

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

## PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 15, 2019

NEW ISSUE - BOOK-ENTRY ONLY  
BANK QUALIFIED

INSURED RATING: S&P: "AA"  
UNDERLYING RATING: S&P: "A"  
See "RATINGS"

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. The Lease Agreement is a "qualified tax-exempt obligation" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS."*

**\$6,500,000\***

### Adelanto Elementary School District Certificates of Participation

#### (District Administrative Facility Lease Refinancing), Series 2019

**Dated: Date of Delivery**

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

**Authority for Execution and Delivery.** The certificates of participation captioned above (the "Certificates") are being executed and delivered under a Trust Agreement dated as of December 1, 2019 (the "Trust Agreement"), among the Adelanto Elementary School District (the "District"), the California Municipal Finance Authority (the "Authority") and Zions Bancorporation, National Association, as trustee (the "Trustee"). See "THE CERTIFICATES – Authority for Execution and Delivery."

**Purpose.** The Certificates are being executed and delivered to (i) prepay and defease certain outstanding certificates of participation that were executed and delivered in 2007 for the purpose of financing the acquisition and construction of certain improvements and the acquisition of certain items of equipment for a new district administrative facility, (ii) provide a debt service reserve through the purchase of a reserve fund policy and (iii) pay certain costs of executing and delivering the Certificates. See "PLAN OF FINANCING."

**Security for the Certificates.** The Certificates evidence and represent direct, undivided fractional interests in certain payments (the "Lease Payments"), to be made by the District under a Lease Agreement dated as of December 1, 2019 (the "Lease Agreement"), between the District and the Authority, under which the Authority will lease certain real property to the District in consideration of the payment by the District of the Lease Payments. The Authority, for the benefit of the Owners of the Certificates, has assigned, among other things, its right to receive Lease Payments to the Trustee. In addition, a Reserve Fund will be established and available if there are insufficient amounts in the Lease Payment Fund to make payment on the Certificates. See "SECURITY FOR THE CERTIFICATES."

**Terms of the Certificates.** The Certificates will be executed and delivered in denominations of \$5,000 principal amount or integral multiples thereof. Interest with respect to the Certificates accrues from their date of delivery and is payable semiannually on September 1 and March 1, commencing March 1, 2020. See "THE CERTIFICATES – General Certificate Terms."

**Book-Entry Only.** The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive physical certificates representing their interest in the Certificates. The principal and premium (if any) on and interest with respect to the Certificates will be payable by the Trustee to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the Certificates. See "THE CERTIFICATES – Book-Entry System."

**Prepayment.** The Certificates are subject to optional prepayment and extraordinary mandatory prepayment from the net proceeds of insurance or condemnation proceedings prior to their scheduled payment dates. See "THE CERTIFICATES – Prepayment of the Certificates."

**Certificate Insurance.** The scheduled payment of principal 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. See "MUNICIPAL BOND INSURANCE POLICY."



This cover page contains information for general reference only, and is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors that should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the Certificates. Capitalized terms used on this cover page and not otherwise defined have the meanings set forth in this Official Statement.

#### MATURITY SCHEDULE

See inside front cover

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION 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.

The Certificates are offered when, as and if sold, executed, delivered to and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, as Special Counsel. Certain legal matters will be passed upon for the District by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. It is anticipated that the Certificates in book-entry form, will be available for delivery to DTC in New York, New York, on or about December 18, 2019.

STIFEL

The date of this Official Statement is December \_\_\_\_, 2019.

\* Preliminary; subject to change.

## MATURITY SCHEDULE\*

(Base CUSIP†: \_\_\_\_\_)

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u>
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				

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\* Preliminary; subject to change.

† CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

# **ADELANTO ELEMENTARY SCHOOL DISTRICT**

## **BOARD OF TRUSTEES**

Christine Turner, *President*  
Holly Eckes, *Clerk*  
Christina Bentz, *Member*  
Ammie Hines, *Member*  
La Shawn Love-French, *Member*

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## **DISTRICT ADMINISTRATION**

Amy Nguyen-Hernandez, Ed.D., *Superintendent*  
Ajay Mohindra, *Chief Business Officer*  
Bryan Verley, *Director of Fiscal Services*

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## **PROFESSIONAL SERVICES**

### **FINANCIAL ADVISOR**

California Financial Services  
*Ladera Ranch, California*

### **SPECIAL COUNSEL AND DISCLOSURE COUNSEL**

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

### **TRUSTEE AND PRIOR TRUSTEE**

Zions Bancorporation, National Association  
*Los Angeles, California*

### **ESCROW VERIFICATION**

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

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Certificates.

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

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Limited Scope of Information.** The District has obtained certain information set forth herein from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described in this Official Statement since the date hereof.

All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given them in APPENDIX A.

**Involvement of the Underwriter.** 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, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of the information.

**Stabilization of Prices.** In connection with this offering, the Underwriter may over-allot or effect transactions that 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 others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

**NO REGISTRATION.** THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

**District Internet Site.** The District maintains a website, but the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

**Certificate Insurance Policy.** Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Certificates or the advisability of investing in the Certificates. 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 “MUNICIPAL BOND INSURANCE POLICY” and “APPENDIX I - Specimen Municipal Bond Insurance Policy.”

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## OFFICIAL STATEMENT

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**\$6,500,000\***  
**Adelanto Elementary School District**  
**Certificates of Participation**  
**(District Administrative Facility Lease Refinancing), Series 2019**

The purpose of this Official Statement (which includes the cover page, inside cover page and attached appendices) is to provide information concerning the execution and delivery of the certificates of participation captioned above (the “**Certificates**”), evidencing and representing direct, undivided fractional interests of the registered owners thereof in certain lease payments (as described in this Official Statement) to be made by the Adelanto Elementary School District (the “**District**”) to the California Municipal Finance Authority (the “**Authority**”).

*Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.*

*Capitalized terms used but not defined in this Official Statement have the meanings set forth in APPENDIX A.*

### INTRODUCTION

**The District.** The District was formed in 1913. The District provides public education within a 330 square mile area including all of the City of Adelanto (the “**City**”) and a portion of the City of Victorville.

The District currently operates eight kindergarten through fifth grade elementary schools, two kindergarten through eighth grade elementary-middle schools and two sixth through eighth grade middle schools. The District enrollment for fiscal year 2019-20 is approximately 8,260 students.

For selected financial, economic and demographic information about the District, see “APPENDIX B – General and Financial Information About the District.”

The District’s audited financial statements for the fiscal year ended June 30, 2018, are attached as APPENDIX C.

**Authority for Execution and Delivery.** The Certificates are being executed and delivered under a Trust Agreement dated as of December 1, 2019 (the “**Trust Agreement**”), among the District, the Authority and Zions Bancorporation, National Association, as trustee (the “**Trustee**”).

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*\* Preliminary; subject to change.*

**Purposes.** The Certificates are being executed and delivered to:

- (i) refinance the District's remaining lease payment obligations under a Lease Agreement dated as of February 1, 2007 (the "**2007 Lease Payments**"), by and between the District and the Authority, and cause the current refunding of the outstanding certificates of the District captioned "\$9,495,000 Certificates of Participation (District Administrative Facility), Series 2007," which were issued on February 7, 2007, and are currently outstanding in the aggregate principal amount of \$8,135,000 (the "**2007 Certificates**");
- (ii) provide a debt service reserve through the purchase of a reserve fund policy; and
- (iii) pay certain costs of executing and delivering the Certificates.

See "PLAN OF FINANCING."

**Security for the Certificates.** In order to provide funds to refinance the 2007 Lease Payments, the Authority and the District have entered into a Site and Facilities Lease dated as of December 1, 2019 (the "**Site Lease**"), pursuant to which the District will lease certain real property and the improvements thereon (the "**Leased Property**") to the Authority, and the Authority and the District have entered into a Lease Agreement dated as of December 1, 2019 (the "**Lease Agreement**"), under which the Authority will lease the Leased Property back to the District in consideration of the payment by the District of semiannual lease payments (the "**Lease Payments**"). See "THE LEASED PROPERTY."

The Authority will assign its right to receive the Lease Payments to the Trustee under an Assignment Agreement dated as of December 1, 2019 (the "**Assignment Agreement**"), between the Authority and the Trustee, in consideration for which the Trustee has agreed to execute and deliver the Certificates. The Certificates evidence and represent direct, undivided fractional interests of the Certificate Owners in the Lease Payments. See "SECURITY FOR THE CERTIFICATES."

**Reserve Fund.** A Reserve Fund will be established as additional security for the Certificates, and will be available if there are insufficient amounts in the Lease Payment Fund to make payment on the Certificates. Upon delivery of the Certificates, the District will deposit the reserve fund policy (the "**Reserve Policy**") issued by Build America Mutual Assurance Company (including its successors and assigns, "**BAM**") with the Trustee in satisfaction of its obligation to fund the Reserve Fund. See "SECURITY FOR THE CERTIFICATES – Reserve Fund."

**Certificate Insurance Policy.** Concurrently with the execution and delivery of the Certificates, BAM 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 APPENDIX I to this Official Statement.



**Prepayment.** The Certificates are subject to optional prepayment, extraordinary mandatory prepayment from the net proceeds of insurance or condemnation proceedings prior to their scheduled payment dates. See “THE CERTIFICATES – Prepayment of the Certificates.”

**Abatement.** The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the District’s use and possession of the Leased Property or any portion thereof. If the Lease Payments are abated under the Lease Agreement, the Certificate Owners will receive less than the full amount of principal of and interest represented by the Certificates. To the extent proceeds of rental interruption insurance are available, Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See “SECURITY FOR THE CERTIFICATES – Abatement” and “RISK FACTORS – Abatement.”

**Legal Opinion.** Upon delivery of the Certificates, Jones Hall, A Professional Law Corporation, San Francisco, California (“**Special Counsel**”) will release its final approving legal opinion with respect to the Certificates, regarding the validity and tax-exempt status of the Certificates, in the form attached hereto as APPENDIX E.

**Risk Factors.** The Certificates are payable only from Lease Payments made by the District to the Authority and assigned to the Trustee under the Trust Agreement. For a discussion of some of the risks associated with the purchase of the Certificates, see “RISK FACTORS.”

**Limited Obligations.** NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION 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.

## PLAN OF FINANCING

### Prepayment of 2007 Certificates

The 2007 Certificates were executed and delivered on February 7, 2007 in the original aggregate principal amount of \$9,495,000. In connection with the 2007 Certificates, the District entered into a Lease Agreement dated as of February 1, 2007, between the District and the Public Property Financing Corporation of California (the "**2007 Lease Agreement**"). The 2007 Certificates evidence and represent the lease payments which are payable by the District under the 2007 Lease Agreement (the "**2007 Lease Payments**"). The outstanding 2007 Lease Payments and 2007 Certificates are subject to prepayment on any date on or after September 1, 2017, at a prepayment price (the "**Prepayment Price**") equal to 100% of the principal components of the 2007 Lease Payments to be prepaid, plus accrued interest on such prepaid principal components to the prepayment date.

All of the outstanding 2007 Certificates (the "**Refunded 2007 Certificates**") will be refunded with Certificate proceeds, as identified in the following table. The Refunded 2007 Certificates will be called for prepayment in full on January 2, 2020\* (the "**Prepayment Date**") at the Prepayment Price. There will be no 2007 Certificates remaining outstanding after the Prepayment Date.

#### Identification of Refunded 2007 Certificates

<b>Maturities to be Refunded (September 1)</b>	<b>CUSIP†</b>	<b>Principal Amount Prepaid</b>	<b>Prepayment Price (% of Par Amount Redeemed)</b>
2020	00679L AK9	\$245,000	100.0%
2021	00679L AL7	265,000	100.0
2026 <sup>T</sup>	00679L AM5	1,705,000	100.0
2036 <sup>T</sup>	00679L AN3	5,920,000	100.0
TOTAL	--	\$8,135,000	--

<sup>T</sup> Term Certificate.

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

### Deposits in Prepayment Fund

The District will deliver certain proceeds of the Certificates, together with other available funds, to Zions Bancorporation, National Association, as Trustee for the 2007 Certificates (the "**Prior Trustee**"), for deposit into a Prepayment Fund (the "**Prepayment Fund**") established under those certain Irrevocable Refunding Instructions (the "**Refunding Instructions**"), given by the District to the Prior Trustee. The Prior Trustee will use such amounts to prepay the Refunded 2007 Certificates in full on the Prepayment Date.

As a result of the deposit of funds with the Prior Trustee on the date of execution and delivery of the Certificates, the Refunded 2007 Certificates and the 2007 Lease Payments will be prepaid and legally defeased and will be payable solely from amounts held for that purpose under

\* Preliminary; subject to change.

the Refunding Instructions, and will cease to be secured by the 2007 Lease Payments due pursuant to the 2007 Lease Agreement relating to the Refunded 2007 Certificates.

*Amounts held by the Prior Trustee in the Prepayment Fund are pledged solely to the payment of the Refunded 2007 Certificates, and will not be available for the payment of principal and interest represented by the Certificates.*

Sufficiency of the amounts and investments held in the Prepayment Fund for the purpose of paying the principal, interest and Prepayment Price with respect to the Refunded 2007 Certificates will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the “**Verification Agent**”). See “ESCROW VERIFICATION.”

### **Estimated Sources and Uses of Funds**

The proceeds to be received from the sale of the Certificates, and related amounts, are anticipated to be applied as follows:

#### SOURCES

Principal Amount of Certificates

*Plus/Less:* Net Original Issue Premium/(Discount)

Amounts Related to 2007 Certificates \_\_\_\_\_

*Total Sources*

#### USES

Deposit into Prepayment Fund [1]

Deposit into Costs of Issuance Fund [2]

Underwriter's Discount \_\_\_\_\_

*Total Uses*

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[1] To be used to prepay the 2007 Lease Payments on the Redemption Date. See “– Refinancing of 2007 Lease Payments.”

[2] Includes fees of Special Counsel, Disclosure Counsel, municipal advisor, rating agency, Trustee and Escrow Agent; Policy premium; Reserve Policy premium; title insurance premium; printing costs; and other costs of executing and delivering the Certificates.

## THE CERTIFICATES

*This section provides summaries of the Certificates and certain provisions of the Trust Agreement. See “APPENDIX A – Summary of Principal Legal Documents” for a more complete summary of the Trust Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.*

### Authority for Execution and Delivery

The Certificates are being executed and delivered under the Trust Agreement, a resolution of the Board of Trustees of the District adopted on November 12, 2019, and a resolution of the Authority adopted on November 15, 2019. Under these resolutions, the Certificates may be executed and delivered in a maximum principal amount of \$7,500,000.

### General Certificate Terms

**Certificate Terms.** The Certificates will be dated as of the date of original delivery, will bear interest at the rates per annum and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement. The Certificates will be executed and delivered in fully registered form without coupons in denominations of \$5,000 principal amount or any integral multiple of \$5,000, except that no Certificate will represent principal payable in more than one year.

Interest with respect to the Certificates accrues from their date of delivery and is payable semiannually on March 1 and September 1, commencing March 1, 2020 (each, an “**Interest Payment Date**”).

**Book-Entry Only System.** The Certificates, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“**DTC**”). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments with respect to the Certificates will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See “– Book-Entry System” below.

**Calculation of Interest.** Interest represented by the Certificates will be payable from the Interest Payment Date next preceding the date of execution thereof, unless:

- (a) it is executed following a Record Date and on or before the next succeeding Interest Payment Date, in which event interest represented thereby is payable from such Interest Payment Date,
- (b) it is executed on or before the first Record Date, in which event interest represented thereby is payable from the Closing Date, or
- (c) as of the date of any Certificate, interest represented by such Certificate is in default, in which event interest represented thereby will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to such Certificate.

Interest represented by the Certificates is payable on each Interest Payment Date to and including the date of maturity or prepayment, whichever is earlier.

Such interest represents the portion of Lease Payments designated as interest and coming due on each of the respective Interest Payment Dates. The share of the portion of Lease Payments designated as interest with respect to any Certificate will be computed by multiplying the portion of Lease Payments designated as principal represented by such Certificate by the rate of interest represented by such Certificate (on the basis of a 360-day year consisting of twelve 30-day months).

**Record Date.** The Trust Agreement defines the “Record Date” with respect to the Certificates as the close of business on the 1st day of the month in which each Interest Payment Date occurs, whether or not such 1st day is a Business Day.

**Payments of Interest and Principal.** Payment of interest represented by any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the applicable Interest Payment Date to such Owner, by first class mail postage prepaid, at such Owner’s address as it appears on the Registration Books.

At the written request of the Owner of Certificates in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee prior to the Record Date preceding any Interest Payment Date, the Trustee will pay interest represented by such Certificates coming due and payable on such Interest Payment Date by wire transfer in immediately available funds to such account in the United States as is specified in such written request.

The principal, interest and prepayment premium, if any, represented by any Certificate at maturity or upon prepayment are payable in lawful money of the United States of America upon surrender of such Certificate at the Office of the Trustee.

*Notwithstanding the foregoing, while the Certificates are held in the book-entry only system of DTC, all such payments of principal, premium (if any) of, and interest with respect to, the Certificates will be made to Cede & Co. as the registered owner of the Certificates, for subsequent disbursement to Participant and beneficial owners. See “APPENDIX G – BOOK-ENTRY PROVISIONS.”*

### **Prepayment of the Certificates\***

**Optional Prepayment.** The Certificates maturing on or before September 1, 2027, are not subject to optional prepayment before their respective stated maturities.

The Certificates maturing on or after September 1, 2028, are subject to prepayment prior to their respective stated maturities, at the option of the District, in whole, or in part among maturities on such basis as designated by the District and by lot within any one maturity, on September 1, 2027, or on any date thereafter, upon 45 days’ prior written notice to the Trustee and payment of a prepayment price equal to 100% of the principal amount to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

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\* Preliminary; subject to change.

**Extraordinary Mandatory Prepayment From Net Proceeds of Insurance or Condemnation.** The Certificates are subject to extraordinary mandatory prepayment, in whole, on any Business Day, or in part on any Interest Payment Date among maturities on a pro rata basis and by lot within a maturity, from the Net Proceeds of insurance or eminent domain proceedings credited towards the prepayment of the Lease Payments under the Lease Agreement and under the Trust Agreement, 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.

Notwithstanding the provisions of the previous paragraph, if some but not all the Term Certificate is prepaid as described in “– Optional Prepayment” or “– Extraordinary Mandatory Prepayment from Net Proceeds of Insurance or Condemnation,” the aggregate principal amount of the Term Certificate to be prepaid in each year thereafter will be reduced by the aggregate principal amount of the Term Certificate so prepaid, to be allocated among sinking fund installments on a pro rata basis in integral multiples of \$5,000 such that the resulting amount of principal represented by the Term Certificate subject to prepayment on any date is equal to the aggregate principal components of the Lease Payments coming due and payable on such date.

**Selection of Certificates for Prepayment.** Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all Outstanding Certificates of any maturity are called for prepayment, the Trustee will select Certificates of such maturity for prepayment by lot. For the purposes of such selection, Certificates will be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid. The Trustee will promptly notify the District and the Authority in writing of the Certificates or portions thereof so selected for prepayment.

**Notice of Prepayment.** When optional prepayment or extraordinary mandatory prepayment from the Net Proceeds of insurance or condemnation proceedings is authorized or required under the Trust Agreement, the Trustee will give notice of the prepayment of the Certificates on behalf and at the expense of the District. In the case of optional prepayment, the notice may provide that the proposed prepayment is conditional upon the availability of funds and that the District has the right to rescind the notice as provided below.

The Trustee will mail notice of prepayment by first-class mail with postage prepaid, to the Securities Depositories and to the Municipal Securities Rulemaking Board, and to the Owners of Certificates designated for prepayment at their respective addresses appearing on the Registration Books, at least 20 days but not more than 60 days prior to the prepayment date.

Neither the failure to receive any such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the prepayment of such Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for prepayment.

*However, while the Certificates are subject to DTC’s book-entry system, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter of representations executed by the District and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such prepayment notice to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect, will not affect the validity of the notice of prepayment, or alter the effect of prepayment set forth in the Trust Agreement.*

**Rescission of Prepayment Notice.** The District has the right to rescind any notice of the optional prepayment of Certificates by written notice to the Trustee on or prior to the dated fixed for prepayment. Any notice of optional prepayment will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation will not constitute an Event of Default. The District and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of prepayment.

The Trustee will mail notice of such rescission of prepayment to the respective Owners of the Certificates designated for prepayment at their respective addresses appearing on the Registration Books, and to the Securities Depositories and the Municipal Securities Rulemaking Board.

**Effect of Notice of Prepayment.** If moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates have been set aside in the Lease Payment Fund, the Certificates will become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Office of the Trustee, those Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus interest accrued and unpaid to the date of prepayment.

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to the date of prepayment, are held by the Trustee so as to be available therefor on such date of prepayment, then, from and after the date of prepayment, interest represented by the Certificates will cease to accrue and become payable. All moneys held by the Trustee for the prepayment of Certificates will be held in trust for the account of the Owners of the Certificates so to be prepaid, and will be held by the Trustee in cash uninvested.

**Purchase of Certificates in Lieu of Prepayment.** In lieu of prepayment of Certificates as provided in the Trust Agreement, amounts held by the Trustee for such prepayment may, at the written request of the District Representative received by the Trustee at least 75 days prior to the selection of Certificates for prepayment, be applied by the Trustee to the purchase of Certificates at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the District may in its discretion direct, but not to exceed the prepayment price which would be payable if such Certificates were prepaid.

