEB Liability

	District Plan	MPP Program	Totals
Total OPEB liability	\$ 9,792,727	\$ 361,391	\$ 10,154,118
Plan fiduciary net position	-	35	35
District's net OPEB liability	<u>\$ 9,792,727</u>	<u>\$ 361,356</u>	<u>\$ 10,154,083</u>

Plan fiduciary net position as a percentage of the total OPEB liability

0.01%

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 percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease 2.50%	Discount Rate 3.50%	1% Increase 4.50%
District Plan	\$ 10,554,313	\$ 9,792,727	\$ 9,093,181
	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
MPP Program	\$ 400,046	\$ 361,356	\$ 323,721

PERRIS ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Changes in the Total OPEB Liability (continued)

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 percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease 3.00%	Healthcare Cost Trend Rates 4.00%	1% Increase 5.00%
District Plan	\$ 9,228,543	\$ 9,792,727	\$ 10,283,725
	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	\$ 326,540	\$ 361,356	\$ 395,824

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,067,166.

The amount reported as deferred outflows of resources related to OPEB of \$336,535, resulting from District contributions subsequent to the measurement date of the total OPEB liability will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions or other inputs	-	-
Contributions made after the measurement date	336,535	-
Total	\$ 336,535	\$ -

E. Payable to the OPEB Plan

At June 30, 2018, the District reported no payable for the outstanding OPEB contributions for the year ended June 30, 2018.

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Required Supplementary Information

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PERRIS ELEMENTARY SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 49,074,702	\$ 49,376,524	\$ 49,266,866	\$ (109,658)
Federal Sources	5,645,225	8,804,090	7,815,925	(988,165)
Other State Sources	4,288,300	5,839,983	5,962,839	122,856
Other Local Sources	(423,337)	(92,575)	91,585	184,160
Total Revenues	58,584,890	63,928,022	63,137,215	(790,807)
Expenditures				
Current:				
Certificated Salaries	28,384,604	29,945,277	30,472,096	(526,819)
Classified Salaries	7,058,544	7,084,962	7,044,553	40,409
Employee Benefits	12,957,061	14,153,480	14,012,705	140,775
Books and Supplies	4,701,163	6,354,616	3,462,330	2,892,286
Services and Other Operating Expenditures	8,004,021	5,841,454	5,899,507	(58,053)
Transfers of Indirect Costs	(574,593)	(521,949)	(680,432)	158,483
Capital Outlay	135,000	403,503	409,241	(5,738)
Intergovernmental	573,761	479,002	452,272	26,730
Debt Service	-	200,000	200,000	-
Total Expenditures	61,239,561	63,940,345	61,272,272	2,668,073
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,654,671)	(12,323)	1,864,943	1,877,266
Other Financing Sources and Uses				
Interfund Transfers In	-	54,878	54,878	-
Interfund Transfers Out	(692,296)	(266,794)	(57,352)	209,442
Total Other Financing Sources and Uses	(692,296)	(211,916)	(2,474)	209,442
Net Change in Fund Balance	(3,346,967)	(224,239)	1,862,469	2,086,708
Fund Balance, July 1, 2017	12,678,386	12,678,386	12,678,386	-
Fund Balance, June 30, 2018	\$ 9,331,419	\$ 12,454,147	\$ 14,540,855	\$ 2,086,708

PERRIS ELEMENTARY SCHOOL DISTRICT
Budgetary Comparison Schedule – Charter School Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF Sources	\$ 8,832,624	\$ 8,822,486	\$ 8,699,739	\$ (122,747)
Federal Sources	528,700	-	-	-
Other State Sources	440,878	633,834	467,821	(166,013)
Other Local Sources	52,500	52,500	182,992	130,492
Total Revenues	9,854,702	9,508,820	9,350,552	(158,268)
Expenditures				
Current:				
Certificated Salaries	3,238,615	764,664	765,287	(623)
Classified Salaries	675,583	611,050	592,099	18,951
Employee Benefits	1,498,464	726,729	478,897	247,832
Books and Supplies	1,259,275	608,330	227,679	380,651
Services and Other Operating Expenditures	1,377,510	4,272,182	4,102,191	169,991
Transfers of Indirect Costs	-	206,668	359,663	(152,995)
Capital Outlay	85,000	1,785,273	690,068	1,095,205
Intergovernmental	235,368	-	-	-
Total Expenditures	8,369,815	8,974,896	7,215,884	1,759,012
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,484,887	533,924	2,134,668	1,600,744
Other Financing Sources and Uses				
Interfund Transfers In	243,729	-	-	-
Interfund Transfers Out	-	(54,878)	(54,878)	-
Total Other Financing Sources and Uses	243,729	(54,878)	(54,878)	-
Net Change in Fund Balance	1,728,616	479,046	2,079,790	1,600,744
Fund Balance, July 1, 2017	8,594,724	8,594,724	8,594,724	-
Fund Balance, June 30, 2018	\$ 10,323,340	\$ 9,073,770	\$ 10,674,514	\$ 1,600,744