## **Book-Entry System**

DTC will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully-registered Certificates registered in the name of Cede & Co. (DTC's partnership nominee). 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. See "APPENDIX G – BOOK-ENTRY PROVISIONS".

*The District and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Certificates paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The District and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or*

*give any notice to a Beneficial Owner with respect to the Certificates or an error or delay relating thereto.*

## **Registration, Transfer and Exchange**

*The provisions of the Trust Agreement regarding the registration, exchange and transfer of the Certificates apply only during any period in which the Certificates are not subject to DTC's book-entry system. While the Certificates are subject to DTC's book-entry system, their registration, exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See APPENDIX G.*

**Registration.** The Trustee will keep or cause to be kept sufficient records for the registration and registration of transfer of the Certificates, which will at all reasonable times be open to inspection by the District and the Authority upon prior notice, during regular business hours; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as provided in the Trust Agreement.

**Transfer of Certificates.** The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by duly authorized attorney, upon surrender of such Certificate for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, manually executed. Whenever any Certificate or Certificates is surrendered for registration of transfer, the Trustee will execute and deliver a new Certificate or Certificates representing the same maturity, interest rate and aggregate principal amount, in any authorized denominations. The Trustee will require the Certificate Owner to pay all costs of the Trustee incurred in connection with any such transfer and any tax or other governmental charge required to be paid with respect to such transfer.

**Exchange of Certificates.** Certificates may be exchanged at the Office of the Trustee, for a like aggregate principal amount of Certificates representing other authorized denominations of the same interest rate and maturity. The District will pay all costs of the Trustee incurred in connection with any such exchange, except that the Trustee will require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

**Limitations on Transfer or Exchange.** The Trustee may refuse to transfer or exchange either (i) any Certificate during the period established by the Trustee for the selection of Certificates for prepayment, or (ii) any Certificate which the Trustee has selected for prepayment in whole or in part under the Trust Agreement.



## SCHEDULE OF LEASE PAYMENTS

The table below shows the annual Lease Payments, which corresponds to the payments of principal and interest with respect to the Certificates and assumes no optional or extraordinary mandatory prepayments.

Rental Period Ending September 1 <sup>(1)</sup>	Principal Component	Interest Component	Aggregate Lease Payment
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
Total			

(1) "Rental Period" is defined in the Lease to mean each period during the Term of the Lease commencing on and including September 2 in each year and extending to and including the next succeeding September 1, except that the first Rental Period begins on the Closing Date and ends on September 1, 2020. Lease Payments are due on the sixth Business Day prior to the corresponding Interest Payment Date.

## THE LEASED PROPERTY

### General

Lease Payments will be made by the District under the Lease Agreement for the use and occupancy of the Leased Property, which consists of the Columbia Middle School. The Columbia Middle School consists of approximately 40 acres of land and consisting of buildings of approximately 47,000 square feet, and related facilities. The District estimates that the total value of the Leased Property, including land and improvements, is at least \$22 million (being the insured value of the buildings).

### Modification of Leased Property

Under the Lease Agreement, the District has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease Agreement.

Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under the Lease Agreement, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

The District will not permit any lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the District under the Lease Agreement; provided that if any such lien is established and the District first notifies the Authority of the District's intention to do so, the District may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Authority with full security against any loss or forfeiture that might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the District.

### Substitution of Property

Under the Lease Agreement, the District has, and is granted, the option at any time and from time to time to substitute other real property (the "**Substitute Property**") for the Leased Property or any portion thereof (the "**Former Property**"), provided that the District must satisfy all of the requirements set forth in the Lease Agreement that are conditions precedent to such substitution, and which include (among others) the following:

- (a) The District must file with the Authority and the Trustee, and cause to be recorded in the office of the San Bernardino County Recorder sufficient memorialization of, an amendment of the Lease Agreement that adds to Appendix A thereto a description of such Substitute Property and deletes therefrom the description of such Former Property, and appropriate amendments to the Site Lease and Assignment Agreement that adds thereto

a description of such Substitute Property and deletes therefrom the description of such Former Property.

- (b) The District must certify in writing to the Authority and the Trustee that such Substitute Property serves the municipal purposes of the District and constitutes property which the District is permitted to lease under the laws of the State of California, and has been determined to be essential to the proper, efficient and economic operation of the District and to serve an essential governmental function of the District.
- (c) The District must file with the Authority and the Trustee a certificate to the effect that the fair market value and the fair rental value of the Substitute Property and any other property that will be subject to the Lease Agreement and the Site Lease are at least equal to the outstanding principal amount of the Certificates, and that the useful life of the Substitute Property at least equals the lesser of (i) the useful life of the Former Property, or (ii) the final Lease Payment Date of the Lease Payments allocable to the Former Property.
- (d) The District will provide the Trustee with an opinion of nationally recognized bond counsel to the effect that such substitution will not, in and of itself, cause the interest on the Certificates to be included in gross income for federal income tax purposes.

Upon the satisfaction of all conditions precedent to substitution under the Lease Agreement, the Term of the Lease Agreement will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property.

The District is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

The Authority and the District will execute, deliver and cause to be recorded all documents required to discharge the Lease Agreement, the Site Lease and the Assignment Agreement against the Former Property, and to cause the Substitute Property to become subject to all of the terms and conditions of the Lease Agreement, Site Lease and the Assignment Agreement.

See APPENDIX A for additional conditions to the substitution of property under the Lease Agreement.

### **Release of Property**

Under the Lease Agreement, the District has the option at any time and from time to time to release any portion of the Leased Property from the Lease Agreement and the Site Lease (the **"Released Property"**) provided that the District has satisfied all of the requirements of the Lease Agreement that are conditions precedent to such release, and which include (among others) the following:

- (a) The District must file with the Authority and the Trustee, and cause to be recorded in the office of the San Bernardino County Recorder sufficient memorialization of, an amendment of the Lease Agreement that removes the

Released Property therefrom, and appropriate amendments to the Site Lease and Assignment Agreement that removes therefrom the description of the Released Property.

- (b) The District must certify in writing to the Authority and the Trustee that the fair market value of the property that remains subject to the Lease Agreement and the Site Lease following such removal is at least equal to the outstanding principal amount of the Certificates, and the fair rental value of the property that remains subject to the Lease Agreement and the Site Lease following such removal is at least equal to the Lease Payments thereafter coming due and payable under the Lease Agreement.
- (c) The District will provide the Trustee with an opinion of nationally recognized bond counsel to the effect that such release will not, in and of itself, cause the interest on the Certificates to be included in gross income for federal income tax purposes.

Upon the satisfaction of all conditions precedent to release under the Lease Agreement, the Term of the Lease Agreement will thereupon end as to the Released Property.

The District is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release.

The Authority and the District will execute, deliver and cause to be recorded all documents required to discharge the Lease Agreement, the Site Lease and the Assignment Agreement of record against the Released Property.

See APPENDIX A for additional conditions to the release of property from the Lease Agreement and the Site Lease.

## SECURITY FOR THE CERTIFICATES

*This section provides summaries of the security and sources of payment for the Certificates and certain provisions of the Trust Agreement and Lease Agreement. See APPENDIX A for a more complete summary of the Trust Agreement and Lease Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.*

### General

**Lease Payments.** Each Certificate evidences and represents a direct, undivided fractional interest of the Owner thereof in the Lease Payments to be made by the District under the Lease Agreement.

**Assignment to Trustee.** Under the Assignment Agreement, the Authority will transfer, assign and set over to the Trustee, for the benefit of the Owners of all Outstanding Certificates, substantially all of the Authority's rights under the Lease Agreement and the Site Lease, including without limitation:

- (a) the right to receive and collect all of the Lease Payments from the District under the Lease Agreement;
- (b) the right to receive and collect any proceeds of any insurance maintained under the Lease Agreement with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property; and
- (c) the right to exercise such rights and remedies conferred on the Authority under the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund established under the Trust Agreement, or (ii) otherwise to protect the interests of the Owners in the event of a default by the District under the Lease Agreement.

This assignment will be absolute and irrevocable, and will be without recourse to the Authority.

Under the Lease Agreement, the District acknowledges that all Lease Payments have been assigned by the Authority to the Trustee in trust under the Assignment Agreement, for the benefit of the Owners of the Certificates, and the District consents to such assignment. The Authority directs the District, and the District agrees to pay to the Trustee at its Office, all Lease Payments (including prepayments thereof).

### Lease Payments

**Obligation to Make Lease Payments.** Under the Lease Agreement (subject to the provisions of the Lease Agreement regarding abatement and prepayment), the District will pay to the Authority, its successors and assigns, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in the Lease Agreement, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates, and to be deposited by the District with the Trustee on each of the Lease Payment Dates.

The Lease Payments payable in any Rental Period are for the use of the Leased Property during such Rental Period.

**Credits and Offsets.** Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole, and other than amounts required for payment of past due principal or interest represented by any Certificates not presented for payment) will be credited towards the Lease Payment then required to be paid.

No Lease Payment need be deposited with the Trustee on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be deposited with the Trustee.

**Effect of Prepayment.** If the District prepays all Lease Payments in full under the Lease Agreement, and if the District has paid all Additional Payments then due and payable, the District's obligations to make Lease Payments under the Lease Agreement will thereupon cease and terminate.

If the District prepays the Lease Payments in part but not in whole under the Lease Agreement, the principal components of the remaining Lease Payments will be reduced in integral multiples of \$5,000 among Lease Payment Dates on a basis that corresponds to the principal maturities of the Certificates that are prepaid; and the interest component of each remaining Lease Payment will be reduced by the aggregate corresponding amount of interest that would otherwise be payable with respect to the Certificates thereby prepaid under the Trust Agreement.

**Rate on Overdue Payments.** If the District fails to make any of the Lease Payments, the payment in default will continue as an obligation of the District until the amount in default has been fully paid, and the District agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest represented by any Outstanding Certificate.

**Fair Rental Value.** The Lease Payments and Additional Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and the District will pay the Lease Payments and Additional Payments in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period.

The Authority and the District have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property as of the Closing Date, other obligations of the District and the Authority under this Lease, the uses and purposes that may be served by the Leased Property, and the benefits therefrom that will accrue to the District and the general public.

#### **Source of Payments; Budget and Appropriation**

The Lease Payments are payable from any source of legally available funds of the District, subject to the provisions of the Lease Agreement regarding abatement and prepayment.

The District covenants in the Lease Agreement to take such action as may be necessary to include all estimated Lease Payments and all estimated Additional Payments due under the Lease Agreement in each of its final approved budgets. The District further covenants to make all necessary appropriations (including any supplemental appropriations) from any source of legally available funds of the District for all the actual amount of Lease Payments and Additional Payments that come due and payable during the period covered by each such budget.

These covenants on the part of the District are duties imposed by law and it is the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

### **Limited Obligation**

THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION 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.

### **Additional Payments**

In addition to the Lease Payments, under the Lease Agreement, the District agrees to pay when due, as additional rental for the Leased Property thereunder, all costs and expenses incurred by the District thereunder or under the Trust Agreement, or incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation, all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund).

In addition to the Lease Payments, the District will also pay to the Authority, BAM or the Trustee, as the case may be, certain additional payments as set forth in the Lease Agreement

### **Reserve Fund**

Under the Trust Agreement, a Reserve Fund will be established for the benefit of the District and the Owners of the Certificates. The Trustee will hold the Reserve Fund in trust as a reserve for the payment of the principal of, interest, and premium, if any, on the Certificates.

The Reserve Requirement for the Certificates will be satisfied by the delivery of the Reserve Policy by BAM to the Trustee on the Closing Date. The “**Reserve Requirement**” is defined in the Trust Agreement as \$\_\_\_\_\_.

The amounts available under the Reserve Policy will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Lease Payment Account in the event of any deficiency at any time in such account.

The Trustee will comply with all documentation relating to the Reserve Policy as required to maintain the Reserve Policy in full force and effect and as required to receive payments

thereunder if and to the extent required to make any payment when and as required under the Trust Agreement.

The District will have no obligation to replace the Reserve Policy or to fund the Reserve Fund with cash or any other security if, at any time that the Certificates are Outstanding, amounts are not available under the Reserve Policy.

Pursuant to the Trust Agreement, the District and the Trustee will agree to comply with certain provisions regarding the repayment of any draws under the Reserve Policy and the payment of all related reasonable expenses incurred by BAM.

See APPENDIX A for a further description of the Reserve Fund and the Reserve Policy.

## **Abatement**

***Termination or Abatement Due to Eminent Domain.*** If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement will cease with respect thereto as of the day possession is so taken.

If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain,

- (a) the Lease Agreement will continue in full force and effect with respect thereto and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and
- (b) there will be a partial abatement of Lease Payments allocated thereto, in an amount to be determined by the District such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

***Abatement Due to Damage or Destruction.*** The amount of Lease Payments will be abated during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the District of the Leased Property or any portion thereof.

The amount of such abatement will be determined by the District such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property that are available for use and occupancy.

Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. If any such damage or destruction occurs, the Lease Agreement will continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage and destruction.

Notwithstanding the foregoing, there will be no abatement of Lease Payments to the extent that the proceeds of hazard insurance or rental interruption insurance are available to pay Lease Payments that would otherwise be abated, it being declared that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.



## **Application of Net Proceeds of Insurance and Condemnation**

***Application of Net Proceeds of Insurance Award.*** Under the Trust Agreement, any Net Proceeds of insurance collected by the District in the event of accident to or destruction of any component of the Leased Property will be paid to the Trustee under the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in a special fund designated as the “**Insurance and Condemnation Fund**” which the Trustee will thereupon establish.

If the District determines and notifies the Trustee in writing of its determination, within 45 days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Leased Property is not economically feasible or in the best interests of the District, then such Net Proceeds will be promptly transferred by the Trustee to the Lease Payment Fund and applied to the prepayment of Lease Payments under the Lease Agreement and the corresponding prepayment of Certificates under the Trust Agreement. This prepayment will be made on the first Interest Payment Date for which notice of prepayment can be timely given.

Notwithstanding the foregoing, the determination of the District to apply Net Proceeds to the prepayment of Certificates is subject to the following:

- (a) if the Leased Property is damaged or destroyed in full, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if such Net Proceeds, together with other available moneys, are sufficient to cause the corresponding prepayment of all Lease Payments allocable to the Leased Property; and
- (b) if the Leased Property is damaged or destroyed in part but not in whole, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if the Lease Payments that result after the corresponding abatement thereof under the Lease Agreement are sufficient to pay the full amount of principal and interest represented by the Certificates that remain Outstanding after such prepayment.

All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund will be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the District.

Notwithstanding any other provision of the Lease Agreement, the Trustee will pay to the District all moneys in the Insurance and Condemnation Fund upon the Trustee's receipt of a written notice executed by a District Representative which states that, pursuant to the Lease Agreement, the District has substituted other real property for the Leased Property that was damaged or destroyed and that there will be no abatement of the Lease Payments as a result of such damage or destruction.

***Application of Net Proceeds of Eminent Domain Award.*** Under the Trust Agreement, if all or any part of the Leased Property is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom will be deposited with the Trustee in the Insurance and Condemnation Fund and will be applied and disbursed by the Trustee as follows:

- (a) If the District gives written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the interest of the District in the Leased Property or the ability of the District to meet any of its financial obligations under the Lease Agreement, and (ii) that such proceeds are not needed for repair, replacement or rehabilitation of the Leased Property, the Trustee will transfer such proceeds to the Lease Payment Fund to be credited towards the payment of the Lease Payments as they become due and payable.
- (b) If the District gives written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the interest of the District in the Leased Property or the ability of the District to meet any of its financial obligations under the Lease Agreement, and (ii) such proceeds are needed for repair, replacement or rehabilitation of the Leased Property, the Trustee will pay to the District, or to its order, from said proceeds such amounts as the District may expend for the repair or rehabilitation of the Leased Property.
- (c) If (i) less than all of the Leased Property is taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the District gives written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the interest of the District in the Leased Property or the ability of the District to meet any of its financial obligations under the Lease Agreement, or (ii) all of the Leased Property is taken in such eminent domain proceedings, then the Trustee will transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments under the Lease Agreement and applied to the corresponding prepayment of Certificates under the Trust Agreement. This prepayment will be made on the first prepayment date for which notice of prepayment can be timely given.

In making any such determination whether to repair, replace or rehabilitate the Leased Property under the Trust Agreement, the District may obtain, but is not required to obtain, at its expense, the report of an independent engineer or other independent professional consultant, a copy of which must be filed with the Trustee. Additionally, any such determination must be made within 45 days of the date the funds are deposited with the Trustee. Any such determination by the District is final.

### **Covenants to Maintain Insurance**

***Public Liability and Property Damage Insurance.*** Under the Lease Agreement, the District will maintain or cause to be maintained, throughout the Term of the Lease Agreement, comprehensive general insurance in protection of the Authority, the District and their respective members, officers, agents, employees and assigns. Such insurance must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such insurance must provide coverage in such liability limits and be subject to such deductibles as the District deems adequate and prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of a program

of self-insurance by the District, or in the form of the participation by the District in a joint powers authority or other program providing pooled insurance.

The District will apply the proceeds of such insurance toward extinguishment or satisfaction of the liability with respect to which the net proceeds are paid.

**Casualty Insurance.** Under the Lease Agreement, the District will procure and maintain, or cause to be procured and maintained, at all times throughout the Term of the Lease Agreement, casualty insurance against loss or damage to the insured buildings, facilities and other improvements constituting any part of the Leased Property, in an amount at least equal to the greater of (a) the replacement value of such buildings, facilities and improvements, or (b) the aggregate principal amount of the Outstanding Certificates.

Such insurance will, as nearly as practicable, cover loss or damage by fire, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. The District shall not be obligated to purchase earthquake coverage as part of such insurance. Such insurance may be subject to such deductibles as the District deems prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the District in the form of self-insurance. The District shall apply the Net Proceeds of such insurance as provided in the Lease Agreement.

The District currently does not maintain earthquake insurance on the Leased Property, although the Leased Property was built to seismic standards. See “THE LEASED PROPERTY – General” and “RISK FACTORS – Natural Calamities – Seismic.”

**Rental Interruption Insurance.** Under the Lease Agreement, the District will procure and maintain, or cause to be procured and maintained, at all times throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Leased Property, as a result of any of the hazards covered in the casualty insurance required by the Lease Agreement and described above, in an amount at least equal to the maximum Lease Payments coming due and payable during any two consecutive fiscal years during the remaining Term of the Lease Agreement.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the District in the form of self-insurance.

The Net Proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Lease Payment Fund, and will be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

See “APPENDIX A – Summary of Principal Legal Documents” for a summary of certain other insurance requirements under the Lease Agreement.

## **Additional Rental**

The District may amend the Lease Agreement, without the consent of the Trustee or any of the Certificate Owners, to obligate the District to pay additional amounts of rental thereunder for the use and occupancy of the Leased Property or any portion thereof, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance public improvements of the District, and (B) the District has filed with the Trustee written evidence that the amendments made under the Lease Agreement will not of themselves cause a reduction or withdrawal of any rating then assigned to the Certificates. See “RISK FACTORS – Additional Obligations of the District.”

See “APPENDIX A – Summary of Principal Legal Documents” for a summary of certain other permitted amendments under the Lease Agreement.

## **CERTIFICATE INSURANCE POLICY**

*The following information has been furnished by Build America Mutual Assurance Company for use in this Official Statement. No representation is made by the District or Underwriter as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date hereof. See APPENDIX I for a specimen of the Policy.*

### **Municipal Bond Insurance Policy**

Concurrently with the issuance of the Certificates, Build America Mutual Assurance Company ("BAM") 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 APPENDIX I 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](http://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](http://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 September 30, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$552.8 million, \$130.8 million and \$422.1 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](http://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 Certificates or the advisability of investing in the Certificates. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

#### *Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditisights/](http://buildamerica.com/creditisights/). (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 certificates that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those certificates. 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 certificates 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/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all certificates insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such certificates. (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.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

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

On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIII A to the State Constitution ("**Article XIII A**"). Article XIII A limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

**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 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 2% 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.

In accordance with Article XIII A, all taxable property is now shown at "full cash value" on the County's property tax rolls.

## **Appropriation Limitation - Article XIIIB**

On November 6, 1979, the voters of the State approved Proposition 4, known as the Gann Initiative, which added Article XIIIB to the State Constitution. On June 5, 1990, the voters approved Proposition 111, which amended Article XIIIB in certain respects.

Under Article XIIIB, as amended, state and local government entities each have an annual “appropriations limit” which limits the ability to spend certain monies that are called “appropriations subject to limitation” (consisting of most tax revenues and certain state subventions, together called “proceeds of taxes,” and certain other funds) in an amount higher than the “appropriations limit.” Article XIIIB does not affect the appropriation of monies that are excluded from the definition of “appropriations limit,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by two-thirds of the voters.

The “appropriations limit” is adjusted annually for changes in the cost of living and in population, for transfers in the financial responsibility for providing services, and in the case of certain declared emergencies.

If an entity receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the entity’s governing board, increase its appropriations limit to equal that amount (provided that the State has excess appropriations limit of its own in that fiscal year). The District’s appropriations limit for fiscal year 2016-17 is \$125,810,267, and the District does not anticipate exceeding this limit.