PERRIS ELEMENTARY SCHOOL DISTRICT

*Budgetary Comparison Schedule – Child Development Fund
For the Fiscal Year Ended June 30, 2018*

	<u>Budgeted Amounts</u>		<u>Actual*</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other State Sources	\$ 1,442,343	\$ 1,487,343	\$ 1,638,358	\$ 151,015
Other Local Sources	142,500	142,500	187,381	44,881
Total Revenues	<u>1,584,843</u>	<u>1,629,843</u>	<u>1,825,739</u>	<u>195,896</u>
Expenditures				
Current:				
Certificated Salaries	117,492	120,430	123,440	(3,010)
Classified Salaries	979,426	973,860	984,008	(10,148)
Employee Benefits	495,503	512,018	509,164	2,854
Books and Supplies	21,500	74,486	58,088	16,398
Services and Other Operating Expenditures	144,113	122,240	103,474	18,766
Transfers of Indirect Costs	98,103	98,103	102,240	(4,137)
Total Expenditures	<u>1,856,137</u>	<u>1,901,137</u>	<u>1,880,414</u>	<u>20,723</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(271,294)</u>	<u>(271,294)</u>	<u>(54,675)</u>	<u>216,619</u>
Other Financing Sources and Uses				
Interfund Transfers In	<u>266,794</u>	<u>266,794</u>	<u>57,352</u>	<u>(209,442)</u>
Total Other Financing Sources and Uses	<u>266,794</u>	<u>266,794</u>	<u>57,352</u>	<u>(209,442)</u>
Net Change in Fund Balance	(4,500)	(4,500)	2,677	7,177
Fund Balance, July 1, 2017	<u>21,098</u>	<u>21,098</u>	<u>21,098</u>	<u>-</u>
Fund Balance, June 30, 2018	<u>\$ 16,598</u>	<u>\$ 16,598</u>	<u>\$ 23,775</u>	<u>\$ 7,177</u>

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS				
District's proportion of the net pension liability	<u>0.0540%</u>	<u>0.0540%</u>	<u>0.0550%</u>	<u>0.0510%</u>
District's proportionate share of the net pension liability	<u>\$ 49,908,033</u>	<u>\$ 43,675,740</u>	<u>\$ 37,028,200</u>	<u>\$ 29,804,162</u>
State's proportionate share of the net pension liability associated with the District	<u>11,655,453</u>	<u>24,867,480</u>	<u>19,583,783</u>	<u>17,997,221</u>
Totals	<u>\$ 61,563,486</u>	<u>\$ 68,543,220</u>	<u>\$ 56,611,983</u>	<u>\$ 47,801,383</u>
District's covered-employee payroll	<u>\$ 29,036,041</u>	<u>\$ 25,985,294</u>	<u>\$ 25,658,131</u>	<u>\$ 24,325,503</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>171.88%</u>	<u>168.08%</u>	<u>144.31%</u>	<u>122.52%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS				
District's proportion of the net pension liability	<u>0.0726%</u>	<u>0.0680%</u>	<u>0.0672%</u>	<u>0.0664%</u>
District's proportionate share of the net pension liability	<u>\$ 12,850,159</u>	<u>\$ 13,430,042</u>	<u>\$ 9,905,346</u>	<u>\$ 7,538,017</u>
District's covered-employee payroll	<u>\$ 9,226,685</u>	<u>\$ 8,495,037</u>	<u>\$ 10,906,575</u>	<u>\$ 10,756,109</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>139.27%</u>	<u>158.09%</u>	<u>90.82%</u>	<u>70.08%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS				
Contractually required contribution	\$ 4,437,375	\$ 3,652,734	\$ 2,788,222	\$ 2,278,442
Contributions in relation to the contractually required contribution	<u>4,437,375</u>	<u>3,652,734</u>	<u>2,788,222</u>	<u>2,278,442</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 30,751,040</u>	<u>\$ 29,036,041</u>	<u>\$ 25,985,294</u>	<u>\$ 25,658,131</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS				
Contractually required contribution	\$ 1,499,286	\$ 1,281,402	\$ 1,006,407	\$ 1,283,813
Contributions in relation to the contractually required contribution	<u>1,499,286</u>	<u>1,281,402</u>	<u>1,006,407</u>	<u>1,283,813</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 9,653,506</u>	<u>\$ 9,226,685</u>	<u>\$ 8,495,037</u>	<u>\$ 10,906,575</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