## **Proposition 218 - Article XIIIC and Article XIID**

**General.** On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIIC and XIID to the State Constitution and contains a number of interrelated provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, State voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act”. Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIIIC of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIIIC define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

**Taxes.** Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the District (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the District’s General Fund, require a two-thirds vote. The voter approval requirements of Article XIIIC reduce the flexibility of the District to raise revenues for the General Fund, and no assurance can be given that the District will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.



**Property-Related Fees and Charges.** Article XIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments that exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments that involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges that are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

**Reduction or Repeal of Taxes, Fees and Charges.** Article XIIC also removed limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the District will not, in the future, approve an initiative or initiatives that reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the District’s General Fund, including Measure P (a quarter-cent general sales tax increase passed by the voters of the District in 2010) and Measure O (a quarter percent sales tax increase passed by voters in 2004). See “APPENDIX B – General and Financial Information About the District.” If such repeal or reduction occurs, the District’s ability to pay debt service with respect to the Certificates could be adversely affected.

**Burden of Proof.** Article XIIC provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIID provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIID.

**Impact on District’s General Fund.** The approval requirements of Articles XIIC and XIID reduce the flexibility of the District to raise revenues for the General Fund, and no assurance can be given that the District will be able to impose, extend or increase the taxes, fees or charges in the future that it may need to meet increased expenditure needs. The District believes all of its existing local taxes, fees and assessments are compliant with Proposition 218 and Proposition 26.

**Judicial Interpretation.** Although some court cases have been decided, further interpretation and application of Articles XIIC and XIID will be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

## **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization (“**Unitary Property**”), commencing with the 1988-89 fiscal year, will be 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 provisions of AB 454 constitute neither an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

## **Proposition 62**

On November 4, 1986, California voters adopted Proposition 62, which requires that (i) any local tax for general governmental purposes (a “**general tax**”) must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a “**special tax**”) must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency’s property tax allocation.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because less than two-thirds of the voters voting on the measure had approved the tax.

## **Proposition 1A**

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

Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding.

## **Proposition 22**

Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Proposition 22 has resulted in more stable revenues for the District, and the District expects this to continue to be the case.

## **Future Initiatives**

Article XIII A, Article XIII B, Proposition 218, Proposition 62, Proposition 1A and Proposition 22 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures could be adopted, further affecting the District or its revenues or the ability of the District to expend revenues.

## RISK FACTORS

*The following describes certain special considerations and risk factors affecting the payment of and security for the Certificates. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Certificates and the order presented does not necessarily reflect the relative importance of the various risks. Potential investors in the Certificates are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Certificates. There can be no assurance that other considerations will not materialize in the future.*

### No Pledge of Taxes

**General.** The obligation of the District to pay the Lease Payments and Additional 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. The obligation of the District to pay Lease Payments and Additional Payments does not constitute a debt or indebtedness of the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The District is currently liable on other obligations payable from general revenues, which are described under “APPENDIX B – General and Financial Information About the District.”

**Limitations on Taxes and Fees.** Certain taxes, assessments, fees and charges presently imposed by the District could be subject to the voter approval requirements of Article XIII C and Article XIII D of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments, fees and charges may not be approved.

The District believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to Article XIII C and Article XIII D of the State Constitution are eliminated or substantially reduced, the financial condition of the District, including its General Fund, could be materially adversely affected.

Although the District does not currently anticipate that the provisions of Article XIII C and Article XIII D of the State Constitution would adversely affect its ability to pay Lease Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIII C and Article XIII D of the State Constitution, including any initiative by voters thereunder to repeal any of the taxes that provide revenue to the District's General Fund, on the District's finances. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218 – Article XIII C and Article XIII D.”

## **Additional Obligations of the District**

The District has existing obligations payable from its General Fund. See “APPENDIX B – General and Financial Information About the District.” The District is permitted to enter into other obligations that constitute additional charges against its revenues without the consent of Owners of the Certificates. To the extent that additional obligations are incurred by the District, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Leased Property) are payable from funds lawfully available to the District. If the amounts that 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 Lease Payments and Additional Payments, 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 or is required to expend available revenues to preserve the public health, safety and welfare.

In addition, the District may amend the Lease Agreement, without the consent of the Trustee or any of the Certificate Owners, to obligate the District to pay additional amounts of rental thereunder for the use and occupancy of the Leased Property or any portion thereof, subject to certain conditions precedent described in the Lease Agreement. If the District obligated itself to pay additional rental payments, such amounts would be payable from the funds lawfully available to the District, just like the Lease Payments payable to Certificate Owners.

## **Default**

Whenever any event of default referred to in the Lease Agreement happens and continues, the Trustee, as the Authority’s assignee, is authorized under the terms of the Lease Agreement to exercise any and all remedies available under law or granted under the Lease Agreement. See APPENDIX A for a detailed description of available remedies in the case of a default under the Lease Agreement.

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to prepay the Certificates or pay principal and interest represented by the Certificates. The Lease Agreement permits the Trustee, as the Authority’s assignee, to take possession of and re-let the Leased Property in the event of a default by the District under the Lease Agreement; however, due to the fact that the Leased Property serves essential governmental purposes, a court may determine to not permit such remedy to be exercised. Even if such remedy may be exercised, no assurance can be given that the Trustee could readily re-let the Leased Property for rents which are sufficient to enable it to pay debt service on the Certificates in full when due.

The District will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year’s defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in California, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

## **Abatement**

Under certain circumstances related to damage, destruction, or a taking pursuant to eminent domain which, in any such case, causes a substantial interference with the use and possession of the Leased Property, the District's obligation to make Lease Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest on the Certificates as and when due. See "SECURITY FOR THE CERTIFICATES – Abatement" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Although the District is required under the Lease Agreement to maintain property and liability insurance and rental interruption insurance with respect to the Leased Property, the required insurance coverage is subject to certain conditions and restrictions. The Lease Agreement does not require earthquake insurance, and the District currently does not maintain earthquake insurance on the Leased Property (although the Leased Property was built to seismic standards). See "THE LEASED PROPERTY" and "SECURITY FOR THE CERTIFICATES – Covenants to Maintain Insurance." In addition, there is no assurance that the District will receive proceeds of any insurance in time to make Lease Payments when due.

## **Property Taxes**

***Levy and Collection.*** The District does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease, or any substantial delinquencies in the payment of property taxes, could reduce the District's property tax revenues, and accordingly, could have an adverse impact on the ability of the District to make Lease Payments when due.

***Reduction in Inflationary Rate.*** Article XIII A of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation in certain years.

The District is unable to predict if any adjustments to the full cash value base of real property within the District, whether an increase or a reduction, will be realized in the future.

***Appeals of Assessed Values.*** There are two types of appeals of assessed values that could adversely impact property tax revenues:

***Proposition 8 Appeals.*** Most of the appeals that might be filed in the District would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the 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.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

*Base Year Appeals.* A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the District's property tax revenues.

### **Absence of Earthquake and Flood Insurance**

If any portion of the Property is destroyed or rendered useless by a natural hazard such as an earthquake or flood, an abatement could occur and result in the Trustee having inadequate funds to pay the principal and interest represented by the Certificates as and when due. The Lease Agreement does not require the District to obtain earthquake or flood insurance on the Property.

All building components of the Property were constructed under the standards of the "Field Act" (California State Building Code, Title 24). The Field Act requires substantially higher construction standards for public schools and hospitals than are required for other types of construction. The Field Act requires that building systems be capable of withstanding seismic forces from the "most credible" earthquake likely to occur in the vicinity of the building system being constructed.

### **Limitations on Remedies Available to Certificate Owners**

The ability of the District to comply with its covenants under the Lease Agreement may be adversely affected by actions and events outside of the control of the District, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers

of assessments, fees and charges. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.”

Furthermore, any remedies available to the owners of the Certificates upon the occurrence of an event of default under the Lease Agreement or the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. For a discussion of such remedies, see “– Default” and “APPENDIX A – Summary of Principal Legal Documents.”

In addition to the limitations on remedies contained in the Lease Agreement and the Trust Agreement, the rights and obligations under the Certificates, the Lease Agreement and the Trust Agreement, may be subject to the following: the United States 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 Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving 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.

## **Bankruptcy**

In addition to the limitations on remedies contained in the Trust Agreement and the Lease Agreement, the rights and remedies in the Lease Agreement may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors’ rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) (the “**Bankruptcy Code**”), which governs bankruptcy proceedings of public entities such as the District, no involuntary bankruptcy petition may be filed against a public entity; however, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the District. The filing of a bankruptcy petition results in a stay against enforcement of certain remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the District could thus limit remedies under the Lease Agreement. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease Agreement; however, a debtor may not assume or reject executory contracts to loan money or to make a financial accommodation, such as the Trust Agreement. In the event of rejection of a lease by a debtor lessee, the leased property is returned to the lessor and the lessor has a claim for a limited amount of the resulting damages.

Under the Trust Agreement, the Trustee holds a security interest in the revenues in the funds pledged thereunder, including Lease Payments, for the benefit of the Owners of the Certificates, but such security interest arises only when the Lease Payments are actually received by the Trustee following payment by the District. The Leased Property itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a bankruptcy filed by the District and the subsequent rejection of the Lease Agreement by the District, the Trustee would recover possession of the Leased Property and



have a claim for damages against the District. The Trustee's claim would constitute a secured claim only to the extent of revenues in the possession of the Trustee; the balance of such claim would be unsecured.

In a bankruptcy of the District, if a material unpaid liability is owed to California Public Employees' Retirement System or any other pension system (collectively, the "**Pension Systems**") on the filing date, or accrues thereafter, such circumstances could create additional uncertainty as to the District's ability to make Lease Payments. Given that municipal pension systems in California are usually administered pursuant to state constitutional provisions and, as applicable, other state and/or city or county law, the Pension Systems may take the position, among other possible arguments, that their claims enjoy a higher priority than all other claims, that Pension Systems have the right to enforce payment by injunction or other proceedings outside of a bankruptcy case, and that Pension System 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 would rule on these matters. In addition, this area of law is presently very 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 (or were recently) the subject of litigation in the Chapter 9 cases of several California municipalities, including the cities of Stockton and San Bernardino.

In particular, if the District were to become a debtor under the Bankruptcy Code, the District would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 case. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the District or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the District, and which could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment that is superior to that of Owners of the Certificates; and (iv) the possibility of the adoption of a plan (an "**Adjustment Plan**") for the adjustment of the District's various obligations over the objections of the Trustee or all of the Owners of the Certificates and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that such Adjustment Plan is "fair and equitable" and in the best interests of creditors. The Adjustment Plans approved by the Bankruptcy Courts in connection with the bankruptcies of the cities of Vallejo, San Bernardino and Stockton resulted in significant reductions in the amounts payable by the cities under lease revenue obligations that were substantially identical or similar to the Certificates. The District can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any Adjustment Plan if it were to file for bankruptcy.

### **Hazardous Substances**

Discovery of hazardous substances on the land that comprises the Leased Property or on other parcels within the District could impact the District's ability to pay debt service with respect to the Certificates.

In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980,

sometimes referred to as “**CERCLA**” or the “**Superfund Act**” is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance.

The effect, therefore, should any substantial amount of property within the District be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Reduction in the value of property in the District as a whole could reduce property tax revenues received by the District and deposited in the general fund, which could significantly and adversely affect the ability of the District to make payments on the Certificates. Additionally, if any of the Leased Property is affected by a hazardous substance, the District would be limited in the beneficial use it could make of such property upon discovery and during remediation thereof.

## **Litigation**

The District may be or become a party to litigation that has an impact on the District's general fund. Although the District maintains certain insurance policies that provide coverage under certain circumstances and with respect to certain types of incidents (see Note 11 of the District's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, which is attached as APPENDIX C, for further information), the District cannot predict what types of liabilities may arise in the future. See also “LITIGATION.”

## **State Law Limitations on Appropriations**

Article XIIB of the California Constitution limits the amount that local governments can appropriate annually. The ability of the District to make debt service payments on the Certificates may be affected if the District should exceed its appropriations limit. The State may increase the appropriation limit of cities in the State by decreasing the State's own appropriation limit. The District does not anticipate exceeding its appropriations limit. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Appropriation Limitation – Article XIIB.”

## **Impact of State Budget on District Revenues**

At various times, including recently, the State has experienced significant financial and budgetary stress. State budgets are affected by national and local economic conditions and other factors over which the District has no control. The State's financial condition and budget policies affect communities and local public agencies throughout the State. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budget.

For example, declining revenues and fiscal difficulties that arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures that were implemented or could have been implemented if certain State budgeting goals were not met,

among others, and the dissolution of local redevelopment agencies in part to make available additional funding for schools.

Although starting with Fiscal Year 2013-14, recent State budgets have been balanced and balanced budgets are projected for the foreseeable future, largely attributable to improvements in the economy, the additional revenues generated due to the passage of Proposition 30 at the November 6, 2012, statewide election ("**Proposition 30**"), as well as other spending cuts, there can be no certainty that budget-cutting strategies such as those used in prior years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

The temporary personal income tax increases of Proposition 30 were scheduled to expire at the end of 2018; however, voters approved Proposition 55 in the November 2016 statewide election, which extended the increases through 2030.

### **Natural Calamities**

**General.** From time to time, the District has been and could be subject to natural calamities, including, but not limited to, earthquake, flood or wildfire, that may adversely affect economic activity in the District, and which could have a negative impact on District finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Property, or that the District would have insurance or other resources available to make repairs to the Property in order to make the Rental Payments under the Lease Agreement. See "- Abatement" above.

**Seismic.** Like most regions in California, the areas in and surrounding the District may be subject to unpredictable seismic activity, including earthquakes and landslides. If there were to be 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 Property, which could result in Rental Payments being subject to abatement. See "- Abatement" above.

Damage resulting from such an event could have a material adverse effect on the District's financial condition as well, through unexpected recovery costs and reduced tax and other revenues. The District is not required to obtain earthquake insurance for the Site. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES - Covenant to Maintain Insurance - Casualty Insurance" above. Also see "THE PROPERTY" for information about the Property.

### **Risks Associated with BAM**

Before the delivery of the Certificates, the District will pay the premium for the Policy for the Certificates, and the reserve fund surety policy. The District can provide no assurances that BAM will be able to meet its obligations under the Policy, or the reserve fund surety policy, if and when required to do so. In addition, any change in the ratings of BAM could impact the price of the Certificates in the secondary market.

**Neither of the District or the Underwriter will make an independent investigation of the claims-paying ability of BAM, and no assurance or representation regarding the financial strength or projected financial strength of BAM is being made by the District or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the Certificates, potential investors should carefully consider the ability of**

**the District to pay principal and interest on the Certificates, assuming that no Policy is available to pay principal and interest on the Certificates, and the claims-paying ability of BAM through final maturity of the Certificates.**

### **Loss of Tax-Exemption**

As discussed under the caption "TAX MATTERS," interest represented by the Certificates could become includable in gross income for purposes of federal income taxation, retroactive to the date the Certificates were executed and delivered, as a result of future acts or omissions of the District in violation of its covenants in the Lease Agreement and the Trust Agreement. Should such an event of taxability occur, the Certificates are not subject to prepayment and will remain outstanding until maturity or until prepaid under other provisions set forth in the Trust Agreement.

### **Federal Income Tax Changes**

During recent years, legislative proposals have been introduced in the United States Congress, and in some cases enacted, that altered certain federal tax consequences resulting from the ownership of obligations that are similar to the Certificates. In some cases, these proposals have contained provisions that altered these consequences on a retroactive basis. Such alteration of federal tax consequences may have affected the market value of obligations similar to the Certificates. From time to time, legislative proposals are pending which could have an effect on both the federal tax consequences resulting from ownership of the Certificates and their market value.

No assurance can be given that legislative proposals will not be enacted that would apply to, or have an adverse effect upon, the Certificates. For example, in connection with federal deficit reduction, job creation and tax law reform efforts, proposals have been and others are likely to be made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of the portion of lease payments designated as and comprising interest and received by the owners of obligations that are similar to the Certificates. There can be no assurance that any such legislation or proposal will be enacted, and if enacted, what form it may take. The introduction or enactment of any such legislative proposals may affect, perhaps significantly, the market price for, or marketability of, the Certificates.

### **Secondary Market for Certificates**

There can be no guarantee that there will be a secondary market for the Certificates or, if a secondary market exists, that any Certificates can be sold for any particular price. Prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Certificates will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Certificates for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Certificates or obligations that present similar tax issues as the Certificates.

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates

will be selected for audit by the Internal Revenue Service and that the market value of the Certificates might be affected as a result of such an audit (or by an audit of similar securities).

## **TAX MATTERS**

***Federal Tax Status.*** In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. The Lease Agreement is a "qualified tax-exempt obligation" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable with respect to the Certificates.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the execution and delivery of the Certificates in order that the interest with respect thereto be, and continue to be, excludable from gross income for federal income tax purposes. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of execution and delivery of the Certificates, or may cause the Lease Agreement to not be a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Tax Code.

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

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

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

**California Tax Status.** In the further opinion of Special Counsel, the portion of Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes.

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

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

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates may have federal or state tax consequences other than as described above. Other than as expressly described above, Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Certificates, the ownership, sale or disposition of the Certificates, or the amount, accrual or receipt of interest with respect to the Certificates.

## CERTAIN LEGAL MATTERS

The legal opinion of Special Counsel, approving the validity of the Certificates and addressing certain tax matters, in substantially the form attached hereto as APPENDIX E, will be made available to purchasers at the time of original delivery of the Certificates. Special Counsel will, as Disclosure Counsel, also deliver a disclosure letter to the District and the Underwriter regarding the contents of this Official Statement.

## CONTINUING DISCLOSURE

The District has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the District and its general fund by not later than nine months after the end of the District's fiscal year, or April 1 of each year based on the District's current fiscal year-end of June 30, commencing April 1, 2020, with the report for fiscal year 2018-19 (the "**Annual Report**") and to provide notices of the occurrence of certain listed events ("**Event Notices**"). All Annual Reports and Event Notices are required to be filed electronically with the Municipal Securities Rulemaking Board (the "**MSRB**").

These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (the "**Rule**"). The specific nature of the information to be contained in the Annual Report and the Event Notices is set forth in APPENDIX F.

Based upon a review of the District's filing obligations, in the previous five years the District has not failed to comply, in all material respects, with the existing undertakings for its outstanding obligations.

With respect to undertakings of the District made in connection with community facilities districts in the District, in the previous five years, the District failed to timely file audited financial statements and Annual Reports for each of fiscal year 2013-14 through 2017-18.

## UNDERWRITING

Stifel, Nicolaus & Company (the "**Underwriter**"), has entered into a Certificate Purchase Contract with the District under which the Underwriter has agreed to purchase the Certificates at a price of \$\_\_\_\_\_ (equal to the par amount of the Certificates (\$\_\_\_\_\_), plus/less an original issue premium/discount of \$\_\_\_\_\_, and less an Underwriter's discount of \$\_\_\_\_\_.

The Underwriter will be obligated to take and pay for all the Certificates if any are taken. The Underwriter intends to offer the Certificates to the public at the offering prices shown on the inside cover page of this Official Statement. After the initial public offering, the Underwriter may vary the public offering prices from time to time.

## **LITIGATION**

The District is not aware of any pending or threatened litigation concerning the validity of the Certificates or challenging any action taken by the District with respect to the Certificates. Furthermore, the District is not aware of any pending or threatened litigation to restrain, enjoin, question or otherwise affect the Trust Agreement or in any way contesting or affecting the validity or enforceability of any of the foregoing or any proceedings of the District taken with respect to any of the foregoing.

There are a number of lawsuits and claims pending and threatened against the District unrelated to the Certificates or actions taken with respect to the Certificates. It is the opinion of the District as of this date that such litigation, claims and threatened litigation will not materially affect the District's finances or impair its ability to make debt service payments on the Certificates.

## **PROFESSIONAL FEES**

In connection with the execution and delivery of the Certificates, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Certificates:

- California Financial Services, as Financial Advisor;
- Jones Hall, A Professional Law Corporation, as Special Counsel and Disclosure Counsel;
- Stradling Yocca Carlson & Rauth, a Professional Corporation, as Underwriter's Counsel; and
- Zions Bancorporation, National Association, as Trustee and Escrow Agent.

## **RATINGS**

S&P is expected to assign its municipal bond rating of "AA" to the Certificates with the understanding that BAM will issue the Policy concurrently with the delivery of the Certificates. S&P has assigned an underlying rating of "A" to the Certificates. This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The District has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement).

There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Certificates may have an adverse effect on the market price or marketability of the Certificates.



## **EXECUTION**

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

**ADELANTO ELEMENTARY SCHOOL  
DISTRICT**

By: \_\_\_\_\_  
Superintendent

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## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a brief summary of certain provisions of the Lease, the Site Lease, the Assignment Agreement and the Trust Agreement prepared for Certificates. Such summary is not intended to be definitive. Reference is directed to said documents for the complete provisions thereof. Copies of said documents are available from the District and from the Trustee.*

### DEFINITIONS

*“Additional Payments”* means the payments authorized under the Lease.

*“Assignment Agreement”* means the Assignment Agreement, dated as of December 1, 2019, by and between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended under any duly authorized and executed amendments thereto.

*“Authority”* means the California Municipal Finance Authority, or its successors and assigns, a joint exercise of powers authority formed by a Joint Exercise of Powers Agreement, dated as of January 1, 2004 by and among certain California cities, counties and special districts, as may be amended from time to time pursuant to the provisions of the Joint Exercise of Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California.

*“Authority Representative”* means any member of the Board of Directors of the Authority, the Executive Director of the Authority, or any other person authorized by the Board of Directors of the Authority to act on behalf of the Authority under or with respect to the Trust Agreement.

*“Bond Counsel”* means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income under Section 103 of the Code.

*“Business Day”* means a day other than a Saturday, Sunday or legal holiday, on which banking institutions are not closed in the State of California, or in any state in which any Office of the Trustee is located.

*“Certificates”* means the Certificates of Participation (District Administrative Facility Lease Refinancing), Series 2019 executed and delivered and at any time Outstanding under the Trust Agreement.

*“Closing Date”* means December \_\_, 2019, the day when the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser.

“*Code*” means the Internal Revenue Code of 1986 as in effect on the date of delivery of the Lease or (except as otherwise referenced in the Lease or the Trust Agreement) as it may be amended to apply to obligations issued on the date of delivery of the Lease, together with applicable temporary and final regulations promulgated, and applicable official public guidance published with respect thereto.

“*Continuing Disclosure Certificate*” means that certain Continuing Disclosure Certificate executed by the District as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with its terms.

“*Costs of Issuance*” means all items of expense directly or indirectly payable by or reimbursable to the District or the Authority relating to the execution and delivery of the Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (which shall include legal fees and the first annual administration fee of the Trustee), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates; premiums payable to the 2019 Insurer for the 2019 Insurance Policy and the 2019 Reserve Policy; and any charges and fees in connection with the foregoing.

“*District*” means the Adelanto Elementary School District, a school district duly organized and existing under the Constitution and laws of the State of California.

“*District Representative*” means the Superintendent of the District, or any other person authorized to act on behalf of the District under or with respect to the Lease and the Trust Agreement by resolution of the Board of Trustees of the District delivered to the Trustee.

“*Event of Default*” means an event of default under the Lease.

“*Fair Market Value*” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the District and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment. To the extent required by the regulations under the Code, the term “investment” will include a hedge.

“*Federal Securities*” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any

obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

*"Fiscal Year"* means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period by the District as its fiscal year under written notice filed with the Trustee.

*"Insurance and Condemnation Fund"* means the fund by that name to be established and held by the Trustee pursuant to the Trust Agreement.

*"Interest Payment Date"* means each March 1 and September 1, commencing March 1, 2020, to and including the final date of maturity of the Certificates.

*"Lease Payment Date"* means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date.

*"Lease Payment Fund"* means the fund by that name established and held by the Trustee under the Trust Agreement.

*"Lease Payments"* means all payments designated as "Lease Payments" and required to be paid by the District under the Lease, including any prepayment thereof under the Lease.

*"Leased Property"* means all of the land and all of the buildings, improvements and facilities thereon, which is more particularly described in the Lease. Leased Property does not include personal property located in the Leased Property. If the District exercises its option under the Lease with respect to the substitution of property or its option under the Lease with respect to the release of property, the term "Leased Property" will thereupon be modified accordingly.

*"Net Proceeds"* means any insurance proceeds or eminent domain award (including any proceeds of sale to a governmental entity under threat of the exercise of eminent domain powers), paid with respect to the Leased Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof. For avoidance of doubt, the definition of Leased Property excludes personal property and, therefore, Net Proceeds does not include insurance proceeds or eminent domain award related to personal property.

*"Nominee"* means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under the Trust Agreement.

*"Office"* means the corporate trust office of the Trustee in Los Angeles, California, or such other or additional offices as the Trustee may designate in writing to the Authority from time to time as the corporate trust office for purposes of the Trust Agreement, except that with respect to presentation of Certificates for payment or for registration of transfer and exchange thereof, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

*"Original Purchaser"* means Stifel, Nicolaus & Company, Incorporated, as original purchaser of the Certificates upon the negotiated public sale thereof.

*"Outstanding"*, when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and

delivered by the Trustee under the Trust Agreement except (a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Certificates deemed to have been paid under the Trust Agreement; and (c) Certificates in lieu of or in exchange for which other Certificates have been executed and delivered by the Trustee under the Trust Agreement.

“*Owner*”, when used with respect to a Certificate, means the person in whose name the ownership of such Certificate shall be registered on the Registration Books.

“*Permitted Encumbrances*” means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may permit to remain unpaid under Article V of the Lease; (b) the Site and Facilities Lease, the Lease and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, materialman, supplier or vendor which is secured by a lien on the Leased Property; (d) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Stewart Title Company of California, Inc. (or its affiliate); and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the District certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

“*Permitted Investments*” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) obligations of any federal agency which either (i) represent full faith and credit of the United States of America, or (ii) are rated “AA” or better by S&P;
- (c) U.S. dollar denominated deposit accounts federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “A” or better by S&P, maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank or which are collateralized by Federal Securities for amounts in excess of FDIC insurance;
- (d) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” or better by S&P, and which matures not more than 270 calendar days after the date of purchase;
- (e) investments in a money market mutual fund, including those of an affiliate of the Trustee, rated in the highest short-term rating category by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services and may receive fees for services rendered but excluding funds with a floating net asset value;
- (f) investment agreements with financial institutions whose long-term general credit rating is A or better from S&P, by the terms of which the Trustee may withdraw funds if such rating falls below “A”; and

- (g) the Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee; and
- (h) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended, including but not limited to the California Asset Management Program (CAMP).

*“Record Date”* means the close of business on the 1st day of the month in which each Interest Payment Date occurs, whether or not such 1st day is a Business Day.

*“Registration Books”* means the records maintained by the Trustee under the Trust Agreement for the registration of the ownership and transfer of ownership of the Certificates.

*“Rental Period”* means each period during the Term of the Lease commencing on and including September 2 in each year and extending to and including the next succeeding September 1, except that the first Rental Period begins on the Closing Date and ends on September 1, 2020.

*“Reserve Fund”* means the fund by that name established and held by the Trustee under the Trust agreement.

*“Reserve Fund Agreement”* means the Debt Service Reserve Agreement, dated the Closing Date, by and between the District and the 2019 Insurer.

*“S&P”* means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, its successors and assigns.

*“Term of the Lease”* means the time during which the Lease is in effect, as provided in the Lease.

*“Trust Agreement”* means the Trust Agreement, as originally executed or as thereafter amended under any amendments or supplements thereto which are permitted to be made thereunder.

*“Trustee”* means Zions Bancorporation, National Association, or any successor thereto, acting as Trustee under the Trust Agreement.

*“2007 Certificates”* means the Adelanto Elementary School District Certificates of Participation (District Administrative Facility), Series 2007.

*“2007 Lease Agreement”* means the Facilities Lease, dated as of February 1, 2007, by and between the District and the Authority.

"2007 Trust Agreement" means the Trust Agreement, dated as of February 1, 2007, between the Authority and the 2007 Trustee.

"2007 Trustee" means Zions Bancorporation, National Association, as successor-in-interest to Zions First National Bank, as trustee under the 2007 Trust Agreement.

"2019 Insurance Policy" means the insurance policy issued by the 2019 Insurer guaranteeing the scheduled payment of principal of and interest with respect to the Certificates when due.

"2019 Insurer" means Build America Mutual Assurance Company, its successors and assigns, as issuer of the 2019 Insurance Policy and the 2019 Reserve Policy.

"2019 Reserve Policy" means the municipal bond debt service reserve insurance policy relating to the Certificates issued by the 2019 Insurer.

## **TRUST AGREEMENT**

The Trustee is appointed pursuant to the Trust Agreement to act as a depository of amounts held thereunder. The Trust Agreement authorizes the Trustee to prepare, execute and deliver the Certificates. Transfers of the Certificates are to be registered in a register maintained by the Trustee.

### **Certain Funds**

The Trust Agreement creates several funds to be maintained by the Trustee for the benefit of the Authority and the District.

*Reserve Fund.* The Trustee shall establish, maintain, and hold in a trust a separate fund designated as the "Reserve Fund." The Trustee shall hold the Reserve Fund in trust for the benefit of the District and the Owners of the Certificates.

The Reserve Requirement for the Certificates shall be fully satisfied by the delivery of the 2019 Reserve Policy by the 2019 Insurer to the Trustee on the Closing Date. The District and the Trustee covenant to comply with each of the provisions set forth in Appendix E of the Trust Agreement. The District shall comply with the terms of the Reserve Fund Agreement.

The amounts available under the 2019 Reserve Policy shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Lease Payment Account, in the event of any deficiency at any time in such account.

The Trustee shall comply with all documentation relating to the 2019 Reserve Policy as shall be required to maintain the 2019 Reserve Policy in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Trust Agreement.

The District shall have no obligation to replace the 2019 Reserve Policy or to fund the Reserve Fund with cash or any other security if, at any time that the Certificates are Outstanding, amounts are not available under the 2019 Reserve Policy or if any ratings of the Reserve Policy Provider are lowered or terminated.



*Lease Payment Fund.* All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the District and the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Authority has any beneficial right or interest in the Lease Payment Fund, or the moneys deposited therein, except only as provided in the Trust Agreement, and the Trustee shall apply the Lease Payment Fund solely as set forth in the Trust Agreement.

The Trustee will deposit all Lease Payments received by it in the Lease Payment Fund and any other moneys required to be deposited therein under the Lease or under the Trust Agreement.

The Trustee will apply amounts in the Lease Payment Fund solely for the purpose of paying the principal, interest and prepayment premiums (if any) represented by the Certificates as the same become due and payable, including payments upon redemption of the Certificates in whole or in part, in accordance with the provisions hereof. If there are insufficient amounts in the Lease Payment Fund to pay the principal, interest and prepayment premiums on any Interest Payment Date, the Trustee shall transfer amounts in the Reserve Fund in the amount of such insufficiency.

Any surplus remaining in the Lease Payment Fund, after prepayment and payment of all Certificates, including premiums and accrued interest (if any) and payment of any applicable fees and expenses to the Trustee, or provision for such prepayment or payment having been made to the satisfaction of the Trustee, will be withdrawn by the Trustee and remitted to the District.

*Insurance and Condemnation Fund*—In the event the Trustee receives net proceeds of insurance in connection with damage or destruction of the Property or net proceeds from eminent domain proceedings, such proceeds will be deposited in the Insurance and Condemnation Fund and will be applied by the Trustee as described below.

### **Assignment of Rights in Lease**

Under the Assignment Agreement, the Authority has transferred, assigned and set over to the Trustee for the benefit of the Owners of the Certificates certain of its rights under (i) the Lease, including but not limited to all of the Authority's rights to receive and collect all of the Lease Payments and all other amounts required to be deposited in the Lease Payment Fund, and (ii) the Site and Facilities Lease.

The District will pay to the Trustee all Lease Payments and other amounts which have been assigned to the Trustee under the Assignment Agreement. Any Lease Payments collected or received by the Authority will be deemed to be held and to have been collected or received by the Authority as the agent of the Trustee, and the Authority will immediately transfer all such Lease Payments and other amounts to the Trustee.

### **Application of Insurance, Title Insurance and Condemnation Award Proceeds**

*Application of Net Proceeds of Insurance Award.* Any Net Proceeds of insurance collected by the District in the event of accident to or destruction of any component of the Leased Property shall be paid to the Trustee under the Lease and deposited by the Trustee promptly upon receipt thereof in a special fund designated as the "Insurance and Condemnation

Fund” which the Trustee shall thereupon establish. If the District determines and notifies the Trustee in writing of its determination, within 45 days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Leased Property is not economically feasible or in the best interests of the District, then such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund and applied to the prepayment of Lease Payments under the Lease and the corresponding prepayment of Certificates under the Trust Agreement, which prepayment shall be made on the first Interest Payment Date for which notice of prepayment can be timely given. Notwithstanding the foregoing provisions of the Trust Agreement, the determination of the District to apply Net Proceeds to the prepayment of Certificates is subject to the following:

- (a) if the Leased Property is damaged or destroyed in full, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if such Net Proceeds, together with other available moneys, are sufficient to cause the corresponding prepayment of all Lease Payments allocable to the Leased Property; and
- (b) if the Leased Property is damaged or destroyed in part but not in whole, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if the Lease Payments which result after the corresponding abatement thereof under the Lease are sufficient to pay the full amount of principal and interest represented by the Certificates which remain Outstanding after such prepayment.

All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the District, upon receipt of written requisitions of the District stating with respect to each payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount to be paid and (c) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after the District shall file a written certificate with the Trustee stating that such work has been completed shall, after payment of all amounts then due and owing to the Trustee under the Trust Agreement, be paid to the District.

Notwithstanding any other provision of the Trust Agreement or the Lease, the Trustee shall pay to the District all moneys in the Insurance and Condemnation Fund upon the Trustee's receipt of a written notice executed by a District Representative which states that, pursuant to the Lease, the District has substituted other real property for the Leased Property that was damaged or destroyed and that there will be no abatement of the Lease Payments as a result of such damage or destruction.

*Application of Net Proceeds of Eminent Domain Award.* If all or any part of the Leased Property is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund, under the Lease, and shall be applied and disbursed by the Trustee as follows:

- (a) If the District gives written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the interest

of the District in the Leased Property or the ability of the District to meet any of its financial obligations under the Lease, and (ii) that such proceeds are not needed for repair, replacement or rehabilitation of the Leased Property, the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited towards the payment of the Lease Payments as they become due and payable.

- (b) If the District gives written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the interest of the District in the Leased Property or the ability of the District to meet any of its financial obligations under the Lease, and (ii) such proceeds are needed for repair, replacement or rehabilitation of the Leased Property, the Trustee shall pay to the District, or to its order, from said proceeds such amounts as the District may expend for the repair or rehabilitation of the Leased Property, upon the filing of requisitions of the District Representative meeting the requirements of the Trust Agreement.
- (c) If (i) less than all of the Leased Property is taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the District gives written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the interest of the District in the Leased Property or the ability of the District to meet any of its financial obligations under the Lease, or (ii) all of the Leased Property is taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments under the Lease and applied to the corresponding prepayment of Certificates under the Trust Agreement, which prepayment shall be made on the first Interest Payment Date for which notice of prepayment can be timely given.

In making any such determination whether to repair, replace or rehabilitate the Leased Property under the Trust Agreement, the District may obtain, but is not required to obtain, at its expense, the report of an independent engineer or other independent professional consultant, a copy of which must be filed with the Trustee. Additionally, any such determination shall be made within 45 days of the date the funds are deposited with the Trustee. Any such determination by the District is final.

### **Moneys in Funds; Investment of Moneys; Allocation of Earnings**

*Held in Trust.* The moneys and Permitted Investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the District and the Owners of the Certificates solely for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Authority, the Trustee, the District or the Owner of any Certificates.

*Investments Authorized.* Upon the written request of a District Representative filed with the Trustee from time to time, moneys held by the Trustee in any fund or account under the Trust Agreement shall be invested and reinvested by the Trustee in Permitted Investments which mature not later than the date such moneys are required or estimated by the District to be required to be expended under the Trust Agreement. In the absence of any written request of

the District directing the investment of uninvested moneys held by the Trustee under the Trust Agreement, the Trustee shall invest such moneys in Permitted Investments described in clause (e) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written request of the District specifying a specific money market fund and, if no such written request of the District is so received, the Trustee shall hold such moneys uninvested. Such investments, if registrable, shall be registered in the name of the Trustee, as trustee or in the name of its nominee, and shall be held by the Trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment. Whenever in the Trust Agreement any moneys are required to be transferred by the District to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. For purposes of acquiring any investments under the Trust Agreement, the Trustee may commingle funds held by it thereunder. The Trustee is not responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Trust Agreement.

*Accounting.* The Trustee shall furnish the District with periodic cash transaction statements at least monthly which include detail for all investment transactions effected by the Trustee or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

*Allocation of Earnings.* Any income, profit or loss on such investments shall be deposited in or charged to the respective funds from which such investments were made.

*Valuation and Disposition of Investments.* For the purpose of determining the amount in any fund, the value of Permitted Investments credited to such fund shall be valued by the Trustee at least quarterly at the market value thereof. The Trustee may sell or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment. The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grants the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

## **Certificates**

The Trustee is directed by the Trust Agreement, upon written request of the Authority to register, execute and deliver to the Original Purchaser, the Certificates in their initial aggregate principal amount.

The Trust Agreement contains procedures and regulations with respect to exchanges and transfers of Certificates, for conditions of delivery of temporary Certificates, for procedures for Certificates which are mutilated, lost, destroyed or stolen, for evidence of signatures of Certificate Owners and ownership of Certificates and for procedures with respect to payment of Certificates.

## **Amendments Permitted**

*With Written Consent of the Owners of the Certificates.* The Trust Agreement and the rights and obligations of the Owners of the Certificates may be modified or amended at any time by a supplemental agreement which shall become effective when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, has been filed with the Trustee. No such modification or amendment may (a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate represented thereby or extending the time of payment of interest, or reducing the amount of principal represented thereby or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification hereof, or (c) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement establishes the procedures for obtaining written consent of the Owners of the Certificates.

*Without Written Consent of the Owners of the Certificates.* The Trust Agreement and the rights and obligations of the Owners of the Certificates may be modified or amended at any time by a supplemental agreement, without the consent of any Certificate Owners, but only to the extent permitted by law and only:

- (a) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power herein reserved to the Authority or the District (provided, however that no right or power may be surrendered by the Authority to the extent that such right or power has been assigned by the Authority to the Trustee pursuant to the Assignment Agreement),
- (b) to cure, correct or supplement any ambiguous or defective provision contained herein,
- (c) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of the portion of lease payments designated as and comprising interest and received by owners of the Certificates,

- (d) in regard to questions arising under the Trust Agreement, as the parties hereto or thereto may deem necessary or desirable and which shall not, in the opinion of Bond Counsel, materially adversely affect the interests of the Owners of the Certificates, or
- (e) to conform to any amendments of the Lease which are permitted to be made under the Lease.

Any such supplemental agreement shall become effective upon execution and delivery by the parties hereto.

### **Certain Covenants**

*Compliance With and Enforcement of Lease.* The District covenants and agrees to perform all obligations and duties imposed on it under the Lease. The Authority covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease.

The District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Lease by the Authority thereunder. The Authority and the District, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or either of them, in the Leased Property, which may or can in any manner affect such estate of the District, will deliver the same, or a copy thereof, to the Trustee.

*Observance of Laws and Regulations.* The District will keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District, including its right to exist and carry on business as a public agency, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

*Prosecution and Defense of Suits.* The District shall promptly, upon request of the Trustee or any Certificate Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Leased Property, whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Certificate Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

*Recordation and Filing.* The District shall record and file the Lease or memorandums thereof, the Site and Facilities Lease, the Lease, the Assignment Agreement and all such documents as may be required by law (and shall take all further actions which may be necessary or be reasonably required by the Trustee), all in such manner, at such times and in such places as may be required by law in order fully to preserve, protect and perfect the security of the Trustee and the Certificate Owners.

*Continuing Disclosure.* The District shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with such Continuing Disclosure Certificate does not constitute an Event of Default; except that any Participating Underwriter (as such term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Certificates may take such actions as may be necessary and appropriate to compel performance by the District of its obligations under the Trust Agreement, including seeking mandate or specific performance by court order.

## **Events of Default and Remedies**

*Events of Default.* The Trust Agreement refers to the Events of Default under the Lease, and does not establish separate events of default under the Trust Agreement.

*Remedies.* If an Event of Default happens, then and in each and every such case during the continuance of such Event of Default (subject to the provisions of Appendix D of the Trust Agreement and the rights of the 2019 Insurer), the Trustee may, or at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding the Trustee shall, exercise any and all remedies available under law or granted under the Lease; *provided, however*, that notwithstanding anything herein or in the Lease to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payment not then in default to be immediately due and payable.

*Application of Funds.* All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or the Lease shall be applied by the Trustee in the order following upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

*First*, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in taking any remedial action with respect thereto, including reasonable compensation to its agents, attorneys and counsel, and including such other necessary costs relating to the administration of the foregoing and to events leading up thereto and to any other fees and expenses incurred in and about the performance of its powers and duties under the Trust Agreement;

*Second*, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at the rate set forth in the Lease (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

*Third*, to the payment of all amounts owed the 2019 Insurer.

*Institution of Legal Proceedings.* If one or more Events of Default occur and are continuing, the Trustee in its discretion may, or upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

*Power of Trustee to Control Proceedings.* If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, under its duties under the Trust Agreement, whether upon its own discretion or upon the direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Certificates opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

*Limitation on Certificate Owners' Right to Sue.* No Owner of any Certificate delivered under the Trust Agreement may institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding have requested the Trustee in writing to exercise the powers granted to it under the Trust Agreement or to institute such action, suit or proceeding in its own name; (c) said Owners have tendered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or omitted to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy under the Trust Agreement; it being understood and intended that no one or more Owners of Certificates has any right in any manner whatever by its or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained in the manner provided in the Trust Agreement and for the equal benefit of all Owners of the Outstanding Certificates.



## **Defeasance**

If and when the obligations represented by any Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

- (a) by well and truly paying or causing to be paid the principal, interest and prepayment premiums (if any) represented by such Certificates Outstanding, as and when the same become due and payable, or
- (b) by depositing with the Trustee or any other fiduciary, under an escrow deposit and trust agreement, security for the payment of Lease Payments relating to such Certificates as more particularly described in the Lease, said security to be held by the Trustee on behalf of the District to be applied by the Trustee or by such other fiduciary to pay or prepay such Lease Payments as the same become due, under the Lease,

then notwithstanding that such Certificates have not been surrendered for payment, all rights under the Trust Agreement of the Owners of such Certificates and all obligations of the Authority, the Trustee and the District with respect to such Certificates shall cease and terminate, except only the obligations of the Authority and the District under the indemnification provisions of the Trust Agreement and the obligations of the Trustee related to transfer and exchange of Certificates, and the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited under paragraph (b) above, to the Owners of such Certificates not so surrendered and paid all sums represented thereby when due and in the event of deposits under paragraph (b), and such Certificates shall continue to represent direct, undivided fractional interests of the Owners thereof in the Lease Payments to be paid by or on behalf of the District from funds deposited under paragraph (b) above.