PERRIS ELEMENTARY SCHOOL DISTRICT

*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018*

Last 10 Fiscal Years*

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 706,665
Interest	324,405
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	-
Benefit payments	<u>(326,906)</u>
Net change in total OPEB liability	704,164
Total OPEB liability - beginning	<u>9,088,563</u>
Total OPEB liability - ending	<u><u>\$ 9,792,727</u></u>
Covered-employee payroll	<u>\$ 41,498,551</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>23.60%</u>

Notes to Schedule:
No changes to noted.

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

PERRIS ELEMENTARY SCHOOL DISTRICT*Schedule of Changes in the District's Total OPEB Liability and Related Ratios – MPP Program
For the Fiscal Year Ended June 30, 2018**(Dollars in Thousands, except for District's proportionate share)*

	2017
Total OPEB liability	
Interest	\$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
Net change in total OPEB liability	(47,282)
Total OPEB liability - beginning	468,031
Total OPEB liability - ending	\$ 420,749
Plan fiduciary net position	
Contributions - employer	\$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
Net change in plan fiduciary net position	31
Plan fiduciary net position - beginning	10
Plan fiduciary net position - ending	\$ 41
Net OPEB liability	\$ 420,708
District's proportionate share of net OPEB liability	\$ 361,356
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%
Covered-employee payroll	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A

Notes to Schedule:

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.

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

PERRIS ELEMENTARY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer’s covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer’s covered-employee payroll
- The pension plan’s fiduciary net position as a percentage of the total pension liability

Schedule of Pension Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer’s contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer’s actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer’s actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

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

This schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents information of the measurement date of the net OPEB liability.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2018, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

Appropriations Category	General Fund	Charter School Fund	Child Development Fund
Certificated Salaries	\$ 526,819	\$ 623	\$ 3,010
Classified Salaries	-	-	10,148
Services and Other Operating Expenditures	58,053	-	-
Transfers of Indirect Costs	-	152,995	4,137

Supplementary Information

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PERRIS ELEMENTARY SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2018

The Perris Elementary School District was established as a school district in 1893. The District encompasses approximately 55 square miles in the city of Perris and other unincorporated areas of Riverside County. There were no changes in District boundaries during this year. The District operates seven elementary schools (kindergarten through grade 6). Beginning in 2011-12, the District opened the Innovative Horizons Charter School (Charter No. 1294), currently operating classes in kindergarten through grade 8.

GOVERNING BOARD

Member	Office	Term Expires
Natalie Vasquez	President	November, 2018
Jose "Pepe" Garcia	Member	November, 2018
Thomas Elliot	Member	November, 2020
Monica Martin	Member	November, 2018
Virniecia Green-Jordan	Member	November, 2020

DISTRICT ADMINISTRATORS

Jean Marie Fréy,
Superintendent

Dr. Jason Angle,
Assistant Superintendent, Educational Services

Dr. Josie Jackson,
Assistant Superintendent, Human Resources

Francine M. Story,
Chief Business Official

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

PERRIS ELEMENTARY SCHOOL DISTRICT

	<u>Second Period Report</u>	<u>Annual Report</u>
	Certificate No. (AB483244)	Certificate No. (F691A2222)
Regular ADA:		
Transitional Kindergarten through Third	2,748.55	2,746.87
Fourth through Sixth	<u>2,030.86</u>	<u>2,025.75</u>
Total Regular ADA	<u>4,779.41</u>	<u>4,772.62</u>
Special Education, Nonpublic, Nonsectarian Schools:		
Fourth through Sixth	<u>0.64</u>	<u>0.52</u>
Total ADA	<u><u>4,780.05</u></u>	<u><u>4,773.14</u></u>