Any funds held by the Trustee, at the time of discharge of the obligations represented by all Outstanding Certificates as a result of one of the events described in paragraphs (a) or (b) of this Section, which are not required for the payment to be made to Owners, shall, upon payment in full of all fees and expenses of the Trustee (including attorneys' fees) then due and all amounts owed the 2017 Insurer, be paid over to the District.

## **Provisions Relating to the 2017 Insurance Policy**

1. *Defeasance.* The investments in any defeasance escrow for the Certificates shall be limited to non-callable, direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, or as otherwise may be authorized under the laws of the State of California and approved by the 2019 Insurer.

At least three Business Days prior to any defeasance, the District shall deliver to the 2019 Insurer copies of an escrow agreement, opinions regarding the validity and enforceability of the escrow agreement, a verification report (a "Verification Report") of a nationally recognized independent financial analyst or firm of certified public accountants regarding sufficiency of the escrow and a defeasance legal opinion. Such opinions and Verification Report shall be addressed to the 2019 Insurer and shall be in form and substance satisfactory to the 2019 Insurer. In addition, the escrow agreement shall provide that:

(a) Any substitution of securities shall require the delivery of a Verification Report, an opinion of bond counsel that such substitution will not adversely affect the exclusion (if interest on the Certificates is excludable) from gross income of the holders of the Certificates of the interest on the Certificates for federal income tax purposes and the prior written consent of the 2019 Insurer.

(b) The District will not exercise any prior optional prepayment of Certificates secured by the escrow agreement or any other prepayment other than mandatory sinking fund prepayments (if any) unless (i) the right to make any such prepayment has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding Certificates, and (ii) as a condition to any such prepayment there shall be provided to the 2019 Insurer a Verification Report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following any such prepayment.

(c) The District shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the 2019 Insurer.

## **2. *Trustee.***

(a) The 2019 Insurer shall receive prior written notice of any name change of the Trustee or the resignation or removal of the Trustee. Any Trustee must be (i) a national banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250 million of assets, (ii) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1 billion of assets, or (iii) otherwise approved by the 2019 Insurer in writing.

(b) No removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the 2019 Insurer, shall be appointed.

3. *Amendments, Supplements and Consents.* The 2019 Insurer's prior written consent is required for all amendments and supplements to the Security Documents, with the exceptions noted below. The District shall send copies of any such amendments or

supplements to the 2019 Insurer and the rating agencies which have assigned a rating to the Certificates.

- (a) Consent of the 2019 Insurer. The 2019 Insurer's consent shall not be required for the following amendments or supplements:
  - (i) to cure any ambiguity or formal defect or omissions or to correct any inconsistent provisions in this Trust Agreement or in any supplement thereto, or
  - (ii) to grant or confer upon the Certificate holders any additional rights, remedies, powers authority or security that may lawfully be granted to or conferred upon the Certificate holders, or
  - (iii) to add to the conditions, limitations and restrictions on the delivery of Certificates under the provisions of the Security Documents other conditions, limitations and restrictions thereafter to be observed or
  - (iv) to add to the covenants and agreements of the District in the Security 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.
- (b) *Consent of the 2019 Insurer in Addition to Certificate Holder Waiver.* Any amendment, supplement, modification or waiver of any provision of this Trust Agreement that requires a consent of holders of the Certificates or adversely affects the rights or interests of the 2019 Insurer shall be subject to the prior written consent of the 2019 Insurer.
- (c) *Consent of the 2019 Insurer in the Event of Insolvency.* Any reorganization or liquidation plan with respect to the District must be acceptable to the 2019 Insurer in writing. In the event of any reorganization or liquidation of the District, the 2019 Insurer shall have the right to vote on behalf of all holders of the Certificates absent a continuing failure by the 2019 Insurer to make a payment under the Bond Insurance Policy.
- (d) *2019 Insurer as Owner.* Upon the occurrence and continuance of a default or an event of default, the 2019 Insurer shall be deemed to be the sole owner of the Certificates for all purposes under the Security Documents, including, without limitations, for purposes of exercising remedies and approving amendments. Anything in the Security Documents to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, the 2019 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 Security Document. No default or event of default may be waived without the 2019 Insurer's written consent.
- (e) *Consent of the 2019 Insurer for Acceleration.* The 2019 Insurer's prior written consent is required as a condition precedent to and in all instances of acceleration. No acceleration is permitted under the Lease Agreement.

- (f) Grace Period for Payment Defaults. No grace period shall be permitted for payment defaults on the Certificates. No grace period for a covenant default shall exceed 30 days without the prior written consent of BAM.
- (g) Special Provisions for Insurer Default. If an Insurer Default shall occur and be continuing, then, notwithstanding anything in paragraphs 4(a)-(e) above to the contrary, (1) if at any time prior to or following an Insurer Default, the 2019 Insurer has made payment under the Bond Insurance Policy, to the extent of such payment the 2019 Insurer shall be treated like any other holder of the Certificates for all purposes, including giving of consents, and (2) if the 2019 Insurer has not made any payment under the Bond Insurance Policy, the 2019 Insurer shall have no further consent rights until the particular Insurer Default is no longer continuing or the 2019 Insurer makes a payment under the Bond Insurance Policy, in which event, the foregoing clause (1) shall control. For purposes of this paragraph (h), "Insurer Default" means: (A) the 2019 Insurer has failed to make any payment under the Bond Insurance Policy when due and owing in accordance with its terms; or (B) the 2019 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 Bond Insurance Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the 2019 Insurer (including without limitation under the New York Insurance Law).

4. *Lease.*

- (a) The Certificates represent a right to receive the Lease Payments under the Lease, and the Site Lease and Lease, including the Lease Payments, have been assigned to the Trustee under the Assignment Agreement, and a default under the Lease shall constitute an Event of Default under the Security Documents.
- (b) Any payments by the District under the Lease that will be applied to the payment of debt service with respect to Certificates shall be made directly to the Trustee at least fifteen (15) days prior to each debt service payment date for the Certificates.

5. *2019 Insurer As Third Party Beneficiary.* The 2019 Insurer is recognized as and shall be deemed to be a third party beneficiary of the Security Documents and may enforce the provisions of the Security Documents as if it were a party thereto.

6. *Payment Procedure Under the Bond Insurance Policy.* In the event that principal and/or interest due on the Certificates shall be paid by the 2019 Insurer pursuant to the Bond 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 shall continue to exist and shall run to the benefit of the 2019 Insurer, and the 2019 Insurer shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Certificates.

In the event that on the second Business Day prior to any payment date on the Certificates, the Trustee has not received sufficient moneys to pay all principal and interest represented by the Certificates due on such payment date, the Trustee shall immediately notify the 2019 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 2019 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 or interest represented by 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 2019 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 2019 Insurer.

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

- (a) If there is a deficiency in amounts required to pay interest and/or principal on the Certificates, the Trustee shall (i) execute and deliver to the 2019 Insurer, in form satisfactory to the 2019 Insurer, an instrument appointing the 2019 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 2019 Insurer of the claims for interest on the Certificates, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy payment from the 2019 Insurer with respect to the claims for interest so assigned, and (iii) disburse the same to such respective holders; and
- (b) If there is a deficiency in amounts required to pay principal of the Certificates, the Trustee shall (i) execute and deliver to the 2019 Insurer, in form satisfactory to the 2019 Insurer, an instrument appointing the 2019 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 the 2019 Insurer of the Certificates surrendered to the 2019 Insurer, (ii) receive as designee of the respective holders (and not as Paying Agent ) in accordance with the tenor of the Bond Insurance Policy payment therefore from the 2019 Insurer, and (iii) disburse the same to such holders. The Trustee shall designate any portion of payment of principal on Certificates paid by the 2019 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 Certificate to the 2019 Insurer, registered in the name of directed by the 2019 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 or the subrogation or assignment rights of the 2019 Insurer.

Payments with respect to claims for interest on and principal of the Certificates disbursed by the Trustee from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the District with respect to such Certificates, and the 2019 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.

Irrespective of whether any such assignment is executed and delivered, the District and the Trustee agree for the benefit of the 2019 Insurer that:

- (a) They recognize that to the extent the 2019 Insurer makes payments directly or indirectly (e.g., by separate paying through the Trustee), on account of principal or interest represented by the Certificates, the 2019 Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest with respect to the Certificates, with interest thereon, as provided and solely from the sources stated in the Security Documents and the Certificates; and
- (b) The Trustee will accordingly pay to the 2019 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 and interest represented by the Certificates to holders, and will otherwise treat the 2019 Insurer as the owner of such rights to the amount of such principal and interest.

7. *Additional Payments.* The District agrees unconditionally that it will pay or reimburse the 2019 Insurer on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that the 2019 Insurer may pay or incur, including, but not limited to, fees and expenses of the 2019 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 Security 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 2019 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 2019 Insurer until the date the 2019 Insurer is paid in full, "**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 2019 Insurer shall specify. Interest at the Late Payment Rate shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

Notwithstanding anything herein to the contrary, the District agrees to pay to the 2019 Insurer (i) a sum equal to the total of all amounts paid by the 2019 Insurer under the Bond Insurance Policy ("the 2019 Insurer Policy Payment"); and (ii) interest on such the 2019 Insurer Policy Payments from the date paid by the 2019 Insurer until payment thereof in full by the District, payable to the 2019 Insurer at the Late Payment Rate per annum (collectively, "the 2019 Insurer Reimbursement Amounts") compounded semi-annually. The District hereby covenants and agrees that the 2019 Insurer Reimbursement Amounts are payable as a Lease Payment under the Lease Agreement.

8. *Reserve Fund.* Except for the Reserve Policy, prior written consent of the 2019 Insurer is a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Reserve Fund, if any. Amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the Certificates.

9. *Exercise of Rights by the 2019 Insurer.* The rights granted to the 2019 Insurer under the Security Documents to request, consent to or direct any action are rights granted to the 2019 Insurer in consideration of its issuance of the Bond Insurance Policy. Any exercise by the 2019 Insurer of such rights is merely an exercise of the 2019 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 the 2019 Insurer, affirmative or negative, as to whether the consent of the holders of the Certificates or any other person is required in addition to the consent of the 2019 Insurer.

No contract shall be entered into or any action taken by which the rights of the 2019 Insurer or security for or source of payment of the Certificates may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the 2019 Insurer.

10. *Default of Other Obligations.* If an event of default occurs under any agreement pursuant to which any Obligation of the District has been incurred or issued and that permits the holder of such Obligation or trustee to accelerate the Obligation or otherwise exercise rights or remedies that are adverse to the interest of the holders of the Certificates or the 2019 Insurer, as 2019 Insurer may determine in its sole discretion, then an event of default shall be deemed to have occurred under this Trust Agreement and the related Security Documents for which 2019 Insurer or the Trustee, at the direction of 2019 Insurer, shall be entitled to exercise all available remedies under the Security Documents, at law and in equity. For purposes of the foregoing "Obligation" shall mean any certificates, loans, certificates, installment or lease payments or similar obligations that are payable and/or secured on a parity or subordinate basis to the Certificates.

### **Provisions Relating to the 2019 Reserve Policy**

(a) The District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the 2019 Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by 2019 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 2019 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 2019 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 2019 Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

All cash and investments in the Reserve Fund established for the Certificates shall be transferred to the Lease Payment Fund for payment of the debt service with respect to Certificates before any drawing may be made on the Reserve Policy or any other Reserve Facility in lieu of cash. Payment of any Policy Cost shall be made prior to replenishment of any cash amounts. Draws on all Reserve Facilities (including the Reserve 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 Facilities 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.

(b) Draws under the Reserve Policy may only be used to make payments on Certificates insured by the 2019 Insurer.

(c) If the District shall fail to pay any Policy Costs in accordance with the requirements of paragraph (a) above, the 2019 Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Security Documents other than (i) acceleration of the maturity of the Certificates, or (ii) remedies which would adversely affect owners of the Certificates.

(d) The Security Documents shall not be discharged until all Policy Costs owing to the 2019 Insurer shall have been paid in full. The District's obligation to pay such amount shall expressly survive payment in full of the Certificates.

(e) The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of paragraph (a) hereof and provide notice to the 2019 Insurer at least three business days prior to each date upon which interest or principal is due on the Certificates.



(f) The Reserve Policy shall expire on the earlier of the date the Certificates are no longer outstanding and the final maturity date of the Certificates.

## **SITE AND FACILITIES LEASE**

The District agrees under the Site and Facilities Lease to lease the property to the Authority and the Authority agrees to lease the property from the District, upon the terms and conditions set forth in the Site and Facilities Lease. The term of the Site and Facilities Lease terminates on the date on which the Lease terminates, or, in the case that any Lease Payments remain unpaid on such date, the Site and Facilities Lease terminates once all Lease Payments are paid in full. The Authority is to use the Property solely for the purpose of leasing the Property to the District pursuant to the terms of the Lease.

## **LEASE AGREEMENT**

### **Lease**

The Authority leases the Property to the District, and the District leases the Property from the Authority, upon the terms and conditions set forth in the Lease.

### **Term of Agreement**

The Term of the Lease commences on the date of execution and delivery hereof and ends on the date on which the Trust Agreement is discharged and all amounts owed the 2019 Insurer are paid in full, but under any circumstances not later than September 1, 20\_\_\_\_. The provisions of the Lease are subject to the provisions of the Lease relating to the substitution of property, the provisions of the Lease relating to the release of property, and the provisions of the Lease relating to the taking in eminent domain of the Leased Property or any portion thereof of the Lease Agreement. The District may not terminate the Lease as a remedy for a default by the Authority.

### **Lease Payments**

*Obligation to Pay.* Subject to the provisions of the Lease, the District agrees to pay to the Authority, its successors and assigns, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in the Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in the Lease, and to be deposited by the District with the Trustee on each of the Lease Payment Dates specified in the Lease. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole under the Lease and other than amounts required for payment of past due principal or interest represented by any Certificates not presented for payment) will be credited towards the Lease Payment then required to be paid; and no Lease Payment need be deposited with the Trustee on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be deposited with the Trustee. The Lease Payments payable in any Rental Period are for the use of the Leased Property during such Rental Period.

*Effect of Prepayment.* If the District prepays all Lease Payments in full under the Lease, and if the District has paid all Additional Payments then due and payable, the District's obligations under the Lease will thereupon cease and terminate. If the District prepays the Lease Payments in part but not in whole under the Lease, the principal components of the remaining Lease Payments will be reduced in integral multiples of \$5,000 among Lease Payment Dates on a basis which corresponds to the principal maturities of the Certificates which are prepaid thereby; and the interest component of each remaining Lease Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates thereby prepaid under the Trust Agreement, as the case may be. The District will provide a revised Appendix B of the Lease Agreement to the Trustee.

*Rate on Overdue Payments.* If the District fails to make any of the payments required in the Lease, the payment in default will continue as an obligation of the District until the amount in default has been fully paid, and the District agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest represented by any Outstanding Certificate.

*Fair Rental Value.* The Lease Payments and Additional Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and the District will pay the Lease Payments and Additional Payments in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The Authority and the District have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated fair market value of the Leased Property as of the Closing Date, other obligations of the District and the Authority under the Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the District and the general public.

*Source of Payments; Budget and Appropriation.* The Lease Payments are payable from any source of legally available funds of the District, subject to the provisions of the Lease.

The District covenants to take such action as may be necessary to include all estimated Lease Payments and all estimated Additional Payments due under the Lease in each of its final approved budgets. The District further covenants to make all necessary appropriations (including any supplemental appropriations) from any source of legally available funds of the District for the full amount of Lease Payments and Additional Payments which come due and payable during the period covered by each such budget. The covenants on the part of the District contained herein are duties imposed by law and it is the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the District.

*Assignment.* The District acknowledges that certain of the Authority's rights under the Site and Facilities Lease and the Lease (including the payment of all Lease Payments) have been assigned by the Authority to the Trustee in trust under the Assignment Agreement, for the benefit of the Owners of the Certificates and the 2019 Insurer, and the District consents to such assignment. The Authority directs the District, and the District agrees to pay to the Trustee at its Office, all payments payable by the District under the Lease and all amounts payable by the District under the Lease.

## **Title**

At all times during the Term of the Lease, the District will hold title to the Leased Property, subject to the Site and Facilities Lease and other Permitted Encumbrances, including all additions which comprise fixtures, repairs, replacements or modifications thereto, and subject to the provisions of the Lease.

Upon the termination of the Lease, all right, title and interest of the Authority in and to the Leased Property will be transferred to and vested in the District. Upon the payment in full of all Lease Payments allocable to the Leased Property, or upon the deposit by the District of security for such Lease Payments as provided in the Lease, all right, title and interest of the Authority in and to the Leased Property will be transferred to and vested in the District. The Authority agrees to take any and all steps and execute and record any and all documents reasonably required by the District to consummate any such transfer of title.

## **Additional Payments**

In addition to the Lease Payments, the District shall pay when due, as additional rental for the Leased Property under the Lease, (a) all costs and expenses incurred by the District thereunder or under the Trust Agreement, or incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund).

In addition to the Lease Payments, the District shall also pay to the Authority, the 2019 Insurer or to the Trustee, as the case may be, "Additional Payments," as follows:

(a) All costs and expenses incurred by the District hereunder or under the Trust Agreement, or incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund);

(b) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the District shall have the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the District's expense, to protest and contest any such taxes or assessments levied upon them and that the District shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee;

(c) All reasonable fees, charges and expenses of the Trustee for services rendered under the Trust Agreement (including amounts payable to the Trustee by virtue of indemnification) and all amounts referred to in Section 8.03 of the Trust Agreement, as and when the same become due and payable;

(d) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease, the Site and Facilities Lease, the Assignment Agreement or the Trust Agreement; and

(e) The Authority Issuance Fee and the reasonable fees and expenses of the Authority or any agent or attorney selected by the Authority to act on its behalf in connection with the Lease, the Site and Facilities Lease, the Assignment Agreement, the Certificates or the Trust Agreement, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Certificates or in connection with any litigation, investigation or other proceeding which may at any time be instituted involving the Lease, the Site and Facilities Lease, the Assignment Agreement, the Certificates or the Trust Agreement or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the District, its properties, assets or operations or otherwise in connection with the administration of the Lease, the Site and Facilities Lease or the Assignment Agreement.

(f) Any amounts due and payable by the District as arbitrage rebate under Section 148 of the Code, pursuant to District's covenants and agreements with respect thereto in the Lease, the Site and Facilities Lease, the Assignment Agreement.

(g) All reimbursements of costs to the 2019 Insurer that do not constitute payment of Lease Payments.

(h) All amounts owed pursuant to that certain Debt Service Reserve Agreement, by and between the District and the 2019 Insurer as issuer of the Reserve Policy.

Such Additional Payments shall be billed to the District by the Authority, the 2019 Insurer or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the 2019 Insurer or the Trustee for one or more of the above items. After such a demand, amounts so billed shall be paid by the District within thirty (30) days after the date of invoice. Notwithstanding the foregoing, the Authority shall not be required to submit a bill to the District for payment of any amounts due with respect to arbitrage rebate under Section 148 of the Code, the calculation and payment for which is the responsibility of the District.

The Authority Issuance Fee shall be paid to the Authority by the District on the Closing Date. District's obligation to pay the Authority Issuance Fee shall in no way limit amounts payable by the District to the Authority under the Lease, the Site and Facilities Lease or the Assignment Agreement, including for the enforcement thereof.

## **Maintenance, Utilities, Taxes and Assessments**

Throughout the Term of the Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the sole responsibility of the District, and the District will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Lease Payments provided in the Lease, the Authority agrees to provide only the Leased Property, as therein before more specifically set forth. The District waives the benefits of subsections 1 and 2 of Section 1932, Section 1933(4) and Sections 1941 and 1942 of the California Civil Code, but such waiver does not limit any of the rights of the District under the terms of the Lease.

The District will also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the District affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District is obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the District that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the District shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

## **Modification of Leased Property**

The District has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under the Lease, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The District will not permit any lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the District under this Section; provided that if any such lien is established and the District first notifies the Authority of the District's intention to do so, the District may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from

the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the District.

## **Insurance**

*Public Liability and Property Damage Insurance.* The District will maintain or cause to be maintained, throughout the Term of the Lease, comprehensive general insurance in protection of the Authority, the District and their respective members, officers, agents, employees and assigns. Such insurance must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such insurance must provide coverage in such liability limits and be subject to such deductibles as the District deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of a program of self-insurance by the District, or in the form of the participation by the District in a joint powers authority or other program providing pooled insurance. The District shall apply the proceeds of such insurance toward extinguishment or satisfaction of the liability with respect to which the net proceeds are paid.