INNOVATIVE HORIZONS CHARTER SCHOOL*

	<u>Second Period Report</u>	<u>Annual Report</u>
	Certificate No. (175D626C)	Certificate No. (1DB0BCFF)
Classroom-based ADA:		
Transitional Kindergarten through Third	365.32	363.68
Fourth through Sixth	279.29	278.93
Seventh through Eighth	<u>230.79</u>	<u>230.38</u>
Total Classroom-based ADA	<u><u>875.40</u></u>	<u><u>872.99</u></u>

**All charter school ADA is generated through classroom-based instruction.*

PERRIS ELEMENTARY SCHOOL DISTRICT*Schedule of Instructional Time**For the Fiscal Year Ended June 30, 2018*

PERRIS ELEMENTARY SCHOOL DISTRICT

<u>Grade Level</u>	<u>Required Minutes</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	37,200	180	Complied
Grade 1	50,400	55,200	180	Complied
Grade 2	50,400	55,200	180	Complied
Grade 3	50,400	55,200	180	Complied
Grade 4	54,000	55,200	180	Complied
Grade 5	54,000	55,200	180	Complied
Grade 6	54,000	55,200	180	Complied

INNOVATIVE HORIZONS CHARTER SCHOOL

<u>Grade Level</u>	<u>Required Minutes</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	64,720	176	Complied
Grade 1	50,400	62,080	176	Complied
Grade 2	50,400	62,080	176	Complied
Grade 3	50,400	62,080	176	Complied
Grade 4	54,000	62,080	176	Complied
Grade 5	54,000	62,080	176	Complied
Grade 6	54,000	62,080	176	Complied
Grade 7	54,000	62,080	176	Complied
Grade 8	54,000	62,080	176	Complied

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2018

General Fund	(Budget) 2019 ³	2018	2017	2016
Revenues and other financing sources	\$ 65,121,392	\$ 63,192,093	\$ 59,651,781	\$ 57,477,818
Expenditures	64,857,230	61,272,272	58,301,212	50,130,268
Other uses and transfers out	194,970	57,352	634,529	5,058,427
Total outgo	65,052,200	61,329,624	58,935,741	55,188,695
Change in fund balance (deficit)	69,192	1,862,469	716,040	2,289,123
Ending fund balance	\$ 14,610,047	\$ 14,540,855	\$ 12,678,386	\$ 11,962,346
Available reserves ¹	\$ 8,630,630	\$ 10,786,688	\$ 2,946,788	\$ 6,507,595
Available reserves as a percentage of total outgo	13.3%	17.6%	5.0%	11.8%
Total long-term debt	\$ 109,741,549	\$ 110,728,590	\$ 105,062,720	\$ 81,052,866
Average daily attendance at P-2 ²	4,774	4,780	4,766	4,744

The General Fund balance has increased by \$2,578,509 over the past two years. The fiscal year 2018-19 adopted budget projects an increase of \$69,192. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred no operating deficits in the past three years, and is anticipating an operating surplus during the 2018-19 fiscal year. Long-term debt has increased by \$29,675,724 over the past two years.

Average daily attendance has increased by 36 over the past two years. A decrease of 6 ADA is anticipated during fiscal year 2018-19.

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

² Excludes Charter School ADA.

³ Revised Budget September, 2018.

PERRIS ELEMENTARY SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2018*

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

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
National School Lunch	10.555	13523	\$ 3,572,624	
School Breakfast Program	10.553	13390	48,550	
Especially Needy Breakfast	10.553	13526	606,060	
USDA - Donated Foods	10.555	N/A	346,205	
Total Child Nutrition Cluster				\$ 4,573,439
Total U.S. Department of Agriculture				4,573,439
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		5,748,415
Title II, Part A, Supporting Effective Instruction	84.367	14341		352,692
Title III, Limited English Proficiency	84.365	14346		629,601
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster (IDEA):				
Basic Local Assistance, Part B	84.027	13379	680,828	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	1,416	
Preschool Grants, Part B	84.173	13430	15,482	
Preschool Local Entitlement, Part B	84.027A	13682	57,846	
Preschool Staff Development, Part B	84.173A	13431	160	
Total Special Education Cluster (IDEA)				755,732
Total U.S. Department of Education				7,486,440
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Medicaid Cluster:				
Medi-Cal Billing	93.778	10013	69,938	
Medi-Cal Administrative Activities	93.778	10060	95,158	
Total Medicaid Cluster				165,096
Total U.S. Department of Health & Human Services				165,096
Total Expenditures of Federal Awards				\$ 12,224,975

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

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2018

<u>Charter School</u>	<u>Included in Financial Statements?</u>
Innovative Horizons Charter (No. 1294)	Yes

PERRIS ELEMENTARY SCHOOL DISTRICT

*Schedule of Revenues and Expenditures – Riverside County Commission of
Children and Families Grants*

For the Fiscal Year Ended June 30, 2018

	<u>Grant No. 14200 SN</u> July 1, 2016 to June 30, 2017
Revenues	
Grant revenues	\$ <u>60,000</u>
Expenditures	
Personnel services	52,798
Materials & supplies	459
Other services & operating expenses	<u>6,743</u>
Total Expenditures	<u>60,000</u>
District contributions required	<u>\$ -</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 12,389,364
Differences between Federal Revenues and Expenditures:		
Medi-Cal Billing Option	93.778	(102,008)
Medi-Cal Administrative Activities	93.778	(62,381)
Total Schedule of Expenditures of Federal Awards		<u>\$ 12,224,975</u>

PERRIS ELEMENTARY SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter is included in the District audit.

Schedule of Revenues and Expenditures – Riverside County Commission of Children and Families Grants

These schedules present the financial information of the School Readiness Grants received from the Riverside County Commission of Families and Children.

Other Independent Auditors' Reports

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

Governing Board
Perris Elementary School District
Perris, 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 Perris Elementary School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Perris Elementary School District's basic financial statements, and have issued our report thereon dated October 4, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Perris 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 the Perris Elementary School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Perris 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 Perris Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

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Murrieta, California
October 4, 2018



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Perris Elementary School District
Perris, California

Report on State Compliance

We have audited Perris Elementary School District's compliance with the types of compliance requirements described in the 2017-18 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 Perris Elementary School District's state government programs as noted on the following page for the fiscal year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Perris Elementary School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Perris 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 state program. However, our audit does not provide a legal determination of Perris Elementary School District's compliance.

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

Table with 2 columns: Description, Procedures Performed. Rows include: Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (Not Applicable), Continuation Education (Not Applicable), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable

Unmodified Opinion on Compliance with State Programs

In our opinion, Perris Elementary School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.



Murrieta, California
October 4, 2018



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

Governing Board
Perris Elementary School District
Perris, California

Report on Compliance for Each Major Federal Program

We have audited Perris Elementary School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Perris Elementary School District's major federal programs for the year ended June 30, 2018. Perris Elementary School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Perris 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 Perris 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 Perris 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 the District's internal control over compliance.

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

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

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Murrieta, California
October 4, 2018

Findings and Questioned Costs

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PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None noted</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None noted</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>84.010</u> <u>Title I, Part A, Basic Grants Low-Income and Neglected</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 auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2017-18.

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2017-18.

PERRIS ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

There were no state award findings or questioned costs in 2017-18.

PERRIS ELEMENTARY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding 2017-001: CALPADS Unduplicated Pupil Counts</i></p>	<p>Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:</p> <ul style="list-style-type: none"> • Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (EC sections 2574(b)(2) and 42238.02(b)(1)). • Divided by total enrollment in the LEA (EC sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day. <p>During our testing of the free and reduced price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted that one student was reported as qualifying for free or reduced priced meals, but did not qualify based on the alternative form for the 2016-17 fiscal year. This is due to an isolated error that occurred during the review of applications.</p>	<p>40000</p>	<p>We recommend that procedures implemented are followed by the district to ensure that student eligibility is correct.</p>	<p>Implemented.</p>

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APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN



BAM

**CALIFORNIA
ENDORSEMENT TO
MUNICIPAL BOND
INSURANCE POLICY
NO.**

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

Authorized Officer