*Casualty Insurance.* The District will procure and maintain, or cause to be procured and maintained, at all times throughout the Term of the Lease, casualty insurance against loss or damage to the insured buildings, facilities and other improvements constituting any part of the Leased Property, in an amount that is expressly designated as coverage for the Leased Property and at least equal to the greater of (a) the replacement value of such buildings, facilities and improvements, or (b) the aggregate principal amount of the Outstanding Certificates. Such insurance must, as nearly as practicable, cover loss or damage by fire, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. The District shall not be obligated to purchase earthquake coverage as part of such insurance. Such insurance may be subject to such deductibles as the District deems prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the District in the form of self-insurance. The property and casualty insurance provided pursuant to the Lease (i) shall be provided pursuant to a policy that is specific to the Leased Property and provides coverage solely for the Leased Property or (ii) if provided pursuant to a policy that covers more than just the Leased Property, shall include a rider or endorsement to such policy that (A) provides that the coverage for the Leased Property under the policy shall never be less than the amount required by the Lease and that any payments under the policy in respect of other property covered by the policy shall not have the effect of reducing the coverage provided by the policy for the Leased Property and (B) meets the other conditions of the Lease. The District shall apply the Net Proceeds of such insurance as provided in the Lease.

*Rental Interruption Insurance.* The District will procure and maintain, or cause to be procured and maintained, at all times throughout the Term of the Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Leased Property, as a result of any of the hazards covered in the insurance required by the Lease, in an amount at least equal to the maximum Lease Payments coming due and payable during any two consecutive Fiscal Years during the remaining Term of the Lease. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in

whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the District in the form of self-insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable. The provider of such insurance shall be rated at least "A" by A.M. Best & Company.

*Recordation; Title Insurance.* The District will, at its expense, cause the Site and Facilities Lease, the Assignment Agreement and the Lease (or a memorandum thereof in form and substance approved by Bond Counsel) to be recorded in the office of the San Bernardino County Recorder on or before the Closing Date. Concurrent with such recordation, the District shall obtain a CLTA title insurance policy insuring the District's leasehold estate in the Leased Property under the Lease, in an amount at least equal to the aggregate principal amount of the Certificates. All Net Proceeds received under such title insurance policy will be deposited with the Trustee in the Lease Payment Fund and credited towards the prepayment of the Lease Payments under the Lease.

*Insurance Net Proceeds; Form of Policies.* Each policy of insurance maintained under the Lease must name the Trustee as loss payee so as to provide that all proceeds thereunder are payable to the Trustee. The District shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease. All such policies shall provide that the Trustee is given 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee is not responsible for the sufficiency, adequacy or amount of any insurance or self-insurance herein required and is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. Annually not later than January 15 in each year during the Term hereof, the District must furnish or cause to be furnished to the Trustee a certificate stating that the District has complied with the Lease. The Trustee is entitled to rely on any such certificate as to the District's compliance with these provisions, and the Trustee has no further duties in that regard.

## **Tax Covenants**

*Private Activity Bond Limitation.* The District will assure that the proceeds of the Certificates are not so used as to cause the obligations of the District under the Lease to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

*Federal Guarantee Prohibition.* The District will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the obligations of the District under the Lease to be "federally guaranteed" within the meaning of section 149(b) of the Code.

*Rebate Requirement.* The District will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Certificates and the Lease.

*No Arbitrage.* The District will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of delivery of the Lease would have caused any of the obligations of the District under the Lease to be "arbitrage bonds" within the meaning of section 148 of the Code.

*Maintenance of Tax-Exemption.* The District will take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of delivery of the Lease.

*Record Retention.* The District will retain its records of all accounting and monitoring it carries out with respect to the Certificates for at least 3 years after the Certificates mature or are redeemed (whichever is earlier); however, if the Certificates are redeemed and refunded, the District will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Certificates.

*Compliance with Tax Certificate.* The District will comply with the provisions of the tax certificate and the use of proceeds certificate to be delivered with respect to the Certificates, which are incorporated in the Lease as if fully set forth therein. The covenants of the Lease will survive payment in full or defeasance of the Certificates.

*Small Issuer Exemption from Bank Nondeductibility Restriction.* The District hereby designates the Lease for purposes of paragraph (3) of section 265(b) of the Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under section 103(a) of the Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in section 141 of the Code, except qualified 501(c)(3) bonds as defined in section 145 of the Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including the Lease, has been or will be issued by the District, including all subordinate entities of the District, during the calendar year 2019.

### **Termination or Abatement Due to Eminent Domain**

If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease will cease with respect thereto as of the day possession is so taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, (a) the Lease will continue in full force and effect with respect thereto and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there will be a partial abatement of Lease Payments allocated thereto, in an amount to be determined by the District such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.



### **Application of Net Proceeds**

The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Property by fire or other casualty shall be paid to the Trustee, as assignee of the Authority under the Assignment Agreement, and deposited in the Insurance and Condemnation Fund to be applied as set forth in the Trust Agreement. The Net Proceeds of any eminent domain award with respect to the Leased Property resulting from any event described in the Lease shall be paid by the District to the Trustee and deposited in the Insurance and Condemnation Fund to be applied as set forth in the Trust Agreement. For avoidance of doubt, the definition of Leased Property excludes personal property and, therefore, Net Proceeds does not include insurance proceeds or eminent domain award related to personal property.

### **Abatement of Due to Damage or Destruction**

The amount of Lease Payments will be abated during any period in which by reason of damage or destruction (other than by eminent domain which is herein before provided for) there is substantial interference with the use and occupancy by the District of the Leased Property or any portion thereof. The amount of such abatement shall be determined by the District such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property that are available for use and occupancy. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease shall continue in full force and effect and the District waives any right to terminate the Lease by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease to the extent that the proceeds of hazard insurance, or rental interruption insurance, are available to pay Lease Payments which would otherwise be abated under the Lease, it being thereby declared that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

### **Substitution of Property**

The District has, and is granted in the Lease, the option at any time and from time to time to substitute other real property (the "Substitute Property") for the Leased Property or any portion thereof (the "Former Property"), provided that the District must satisfy all of the following requirements which are thereby declared to be conditions precedent to such substitution:

- (a) No Event of Default has occurred and is continuing.
- (b) The District has filed with the Authority and the Trustee, and caused to be recorded in the office of the San Bernardino County Recorder sufficient memorialization of, (i) an amendment hereof which adds to the Lease a description of such Substitute Property and deletes therefrom the description of such Former Property, and (ii) appropriate amendments to the Site and Facilities Lease and Assignment Agreement that adds thereto a description of such Substitute Property and deletes therefrom the description of such Former Property.
- (c) The District has obtained a CLTA policy of title insurance insuring the District's leasehold estate under the Lease in such Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated fair market value thereof;

- (d) The District has certified in writing to the Authority and the Trustee that such Substitute Property serves the public purposes of the District and constitutes property which the District is permitted to lease under the laws of the State of California, and has been determined to be essential to the proper, efficient and economic operation of the District and to serve an essential governmental function of the District.
- (e) The Substitute Property does not cause the District to violate any of its covenants, representations and warranties made herein or in the Trust Agreement.
- (f) The District has filed with the Authority and the Trustee a certificate to the effect that the fair market value and the fair rental value of the Substitute Property and any other property that will be subject to the Lease and the Site and Facilities Lease are at least equal to the outstanding principal amount of the Certificates, and that the useful life of the Substitute Property at least equals the remaining term of the Lease.
- (g) The District has provided the Trustee with an opinion of nationally recognized bond counsel to the effect that such substitution will not, in and of itself, cause the interest on the Certificates to be included in gross income for federal income tax purposes.
- (h) The District has mailed written notice of such substitution to each rating agency which then maintains a rating on the Certificates.
- (i) The District shall have obtained the prior written consent of the 2019 Insurer to such substitution.

Upon the satisfaction of all such conditions precedent, the Term of the Lease will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The District is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

The Authority and the District will execute, deliver and cause to be recorded all documents required to discharge the Lease, the Site and Facilities Lease and the Assignment Agreement against the Former Property, and to cause the Substitute Property to become subject to all of the terms and conditions of the Lease, the Site and Facilities Lease and the Assignment Agreement.

### **Release of Property**

The District has the option at any time and from time to time to release any portion of the Leased Property from the Lease and the Site and Facilities Lease (the "Released Property") provided that the District has satisfied all of the following requirements which are declared in the Lease to be conditions precedent to such release:

- (a) No Event of Default has occurred and is continuing.

- (b) The District has filed with the Authority and the Trustee, and caused to be recorded in the office of the San Bernardino County Recorder sufficient memorialization of, (i) an amendment hereof that removes the Released Property from the Lease, and (ii) appropriate amendments to the Site and Facilities Lease and Assignment Agreement that removes therefrom the description of the Released Property.
- (c) The District has certified in writing to the Authority and the Trustee that the fair market value of the property which remains subject to the Lease and the Site and Facilities Lease following such removal is at least equal to the outstanding principal amount of the Certificates, and the fair rental value of the property which remains subject to the Lease and the Site and Facilities Lease following such removal is at least equal to the Lease Payments thereafter coming due and payable under the Lease.
- (d) The District has provided the Trustee with an opinion of nationally recognized bond counsel to the effect that such release will not, in and of itself, cause the interest on the Certificates to be included in gross income for federal income tax purposes.
- (e) The District has mailed written notice of such removal to each rating agency which then maintains a rating on the Certificates.
- (f) The District shall have obtained the prior written consent of the 2019 Insurer to such substitution.

Upon the satisfaction of all such conditions precedent, the Term of the Lease will thereupon end as to the Released Property. The District is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release. The Authority and the District shall execute, deliver and cause to be recorded all documents required to discharge the Lease, the Site and Facilities Lease and the Assignment Agreement of record against the Released Property.

### **Amendment of Lease**

The Authority and the District may at any time amend or modify any of the provisions of the Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding Certificates; or (b) without the consent of the Trustee or any of the Certificate Owners, and only if such amendment or modification is for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the District contained in the Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District,
- (ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in the Lease, for the purpose of conforming to the original intention of the District and the Authority,

- (iii) to amend the description of any component of the Leased Property to reflect accurately the property originally intended to be included therein, or to effectuate any substitution of property as permitted by the Lease or any release of property as permitted by the Lease,
- (iv) to obligate the District to pay additional amounts of rental under the Lease for the use and occupancy of the Leased Property or any portion thereof, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance public improvements of the District, and (B) the District has filed with the Trustee written evidence that the amendments made under this subsection (iv) will not of themselves cause a reduction or withdrawal of any rating then assigned to the Certificates, or
- (v) in any other respect whatsoever as the Authority and the District deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Certificates.

The District must obtain and cause to be filed with the Trustee an opinion of Bond Counsel with respect to any amendment or modification hereof, stating that all conditions precedent to such amendment as set forth in the Lease have been satisfied. Promptly following the effective date of any amendment or modification under this Section, the District must mail written notice thereof to each rating agency which then maintains a rating on the Certificates.

### **Events of Default**

Each of the following events constitutes an Event of Default under the Lease:

- (a) Failure by the District to pay any Lease Payment or other payment required to be paid under the Lease in full at the time specified therein.
- (b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed herein or in the Trust Agreement, other than as referred to in the preceding subsection (a), 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 Authority, or the Trustee; *provided, however*, that if the District notifies the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 30 day period, the failure will not constitute an Event of Default if the District commences to cure the failure within such 30 day period and thereafter diligently and in good faith cures such failure in a reasonable period of time.
- (c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted

under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Any Event of Default described in the preceding clause (a) will give rise to the exercise of remedies with respect to all of the Leased Property, and the District shall not have the right to allocate its Lease Payment to a particular portion of the Leased Property.

### **Remedies on Default**

Whenever any Event of Default has happened and is continuing, the Authority may, subject to the provisions of the Trust Agreement and the rights of the 2017 Insurer thereunder, exercise any and all remedies available under law or granted under the Lease. Notwithstanding anything in the Lease or in the Trust Agreement to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant hereof to be kept and performed by the District is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights granted under the Lease; provided, that no termination of the Lease shall be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. Upon the occurrence and during the continuance of any Event of Default, the Authority may exercise each and every one of the following remedies, subject in all respects to the limitations set forth in the Lease:

- (a) Enforcement of Payments Without Termination. If the Authority does not elect to terminate the Lease in the manner hereinafter provided for in subsection (b) of this Section, the District agrees to remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property, or, if the Authority is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of the Lease, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided for the payment of Lease Payments under the Lease, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Authority.

The District irrevocably appoints the Authority as the agent and attorney-in-fact of the District to enter upon and re-lease the Leased Property upon the occurrence and continuation of an Event of Default and to remove all personal property whatsoever situated upon the Leased Property, to place such property in storage or other suitable place in the County of San Bernardino for the account of and at the expense of the District, and the District agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The District agrees that the terms of the Lease constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of the Lease, and further agrees that no acts of the Authority in effecting such

re-leasing constitute a surrender or termination of the Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate the Lease shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subsection (b) of this Section. The District agrees to surrender and quit possession of the Leased Property upon demand of the Authority for the purpose of enabling the Leased Property to be re-let under this paragraph. Any rental obtained by the Authority in excess of the unpaid Lease Payments shall be deposited with the Trustee in the Lease Payment Fund, to be applied as a credit against future Lease Payments.

- (b) Termination of Lease. If an Event of Default occurs and is continuing under the Lease, the Authority at its option may terminate the Lease and re-lease all or any portion of the Leased Property. The Trustee shall provide the District with a reasonable period of time to remove its personal property in connection with a termination of the Lease and a re-lease of all or any portion of the Leased Property. If the Authority terminates the Lease at its option and in the manner hereinafter provided on account of default by the District (and notwithstanding any re-entry upon the Leased Property by the Authority in any manner whatsoever or the re-leasing of the Leased Property), the District nevertheless agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments and Additional Payments. Any surplus received by the Authority from such re-leasing shall be deposited in the Lease Payment Fund. Neither notice to pay rent or to deliver up possession of the premises given under law nor any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the District shall be or become effective by operation of law, or otherwise, unless and until the Authority has given written notice to the District of the election on the part of the Authority to terminate the Lease. The District agrees that no surrender of the Leased Property, or of the remainder of the Term hereof or any termination of the Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.
- (c) Proceedings at Law or In Equity. If an Event of Default occurs and continues under the Lease, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Lease or to enforce any other of its rights thereunder.

### **No Remedy Exclusive**

No remedy conferred upon or reserved to the Authority is intended to be exclusive and every such remedy is cumulative and in addition to every other remedy given under the Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the

Authority to exercise any remedy reserved to it in the Lease it is not necessary to give any notice, other than such notice as may be required in the Lease or by law.

### **Trustee and the Certificate Owners to Exercise Rights**

Such rights and remedies as are given to the Authority under the Lease have been assigned by the Authority to the Trustee under the Assignment Agreement for the benefit of the Certificate Owners, to which assignment the District consents in the Lease. The Trustee and the Certificate Owners shall exercise such rights as provided in the Trust Agreement.

### **Security Deposit**

Notwithstanding any other provision of the Lease, the District may on any date secure the payment of the Lease Payments in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts on deposit in the funds and accounts established under the Trust Agreement, is either (a) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in the Lease, or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an independent certified public accountant, (which opinion must be addressed and delivered to the Trustee), together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under the Lease as the District instructs at the time of said deposit.

If the District posts a security deposit under this Section with respect to all unpaid Lease Payments and if the District has paid or caused to be paid all Additional Payments then due and payable (including all Policy Costs and other amounts owed the 2017 Insurer), and notwithstanding the provisions of the Lease, (a) all obligations of the District under the Lease, and all security provided by the Lease for said obligations, will thereupon cease and terminate, excepting only the obligation of the District to make, or cause to be made all of the Lease Payments from such security deposit, and (b) under the Lease, title to the Leased Property will vest in the District on the date of said deposit automatically and without further action by the District or the Authority. Said security deposit constitutes a special fund for the payment of Lease Payments in accordance with the provisions of the Lease.

### **Prepayment Option**

The District may exercise its option to prepay the principal components of the Lease Payments in whole, or in part in any integral multiple of \$5,000, on any date on or after the date specified in the lease, by paying a prepayment price equal to the aggregate principal components of the Lease Payments to be prepaid, together with the interest component of the Lease Payment required to be paid on such date, without prepayment premium. Such prepayment price shall be deposited by the Trustee upon receipt in the Lease Payment Fund, to be applied to the prepayment of Certificates under the Trust Agreement. The District shall give the Trustee written notice of its intention to exercise its option not less than 45 days in advance of the date of exercise.

### **Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain**

The District is obligated to prepay the principal components of the Lease Payments, in whole on any date or in part on any Interest Payment Date, from and to the extent of any Net

Proceeds of insurance award or eminent domain award with respect to the Leased Property theretofore deposited in the Lease Payment Fund for such purpose under Article VI of the Trust Agreement. The District and the Authority agree that such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments, shall be credited towards the District's obligations under the Lease. Such prepayment price shall be deposited by the Trustee in the Lease Payment Fund to be applied to the prepayment of Certificates under the Trust Agreement.

### **ASSIGNMENT AGREEMENT**

The Assignment Agreement is entered into between the Authority and the Trustee, pursuant to which the Authority assigns and transfers to the Trustee, for the benefit of the Insurer and the Owners, the rights of the Authority under the Lease, including the right to receive Lease Payments under the Lease and the rights and remedies of the Authority under the Lease to enforce payment of Lease Payments or otherwise to protect and enforce the Lease in the event of default by the District. Certain rights of the Authority to payment of advances, indemnification and attorneys' fees and expenses are not assigned.



## APPENDIX B

### GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

*The information in this and other sections concerning the District's operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Certificates is payable from the general fund of the District. See "SECURITY FOR THE CERTIFICATES" in the Official Statement.*

#### General Information

The District was formed in 1913. The District provides public education within a 330 square mile area including all of the City of Adelanto (the "**City**") and a portion of the City of Victorville. Total student enrollment is approximately 8,260 for fiscal year 2019-20. See also APPENDIX D hereto for demographic and other statistical information regarding the City and County.

#### Administration

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

<u>Name</u>	<u>Office</u>
Christine Turner	President
Holly Eckes	Clerk
Christina Bentz	Member
Ammie Hines	Member
La Shawn Love-French	Member

**Administrative Personnel.** The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Dr. Amy Nguyen-Hernandez is currently the Superintendent of the District and Ajay Mohindra is Chief Business Officer.

## Recent Enrollment Trends

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

### ANNUAL ENROLLMENT Fiscal Years 2014-15 through 2019-20 Adelanto Elementary School District

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>% Change</u>
2014-15	8,243	--%
2015-16	8,352	1.3
2016-17	8,352	0.0
2017-18	8,374	0.3
2018-19	8,234	(1.7)
2019-20 <sup>(1)</sup>	8,260	0.3

(1) Budgeted.

Source: California Department of Education for 2014-15 through 2018-19;  
Adelanto Elementary School District for 2019-20.

## Employee Relations

The District has 394.0 certificated full-time equivalent (“**FTE**”) employees, 326.0 classified FTE employees, and 58.0 management/supervisor/confidential FTE employees.

The certificated and classified employees of the District are represented by the Adelanto District Teachers Association and the California School Employees Association, respectively.

## DISTRICT FINANCIAL INFORMATION

### Education Funding Generally

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

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

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

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

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

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

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

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

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

Source: California Department of Education.

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

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

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

### **District Accounting Practices**

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

District accounting is organized on the basis of funds, with each group consisting of a separate accounting entity. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District's fiscal year begins on July 1 and ends on June 30. For more information on the District's basis of accounting and fund accounting, see Note 1 of APPENDIX C to the Official Statement.

District expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes

are considered susceptible to accrual. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

## **Financial Statements**

**General.** The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2018 Audited Financial Statements were prepared by Nigro & Nigro, PC, A Professional Accountancy Corporation, Murrieta, California and are attached to the Official Statement as APPENDIX C. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the Office of the Assistant Superintendent, Business and Operations of the District. The District has not requested, and the auditor has not provided, any review or update of such Financial Statements in connection with inclusion in this Official Statement.

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

**GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**Fiscal Years 2013-14 through 2017-18 (Audited)**  
**Adelanto Elementary School District <sup>(1)</sup>**

	<b><u>Audited</u></b> <b><u>2013-14</u></b>	<b><u>Audited</u></b> <b><u>2014-15</u></b>	<b><u>Audited</u></b> <b><u>2015-16</u></b>	<b><u>Audited</u></b> <b><u>2016-17</u></b>	<b><u>Audited</u></b> <b><u>2017-18</u></b>
<b><u>Revenues:</u></b>					
LCFF	\$47,606,239	\$58,290,894	\$69,844,926	\$76,860,752	\$78,354,465
Federal Revenues	3,479,610	3,738,741	3,942,702	6,135,374	5,919,234
Other State Revenues	4,905,844	5,011,709	9,907,783	7,734,749	9,887,156
Other Local Revenues	1,761,306	3,243,990	2,752,187	1,008,660	2,156,478
Total Revenues	57,752,999	70,285,334	86,447,598	91,739,535	96,317,333
<b><u>Expenditures:</u></b>					
Instruction	35,620,340	43,545,031	48,462,045	52,426,188	57,743,561
Supervision of Instruction	1,502,098	1,440,951	1,536,440	1,922,005	2,046,582
Instructional library, media, technology	351,802	629,243	721,205	848,348	1,100,318
School site administration	4,654,015	4,855,606	5,252,593	6,947,803	7,476,457
Home-to-school transportation	2,784,709	4,679,036	2,755,494	3,128,114	3,391,291
Food services	23,1331	115	--	--	1,258
All other pupil services	3,583,424	4,313,686	4,127,249	4,787,792	5,318,421
Community services	46,284	85,783	68,298	38,684	213,866
Data processing	707,821	791,701	868,016	736,938	694,392
All other general administration	4,844,479	4,720,541	4,601,782	5,141,993	5,095,888
Plant services	6,806,480	8,458,248	7,367,801	8,037,099	9,395,778
Ancillary services	225	3,022	2,739	--	--
Transfers of indirect costs	(137,586)	(279,965)	(252,468)	(220,316)	(295,098)
Intergovernmental transfers	412,553	510,213	585,347	760,492	1,530,653
Capital outlay	130,167	155,615	--	395,595	--
Debt service-principal	--	247,439	197,484	287,694	288,569
Debt service-interest	--	--	49,955	--	110,206
Total Expenditures	61,329,942	74,156,265	76,343,980	85,238,429	94,112,151
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,576,943)	(3,870,931)	10,103,618	6,501,106	2,205,182
<b><u>Other Financing Sources (Uses)</u></b>					
Operating transfers in	--	--	--	--	--
Operating transfers out	(320,441)	(38,473)	(13,995)	(512,506)	--
Proceeds from capital leases	--	1,551,758	--	395,595	(1,540,000)
Total Other Financing Sources (Uses)	(320,441)	1,513,285	(13,995)	(116,911)	665,182
Net change in fund balance	(3,897,384)	(2,357,646)	10,089,623	6,384,195	665,182
Fund Balances July 1	13,322,553	9,425,169	7,067,523	17,157,146	23,541,341
Fund Balances June 30	\$9,425,169	\$7,067,523	\$17,157,146	\$23,541,341	\$24,206,523

(1) Totals may not precisely sum due to rounding.

(2) Source: Audited financial statements of the District.

## District Budget and Interim Financial Reporting

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

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

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

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

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

year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or the two subsequent fiscal years.

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

***District's Budget and Interim Certification History.*** During the past five years, each of the District's adopted budgets have been approved by the County Superintendent and the District has received positive certifications on all of its recent interim reports, except for qualified certifications for its first and second interim reports in fiscal year 2014-15.



**District's General Fund.** The following table shows the general fund figures for the District for fiscal year 2018-19 (unaudited actuals) and 2019-20 (adopted budget).

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
**Revenues, Expenditures, and Changes in General Fund Balance**  
**Fiscal Year 2018-19 (Unaudited Actuals)**  
**Fiscal Year 2019-20 (Adopted Budget)**

	Unaudited Actuals 2018-19	Adopted Budget 2019-20
<b>Revenues</b>		
Total LCFF Sources	\$83,546,611	\$83,692,655
Federal Revenues	6,192,479	5,411,786
Other state revenues	12,839,703	7,185,347
Other local revenues	2,547,367	1,267,567
Total Revenues	105,126,159	97,557,355
<b>Expenditures</b>		
Certificated Salaries	39,528,267	41,231,634
Classified Salaries	14,391,105	15,668,485
Employee Benefits	29,032,701	28,193,930
Books and Supplies	2,655,084	3,318,844
Contract Services & Operating Exp.	11,335,222	11,259,351
Capital Outlay	2,608,404	118,790
Other Outgo (excluding indirect costs)	2,746,194	2,426,876
Other Outgo – Transfers of Indirect Costs	(293,474)	(265,435)
Total Expenditures	102,003,503	101,952,475
Excess of Revenues Over/(Under) Expenditures	3,122,656	(4,395,120)
<b>Other Financing Sources (Uses)</b>		
Operating transfers in	--	--
Operating transfers out	--	(50,000)
Total Other Financing Sources (Uses)	--	(50,000)
Net change in fund balance	3,122,656	(4,445,120)
Fund Balance, July 1	24,204,516	27,327,172
Fund Balance, June 30	\$27,327,172	\$22,882,052

Source: Adelanto Elementary School District.

**District Reserves.** The District's ending fund balance is the accumulation of surpluses from prior years. This fund balance is used to meet the State's minimum required reserve of 3% of expenditures, plus any other allocation or reserve which might be approved as an expenditure by the District in the future. The District has a board-adopted policy to maintain reserves of at least 6% of expenditures in an unrestricted reserve fund.

In connection with legislation adopted in connection with the State's fiscal year 2014-15 Budget ("SB 858"), the Education Code was amended to provide that, beginning in fiscal year 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, the governing board must provide the information for review at the annual public hearing on its proposed budget. In addition, SB 858 included a provision, which became effective upon the passage of Proposition 2 at the November 4, 2014 statewide election, which limits the amount of reserves which may be maintained at the District level. Specifically, the

legislation, among other things, enacted Education Code Section 42127.01, which became operative December 15, 2014, and provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the State's Public School System Stabilization Account (the Proposition 98 reserve), a school district may not adopt a budget that contains a reserve for economic uncertainties in excess of twice the applicable minimum recommended reserve for economic uncertainties established by the State Board (for school districts with ADA over 400,000, the limit is three times the amount). Exemptions can be granted by the County Superintendent under certain circumstances.

On October 11, 2017, the Governor signed new legislation (“**SB 751**”) amending Section 42127.01 of the Education Code, effective January 1, 2018. SB 751 raises the reserve cap established under SB 858 to no more than 10% of a school district's combined assigned or unassigned ending general fund balance and provides that the reserve cap will be triggered only if there is a minimum balance of 3% of the Proposition 98 reserve. Basic aid school districts and small districts with 2,500 or fewer ADA are exempt from the reserve cap.

### **Attendance - Revenue Limit and LCFF Funding**

**Funding Trends under LCFF.** As described herein, prior to fiscal year 2013-14, school districts in California received State funding based on a formula which considered a revenue limit per unit of ADA. With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following table sets forth recent LCFF funding per ADA for the District for fiscal years 2013-14 through 2019-20 (budgeted).

#### **ADELANTO ELEMENTARY SCHOOL DISTRICT ADA and LCFF Funding Fiscal Years 2013-14 through 2019-20 (Budgeted)**

<b>Fiscal Year</b>	<b>ADA</b>	<b>LCFF Funding Per ADA</b>
2013-14	7,622	\$6,246
2014-15	7,841	7,434
2015-16	7,957	8,778
2016-17	7,894	9,737
2017-18	7,874	9,951
2018-19 <sup>(1)</sup>	7,713	10,832
2019-20 <sup>(2)</sup>	7,738	10,816

(1) Unaudited Actuals.

(2) Budgeted.

Source: California Department of Education; Adelanto Elementary School District.

**District's Unduplicated Student Count.** Under LCFF, school districts are entitled to supplemental funding based on the unduplicated count of targeted students. The District's percentage of unduplicated students is approximately 86% for purposes of calculating supplemental and concentration grant funding under LCFF.

### **Revenue Sources**

The District categorizes its general fund revenues into four sources, being LCFF, Federal Revenues, Other State Revenues and Local Revenues. In addition, the District receives certain

revenues related to former redevelopment agencies. Each of these revenue sources is described below.

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

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

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

Under LCFF, a school district whose property tax revenues exceed its funding under the LCFF is entitled to keep its local property tax revenues which exceed its LCFF funding, maintaining its status as a Basic Aid District, now referred to as a "Community Supported District." For school districts that were Basic Aid prior to implementation of the LCFF, such districts are entitled to retain their status as Community Supported and keep their full local property tax revenue entitlement, provided that the per-pupil funding targets under LCFF, including economic recovery targets, are met or exceeded by local property tax revenues. The threshold for Community Supported status under the LCFF, however, is higher than under the prior funding formula, resulting in some districts falling out of Community Supported status as the result of the implementation of the LCFF. Accountability measures contained in the LCFF must be implemented by all districts, including Community Supported Districts.

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

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

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

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

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

**Redevelopment Revenues.** The District previously entered into agreements with four redevelopment agencies formed pursuant to the California Community Redevelopment Law (California Health and Safety Code Sections 33000 *et seq.*) (collectively, the “**Redevelopment Agencies**”), pursuant to which the District has historically received “pass-through” tax increment revenues (“**Redevelopment Revenues**”) of approximately \$15 million annually. The District expects to continue receiving Redevelopment Revenues from the Successor Agency (as defined herein) to each Redevelopment Agency. Redevelopment Revenues received by the District are a significant source of funds for the payment of lease payments evidencing principle and interest with respect to the Certificates.

The District, however, can make no representations that the Redevelopment Revenues will continue to be received by the District in amounts consistent with prior years, particularly in light of the legislation eliminating redevelopment agencies, as discussed below.

On December 30, 2011, the State Supreme Court issued its decision in the case of California Redevelopment Association v. Matosantos (“**Matosantos**”), finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all Redevelopment Agencies in the State ceased to exist as a matter of law on February 1, 2012.

ABx1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12) (“AB 1484”), which, together with ABx1 26, is referred to herein as the “Dissolution Act.” The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the California Community Redevelopment Law that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a “Successor Agency”). All property tax revenues that would have been allocated to a redevelopment agency, less the corresponding county auditor-controller’s cost to administer the allocation of property tax revenues, are now allocated to a corresponding Redevelopment Property Tax Trust Fund (“Trust Fund”), to be used for the payment of pass-through payments to local taxing entities, and thereafter to bonds of the former redevelopment agency and any “enforceable obligations” of the Successor Agency, as well as to pay certain administrative costs. The Dissolution Act defines “enforceable obligations” to include bonds, loans, legally required payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations.

As noted above, the Dissolution Act expressly provides for continuation of pass-through payments to local taxing entities. Per statute, 100% of contractual and statutory two percent pass-throughs, and 56.7% of statutory pass-throughs authorized under the Community Redevelopment Law Reform Act of 1993 (AB 1290, Chapter 942, Statutes of 1993) (“AB 1290”), are restricted to educational facilities without offset against apportionments by the State. Only 43.3% of AB 1290 pass-throughs are offset against State aid so long as the affected local taxing entity uses the moneys received for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance as provided under Education Code Section 42238(h).

ABX1 26 states that in the future, pass-throughs shall be made in the amount “which would have been received . . . had the redevelopment agency existed at that time,” and that the county auditor-controller shall “determine the amount of property taxes that would have been allocated to each redevelopment agency had the redevelopment agency not been dissolved using current

assessed values...and pursuant to statutory formulas and contractual agreements with other taxing agencies.”

Successor Agencies continue to operate until all enforceable obligations have been satisfied and all remaining assets of the Successor Agency have been disposed of. AB 1484 provides that once the debt of the Successor Agency is paid off and remaining assets have been disposed of, the Successor Agency shall terminate its existence and all pass-through payment obligations shall cease.

The District can make no representations as to the extent to which its base apportionments from the State may be offset by the future receipt of residual distributions or from unencumbered cash and assets of former redevelopment agencies any other surplus property tax revenues pursuant to the Dissolution Act.

### **District Retirement Systems**

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

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

#### **STRS Contributions Adelanto Elementary School District Fiscal Years 2013-14 through 2019-20**

<b>Fiscal Year</b>	<b>Amount</b>
2013-14	\$2,167,724
2014-15	4,091,850
2015-16	5,244,645
2016-17	6,829,922
2017-18	5,546,070
2018-19 <sup>(1)</sup>	12,173,206
2019-20 <sup>(2)</sup>	10,291,311

(1) Unaudited Actuals.

(2) Budgeted.

Source: Adelanto Elementary School District.

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the combination of

investment earnings and statutory contributions were not sufficient to pay actuarially required amounts. As a result, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately \$107.2 billion as of June 30, 2018 (the date of the last actuarial valuation). In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 ("**AB 1469**"), which represents a legislative effort to address the unfunded liabilities of the STRS pension plan. AB 1469 addressed the funding gap by increasing contributions by employees, employers and the State. In particular, employer contribution rates are scheduled to increase through at least fiscal year 2020-21, from a contribution rate of 8.88% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

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

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

<b>Fiscal Year</b>	<b>Employer Contribution Rate<sup>(1)</sup></b>
2019-20	17.10%
2020-21	18.40
2021-22	18.60
2022-23	18.10

(1) Expressed as a percentage of covered payroll. Rates may change based on actual experience and other factors.

(2). Fiscal year 2019-20 and 2020-21 employer contribution rates have been reduced as of adoption of the fiscal year 2019-20 State Budget. See the following paragraph.

Source: AB 1469

The State's fiscal year 2019-20 budget includes certain pension relief provisions in the form of contributions by the State to STRS and PERS to relieve and reduce the employer contribution rates in the next two years. The STRS employer contribution rate for fiscal year 2019-20 is expected to be 17.1% (reduced from 18.13%) and for fiscal year 2020-21 is expected to be 18.4% (reduced from 19.10%).

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

**PERS Contributions  
Adelanto Elementary School District  
Fiscal Years 2013-14 through 2019-20**

<b>Fiscal Year</b>	<b>Amount</b>
2013-14	\$1,168,327
2014-15	1,319,587
2015-16	1,409,241
2016-17	1,865,182
2017-18	2,200,000
2018-19 <sup>(1)</sup>	3,260,206
2019-20 <sup>(2)</sup>	2,905,719

(1) Unaudited Actuals.

(2) Budgeted.

Source: Adelanto Elementary School District.

Like the STRS program, the PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately \$27.2 billion as of June 30, 2018 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. In November 2015, PERS adopted a funding risk mitigation policy intended to incrementally lower its discount rate (its assumed rate of investment return) in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. In December 2016, PERS voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

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

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

Source: PERS.

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

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

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

<b>Fiscal Year</b>	<b>Employer Contribution Rate<sup>(2)</sup></b>
2019-20	19.721%
2020-21	22.900
2021-22	24.600
2022-23	25.300

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

(2) Expressed as a percentage of covered payroll. Rates have been reduced following adoption of the fiscal year 2019-20 State Budget. See the following paragraph.

Source: PERS

The State's fiscal year 2019-20 budget includes certain pension relief provisions in the form of contributions by the State to STRS and PERS to relieve and reduce the employer contribution rates in the next two years. As a result of the State contributions, the employer contribution rates are expected to be approximately 1% less than previously identified by PERS.

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

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

With respect to the STRS pension program, employees hired after January 1, 2013 will pay the greater of either (1) fifty percent of the normal cost of their retirement plan, rounded to the nearest one-quarter percent, or (2) the contribution rate paid by then-current members (i.e., employees in the STRS plan as of January 1, 2013). The member contribution rate could be



increased from this level through collective bargaining or may be adjusted based on other factors. Employers will pay at least the normal cost rate, after subtracting the member's contribution.

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

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

## Other Post-Employment Retirement Benefits

**Plan Description.** The District's defined benefit other postemployment benefit ("OPEB") healthcare plan (the "Plan") provides OPEB for eligible certificated, classified and management employees of the District. The authority to establish and amend benefit terms and financing requirements are governed by collective bargaining agreements with the plan members.

**Benefits Provided.** The Plan benefits and the District's obligations vary by employee groups as shown in the following table.

	Certificated	Classified	Management
Benefits types provided	Medical and Vision	Medical only	Medical only
Duration of benefits	To age 65	To age 65	To age 65
Required Service	10 Years	10 Years	10 Years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100%	100%	100%
District Cap	95% of the lowest supercomposite rate	100% of the lowest supercomposite rate	100% of the lowest supercomposite rate

Source: Adelanto Elementary School District.

At June 30, 2018, the plan had 39 retirees receiving benefits and 646 active plan members for a total of 685 plan members.

**Actuarial Assumptions.** The District's total OPEB liability of \$18,066,019 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified: inflation 2.75%, salary increases 2.75%, average, including inflation, discount rate 3.8%, and a healthcare cost trend 4.00%, net of OPEB plan investment expense, including inflation. The discount rate was based on the Bond Buyer 20-bond General Obligation Index. Mortality rates are based on the most recent rates used by PERS and STRS for the pension valuations.

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

### CHANGES IN TOTAL OPEB LIABILITY Adelanto Elementary School District

	2018
Balance at July 1, 2017	\$16,513,723
Service Cost	1,603,861
Interest	643,942
Benefit payments	(695,507)
Net changes in total OPEB Liability	1,552,296
Balance at June 30, 2018	\$18,066,019

Source: Adelanto Elementary School District.

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB.** For the year ended June 30, 2018, the District recognized OPEB expense of \$2,247,803.

### **Insurance – Joint Powers Agreement**

The District participates in joint ventures under joint powers agreements (“JPAs”) with the Southern California Schools Employees Benefits Association and Southern California Schools Risk Management. The relationships between the District and the JPAs are such that the JPAs are no a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and 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.

### **Existing Debt Obligations**

**General Obligation Bonds.** Prior to the issuance of the Certificates, the District has two series of outstanding issuances of general obligation bonds secured by *ad valorem* taxes levied and collected within the District, on a parity basis with the Bonds.

#### **Adelanto Elementary School District SUMMARY OF OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS**

<b>Issue Date</b>	<b>Issue Name</b>	<b>Original Principal Amount</b>	<b>Outstanding 10/01/2019</b>
11/13/1996	1996 Series A General Obligation Bonds	\$4,498,720.80	182,905.40
09/09/1997	1997 Series A General Obligation Bonds	7,499,622.10	3,804,488.60
Total		\$11,998,342.90	3,987,394.00

See “DEBT SERVICE SCHEDULES” in the body of this Official Statement for the remaining debt service due on the District’s outstanding general obligation bonds.

**Certificates of Participation.** On February 7, 2007, the District issued \$9,495,000 certificates of participation pursuant to a lease agreement with the California Municipal Finance Authority. The proceeds of the certificates were used primarily to finance the acquisition of certain items of equipment for a new district administrative facility to be owned and operated by the District. At June 30, 2018 the principal balance outstanding \$8,565,000. The certificates are expected to be refunded in full as described in this Official Statement.

**Capital Leases.** On August 4, 2014, the District entered into a six-year capital lease agreement with Wells Fargo for busses valued at \$1,551,758. Total future payments as of June 30, 2018 are shown in the following table:

**Adelanto Elementary School District  
CAPITAL LEASE PAYMENTS**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018-19	\$298,410	\$31,676	\$330,086
2019-20	308,602	21,484	330,086
2020-21	319,155	10,931	330,086
Total	\$926,167	\$64,091	\$990,258

*Source: Adelanto Elementary School District.*

**Early Retirement**

The District maintains a supplemental early retirement program, pursuant to which qualified employees may retire early and receive a portion of their salary as an annuity. Total obligations as of June 30, 2018 for this program are shown below.

<b>Fiscal Year</b>	<b>Amount</b>
2018-19	\$380,661
2019-20	276,031
2020-21	111,261
Total	\$767,953

**Investment of District Funds**

In accordance with Government Code Section 53600 *et seq.*, the County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq.* In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. See APPENDIX H to the Official Statement for the County's current investment policy and recent investment report.

**Effect of State Budget on Revenues**

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts generally receive the majority of their operating revenues from various State sources. The primary source of funding for school districts is LCFF funding, which is derived from a combination of State funds and local property taxes (see "—Education Funding Generally" above). State funds typically make up the majority of a district's LCFF funding. School districts also receive funding from the State for some specialized programs such as special education.

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

and the annual State budget process. The District cannot predict how education funding may further be changed in the future, or the state of the economy which in turn can impact the amounts of funds available from the State for education funding. See “STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS.”

## STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

### State Funding of Education

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

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

*The following information concerning the State’s budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. None of the District, the Underwriter or the County is responsible for the information relating to the State’s budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer’s Office.*

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

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

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in

each House of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

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

### **Recent State Budgets**

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

- The California State Treasurer internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Bond Information", posts various State of California Official Statements, many of which contain a summary of the current State budget, past State budgets, and the impact of those budgets on school districts in the State.
- The California State Treasurer's Office Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current Official Statement, which discusses the State budget and its impact on school districts.
- The California Department of Finance's Internet home page at [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget", includes the text of proposed and adopted State budgets.
- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at [www.lao.ca.gov](http://www.lao.ca.gov) under the heading "Subject Area – Budget (State)".

**Prior Years' Budgeting Techniques.** Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2019-20 State budget is balanced and projects a balanced budget for the foreseeable future, largely attributable

to the additional revenues generated due to the passage of Proposition 55 at the November 8, 2016 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

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

## **2019-20 State Budget**

On June 27, 2019, the Governor signed the 2019-20 State budget (the "**2019-20 State Budget**") into law. The 2019-20 State Budget calls for total spending of \$214.8 billion, with \$147.8 billion in general fund spending. The 2019-20 State Budget provides for \$81.1 billion of funding through Proposition 98, the primary source of funding for K-12 school districts and community college districts, an increase of \$2.7 billion, or 3.4%, from the 2018-19 State budget. Of that \$81.1 billion, \$62.9 billion will be distributed to K-12 school districts through the LCFF, which will be fully funded during fiscal year 2019-20, restoring every school district in the State to at least pre-recession funding levels.

The 2019-20 State Budget continues to build State reserves, with the rainy-day fund balance projected to grow to \$16.5 billion by the end of the budget year. Additionally, revenues have been set aside in new savings funds, including a \$900 million reserve for safety net programs. Other significant features of the 2019-20 State Budget include:

- \$1.5 billion anticipated in Proposition 51 bond funds for school facilities and an additional \$1.2 million of ongoing Proposition 51 bond funds;
- \$5 million one-time funding for a long-term strategic plan to provide childcare and preschool for children from birth through age twelve;
- \$300 million one-time funding to construct new or retrofit existing facilities to support full-day kindergarten programs;
- \$645.3 million ongoing funding for special education, including \$152.6 million to provide all Special Education Local Plan Areas with at least the statewide target rate for base special education funding.
- \$147.4 million one-time and ongoing funding to address the shortage of teachers;
- \$918 million in additional funding to identify and implement recommendations and solutions to reduce wildfire risk, bolster the state's emergency preparedness capacity and protect vulnerable communities;
- \$518,000 one-time funding to reimburse cities, counties and special districts for 2018-2019 property tax losses and a corresponding \$530,000 that will be

used to backfill property tax revenue losses for K-14 schools in those cities, counties and districts;

- \$460 million one-time general funding to increase the quality and availability of child care, including \$263 million for child care and preschool facilities expansion and \$195 million for childcare and preschool workforce development;
- one-time funding of \$750 million to support local governments in increasing and accelerating housing production; and
- one-time funding of \$650 million to support local governments in addressing homelessness, to be used for emergency shelters and navigation centers, rapid rehousing, permanent supportive housing, job programs and hotel/motel conversions.

***Disclaimer Regarding State Budgets.*** The implementation of the foregoing 2019-20 State Budget and future State budgets may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable. The District cannot predict the impact that the 2019-20 State Budget, or subsequent state budgets, will have on its own finances and operations.

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

***Availability of State Budgets.*** The complete 2019-20 State Budget is available from the California Department of Finance website at [www.ebudget.ca.gov](http://www.ebudget.ca.gov). An impartial analysis of the budget is published by the Legislative Analyst Office, and is available at [www.lao.ca.gov/budget](http://www.lao.ca.gov/budget). The District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon when making an investment decision with respect to the Bonds.

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



## Legal Challenges to State Funding of Education

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

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIII A, XIII B, XIII C, and XIII D of the State Constitution, Propositions 62, 98, 111 and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIII A and all applicable laws.

### Constitutionally Required Funding of Education

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

### Article XIII A of the California Constitution

**Basic Property Tax Levy.** On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution ("**Article XIII A**"). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) 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, and (iii) (as a result of an amendment to Article XIII A approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to

provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

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

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

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

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

**Assessed Valuation History.** The following table sets forth a recent history of the assessed value in the District.

<b>Fiscal Year</b>	<b>Local Secured</b>	<b>Utility</b>	<b>Unsecured</b>	<b>Total</b>	<b>Percent Change</b>
2006-07	3,003,519,344	471,060,600	\$88,322,201	\$3,562,902,151	--%
2007-08	4,076,152,069	481,460,600	308,175,301	4,865,786,970	36.6
2008-09	4,125,210,798	468,460,600	121,682,885	4,715,354,283	(3.1)
2009-10	3,348,868,883	445,660,600	134,157,213	3,928,686,696	(16.7)
2010-11	2,998,453,286	348,731,600	228,559,057	3,575,743,943	(9.0)
2011-12	2,929,903,395	324,160,600	203,301,987	3,457,365,982	(3.3)
2012-13	2,953,215,853	279,060,600	232,921,385	3,465,197,838	0.2
2013-14	3,019,172,384	231,560,600	267,687,488	3,518,420,472	1.5
2014-15	3,154,541,617	180,101,020	240,130,039	3,574,772,676	1.6
2015-16	3,367,877,739	177,089,020	274,335,688	3,819,302,447	6.8
2016-17	3,508,910,723	225,038,020	285,945,321	4,019,894,064	5.3
2017-18	3,710,860,289	106,538,020	273,729,866	4,091,128,175	1.8
2018-19	3,922,234,256	103,938,020	329,419,454	4,355,591,730	6.5
2019-20	4,265,068,142	98,259,630	360,198,607	4,723,526,379	8.4

Source: California Municipal Statistics, Inc.

## Article XIII B of the California Constitution

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

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

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

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. However, in the event that a school district’s revenues exceed its

spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

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

## **Unitary Property**

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

## **Articles XIIC and XIID of the California Constitution**

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

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

On November 2, 2010, Proposition 26 was approved by State voters, which amended Article XIIC to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or

use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

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

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

### **Proposition 98**

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

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIB surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

## Proposition 111

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("**Proposition 111**") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

The most significant provisions of Proposition 111 are summarized as follows:

***Annual Adjustments to Spending Limit.*** The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California *per capita* personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

***Treatment of Excess Tax Revenues.*** "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

***Exclusions from Spending Limit.*** Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

***Recalculation of Appropriations Limit.*** The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

***School Funding Guarantee.*** There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "**first test**") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to *per capita* personal income) and enrollment (the "**second test**"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in *per capita* State general fund revenues from the prior year is less

than the annual growth in California per capita personal income (the “**third test**”). Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and *per capita* State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 39**

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

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

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

On November 2, 2004, California voters approved Proposition 1A, which amended the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Under Proposition 1A, beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a

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

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

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

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

The Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “**Proposition 30**”), temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before December 1, 2019. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$500,000 but less than \$600,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$600,000 but less than \$1,000,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers). Proposition 55 (described below) extended said increases to personal income rates through the end of 2030.

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community



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

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

### **California Senate Bill 222**

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

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111, 22, 26, 30, 39 and 55 were each adopted as measures that qualified for the ballot under the State’s initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

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**APPENDIX C**

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

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



# ADELANTO ELEMENTARY SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2018

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# **ADELANTO ELEMENTARY SCHOOL DISTRICT**

*For the Fiscal Year Ended June 30, 2018*

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## ***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Adelanto Elementary School District  
Adelanto, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adelanto 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 Adelanto 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.I. 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 \$10,231,404 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 November 19, 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.

*Nigro + Nigro, PC.*

Murrieta, California  
November 19, 2018

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

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This discussion and analysis of Adelanto 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 declined from last year, as the net position decreased by 6.7% to \$109.4 million.
- Total governmental revenues were \$103.5 million, \$7.8 million less than expenses.
- The total cost of basic programs was \$111.3 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$94.8 million.
- Average daily attendance (ADA) in grades K-8 decreased by 0.43 or .01%.

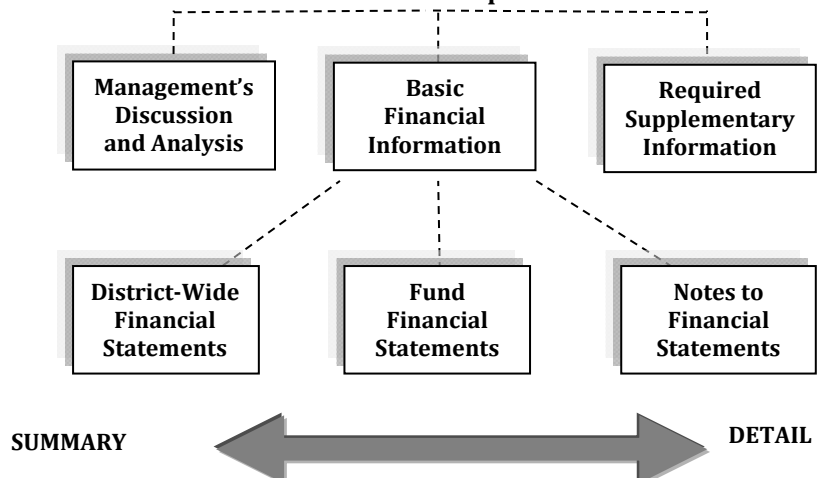
**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

**Figure A-1. Organization of Adelanto 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.



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

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**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**

<b>Type of Statements</b>	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire District, except fiduciary activities	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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> </ul>
<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.

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

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**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 kinds of funds:

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

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

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position.** The District's combined net position was lower on June 30, 2018, than it was the year before – decreasing 6.7% to \$109.4 million (See Table A-1).

**Table A-1: Statement of Net Position**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2018</b>	<b>2017*</b>	
<b>Assets</b>			
Current assets	\$ 50,731,535	\$ 47,934,319	\$ 2,797,216
Capital assets	172,209,090	177,806,526	(5,597,436)
<b>Total assets</b>	<b>222,940,625</b>	<b>225,740,845</b>	<b>(2,800,220)</b>
<b>Deferred outflows of resources</b>	<b>32,364,212</b>	<b>23,578,323</b>	<b>8,785,889</b>
<b>Liabilities</b>			
Current liabilities	8,353,401	6,566,832	1,786,569
Long-term liabilities	49,458,938	50,392,090	(933,152)
Net pension liability	85,091,970	71,316,401	13,775,569
<b>Total liabilities</b>	<b>142,904,309</b>	<b>128,275,323</b>	<b>14,628,986</b>
<b>Deferred inflows of resources</b>	<b>2,966,599</b>	<b>3,781,066</b>	<b>(814,467)</b>
<b>Net position</b>			
Net investment in capital assets	157,077,921	161,277,581	(4,199,660)
Restricted	24,483,153	22,973,547	1,509,606
Unrestricted	(72,127,145)	(66,988,349)	(5,138,796)
<b>Total net position</b>	<b>\$ 109,433,929</b>	<b>\$ 117,262,779</b>	<b>\$ (7,828,850)</b>

\* As restated

**Changes in net position, governmental activities.** The District's total revenues increased 0.3% to \$103.5 million (See Table A-2). The increase is due primarily to increases in general revenues and federal and state aid.

The total cost of all programs and services increased 6.8% to \$111.3 million. The District's expenses are predominantly related to educating and caring for students, 76.3%. The purely administrative activities of the District accounted for just 5.3% of total costs. A significant contributor to the increase in costs was instruction-related sources and pupil service costs.

**ADELANTO 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**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2018</b>	<b>2017</b>	
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$ 798,734	\$ 931,561	\$ (132,827)
Operating grants and contributions	16,623,173	16,552,086	71,087
Capital grants and contributions	(880,347)	64,052	(944,399)
General Revenues:			
Federal and state aid not restricted	77,153,034	76,593,333	559,701
Property taxes	8,854,032	8,236,240	617,792
Other general revenues	951,529	787,712	163,817
<b>Total Revenues</b>	<b>103,500,155</b>	<b>103,164,984</b>	<b>335,171</b>
<b>Expenses</b>			
Instruction-related	70,215,047	64,989,657	5,225,390
Pupil services	14,743,789	13,366,130	1,377,659
Administration	5,876,924	6,569,618	(692,694)
Plant services	10,063,975	9,416,701	647,274
All other activities	10,429,270	9,869,170	560,100
<b>Total Expenses</b>	<b>111,329,005</b>	<b>104,211,276</b>	<b>7,117,729</b>
Increase (decrease) in net position	<b>\$ (7,828,850)</b>	<b>\$ (1,046,292)</b>	<b>\$ (6,782,558)</b>
Total net position	<b>\$ 109,433,929</b>	<b>\$ 117,262,779</b>	

**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 \$42.5 million, which is above last year's ending fund balance of \$41.5 million. The primary cause of the increased fund balance is an increase in the General Fund and the Deferred Maintenance Fund from state aid.

**Table A-3: The District's Fund Balances**

	<b>Fund Balances</b>				
<b>Fund</b>	<b>July 1, 2017</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Other Sources and (Uses)</b>	<b>June 30, 2018</b>
General Fund	\$ 23,539,359	\$ 96,317,308	\$ 94,112,151	\$ (1,540,000)	\$ 24,204,516
Cafeteria Fund	3,431,609	5,806,351	5,853,410	-	3,384,550
Deferred Maintenance Fund	776,382	13,700	520,891	1,500,000	1,769,191
Special Reserve Fund (Other Than Capital Outlay)	461	6	-	-	467
Capital Facilities Fund	879,038	746,309	1,400	(519,366)	1,104,581
County School Facilities Fund	7,521,862	(880,346)	-	-	6,641,516
Capital Outlay Fund for Blended Component Units	354,367	2,854	-	-	357,221
Bond Interest and Redemption Fund	4,188,685	3,771,144	3,729,629	-	4,230,200
Debt Service Fund for Blended Component Units	800,298	7,900	559,584	559,366	807,980
Self-Insurance Fund	1,521	19	-	-	1,540
	<b>\$ 41,493,582</b>	<b>\$ 105,785,245</b>	<b>\$ 104,777,065</b>	<b>\$ -</b>	<b>\$ 42,501,762</b>



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

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**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 \$8.0 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased about \$3.1 million due to negotiated increases.
- Other non-capital expenditures – increased \$0.4 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that revenues would fall short of expenditures by about \$0.6 million, the actual results for the year show that revenues exceeded expenditures by roughly \$2.2 million. Actual revenues were \$2,748 less than anticipated, and expenditures were \$2.8 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 \$0.6 million in new capital assets, related to capital lease acquisitions. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$6.2 million.

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

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2018</b>	<b>2017</b>	
Land	\$ 17,806,485	\$ 17,806,485	\$ -
Improvement of sites	1,151,407	1,408,100	(256,693)
Buildings	150,234,843	155,569,239	(5,334,396)
Equipment	3,016,355	3,022,702	(6,347)
Total	<u>\$ 172,209,090</u>	<u>\$ 177,806,526</u>	<u>\$ (5,597,436)</u>

**Long-Term Debt**

At year-end the District had \$49.5 million in general obligation bonds, certificates of participation, capital leases, and retirement benefits – a decrease of 1.9% 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).

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

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**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

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

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2018</b>	<b>2017*</b>	
General obligation bonds	\$ 20,034,268	\$ 21,719,257	\$ (1,684,989)
Certificates of participation	8,369,136	8,543,548	(174,412)
Compensated absences	854,982	676,314	178,668
Capital leases	926,167	1,214,736	(288,569)
Early retirement incentives	767,953	1,234,570	(466,617)
Other postemployment benefits	18,506,432	17,003,665	1,502,767
Total	<u>\$ 49,458,938</u>	<u>\$ 50,392,090</u>	<u>\$ (933,152)</u>

\* As restated

**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.

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

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**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**The 2018-19 State Budget (continued)**

***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.

***\$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.

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

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**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**The 2018-19 State Budget (continued)**

***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 Adelanto 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, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to:

Business Services  
Adelanto Elementary School District  
11824 Air Expressway  
Adelanto, CA 92301  
(760) 246-8691

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Statement of Net Position**June 30, 2018*

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	<b>Total Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 45,789,166
Accounts receivable	4,691,173
Inventories	236,015
Prepaid expenses	15,181
Capital assets:	
Non-depreciable assets	17,806,485
Depreciable assets	226,017,316
Less accumulated depreciation	<u>(71,614,711)</u>
Total assets	<u>222,940,625</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	<u>32,364,212</u>
 <b>LIABILITIES</b>	
Accounts payable	8,353,401
Long-term debt:	
Portion due or payable within one year	4,074,879
Portion due or payable after one year	45,384,059
Net pension liability	<u>85,091,970</u>
Total liabilities	<u>142,904,309</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>2,966,599</u>
 <b>NET POSITION</b>	
Net investment in capital assets	157,077,921
Restricted for:	
Capital projects	7,746,097
Debt service	5,038,180
Categorical programs	11,698,876
Unrestricted	<u>(72,127,145)</u>
 Total net position	<u><u>\$ 109,433,929</u></u>

# ADELANTO ELEMENTARY SCHOOL DISTRICT

## Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities:					
Instructional services:					
Instruction	\$ 58,330,717	\$ -	\$ 5,685,861	\$ (880,347)	\$ (53,525,203)
Instruction-related services:					
Supervision of instruction	2,056,395	-	383,258	-	(1,673,137)
Instructional library, media and technology	1,231,436	-	500,946	-	(730,490)
School site administration	8,596,499	-	1,403,903	-	(7,192,596)
Pupil support services:					
Home-to-school transportation	3,684,689	-	-	-	(3,684,689)
Food services	5,595,441	58,160	5,461,657	-	(75,624)
All other pupil services	5,463,659	1,503	556,308	-	(4,905,848)
General administration services:					
Data processing services	743,562	-	-	-	(743,562)
Other general administration	5,133,362	2,904	525,826	-	(4,604,632)
Plant services	10,063,975	141	2,007,382	-	(8,056,452)
Community services	217,436	-	43,261	-	(174,175)
Interest on long-term debt	2,468,862	-	-	-	(2,468,862)
Other outgo	1,530,653	736,026	54,771	-	(739,856)
Depreciation (unallocated)	6,212,319	-	-	-	(6,212,319)
Total Governmental Activities	\$ 111,329,005	\$ 798,734	\$ 16,623,173	\$ (880,347)	(94,787,445)
General Revenues:					
Property taxes					8,854,032
Federal and state aid not restricted to specific purpose					77,153,034
Interest and investment earnings					267,720
Interagency revenues					187,267
Miscellaneous					496,542
Total general revenues					86,958,595
Change in net position					(7,828,850)
Net position, July 1, 2017, as originally stated					125,413,167
Restatement - change in accounting principle					(10,231,404)
Adjustment for restatement (Note 13)					2,081,016
Net position, July 1, 2017, as restated					117,262,779
Net position, June 30, 2018					\$ 109,433,929

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Balance Sheet – Governmental Funds**June 30, 2018*

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 27,661,810	\$ 2,779,968	\$ 6,614,952	\$ 8,732,436	\$ 45,789,166
Accounts receivable	3,370,765	1,285,258	26,564	8,586	4,691,173
Due from other funds	687,895	1,258	-	40,000	729,153
Inventories	101,695	134,320	-	-	236,015
Prepaid expenditures	13,447	1,734	-	-	15,181
Total Assets	<u>\$ 31,835,612</u>	<u>\$ 4,202,538</u>	<u>\$ 6,641,516</u>	<u>\$ 8,781,022</u>	<u>\$ 51,460,688</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 7,587,831	\$ 130,093	\$ -	\$ 511,849	\$ 8,229,773
Due to other funds	41,258	687,895	-	-	729,153
Total Liabilities	<u>7,629,089</u>	<u>817,988</u>	<u>-</u>	<u>511,849</u>	<u>8,958,926</u>
<b>Fund Balances</b>					
Nonspendable	175,142	136,974	-	-	312,116
Restricted	8,314,326	3,247,576	6,641,516	6,142,761	24,346,179
Committed	-	-	-	1,769,191	1,769,191
Assigned	184,467	-	-	357,221	541,688
Unassigned	15,532,588	-	-	-	15,532,588
Total Fund Balances	<u>24,206,523</u>	<u>3,384,550</u>	<u>6,641,516</u>	<u>8,269,173</u>	<u>42,501,762</u>
Total Liabilities and Fund Balances	<u>\$ 31,835,612</u>	<u>\$ 4,202,538</u>	<u>\$ 6,641,516</u>	<u>\$ 8,781,022</u>	<u>\$ 51,460,688</u>

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### *Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position* *June 30, 2018*

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**Total fund balances - governmental funds** \$ 42,501,762

Amounts reported for governmental *activities* 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 \$243,823,801, and the accumulated depreciation is (\$71,614,711). 172,209,090

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 statements, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was: (123,628)

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:

General obligation bonds payable	20,034,268	
Certificates of participation payable	8,369,136	
Compensated absences payable	854,982	
Capital leases payable	926,167	
Early retirement incentive	767,953	
Other postemployment benefits	<u>18,506,432</u>	(49,458,938)

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. (85,091,970)

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. Deferred outflows and inflows of resources relating to pensions consist of:

Total deferred outflows	32,364,212	
Total deferred inflows	<u>(2,966,599)</u>	<u>29,397,613</u>

**Total net position - governmental activities** \$ 109,433,929



**ADELANTO ELEMENTARY SCHOOL DISTRICT***Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Fiscal Year Ended June 30, 2018*

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
LCFF sources	\$ 78,354,465	\$ -	\$ -	\$ -	\$ 78,354,465
Federal sources	5,919,234	5,337,098	-	-	11,256,332
Other state sources	9,887,156	372,218	(970,299)	29,695	9,318,770
Other local sources	2,156,478	97,035	89,953	4,512,212	6,855,678
Total Revenues	96,317,333	5,806,351	(880,346)	4,541,907	105,785,245
<b>EXPENDITURES</b>					
Current:					
Instruction	57,743,561	-	-	-	57,743,561
Instruction-related services:					
Supervision of instruction	2,046,582	-	-	-	2,046,582
Instructional library, media and technology	1,100,318	-	-	-	1,100,318
School site administration	7,476,457	-	-	-	7,476,457
Pupil support services:					
Home-to-school transportation	3,391,291	-	-	-	3,391,291
Food services	1,258	5,544,333	-	-	5,545,591
All other pupil services	5,318,421	-	-	-	5,318,421
Community services	213,866	-	-	-	213,866
General administration services:					
Data processing services	694,392	-	-	-	694,392
Other general administration	5,095,888	-	-	-	5,095,888
Plant services	9,395,778	13,988	-	520,891	9,930,657
Transfers of indirect costs	(295,089)	295,089	-	-	-
Intergovernmental transfers	1,530,653	-	-	-	1,530,653
Capital outlay	-	-	-	1,400	1,400
Debt service:					
Principal	288,569	-	-	1,116,942	1,405,511
Interest	110,206	-	-	3,172,271	3,282,477
Total Expenditures	94,112,151	5,853,410	-	4,811,504	104,777,065
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,205,182	(47,059)	(880,346)	(269,597)	1,008,180
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers in	-	-	-	2,099,366	2,099,366
Interfund transfers out	(1,540,000)	-	-	(559,366)	(2,099,366)
Total Other Financing Sources and Uses	(1,540,000)	-	-	1,540,000	-
Net Change in Fund Balances	665,182	(47,059)	(880,346)	1,270,403	1,008,180
Fund Balances, July 1, 2017	23,541,341	3,431,609	7,521,862	6,998,770	41,493,582
Fund Balances, June 30, 2018	\$ 24,206,523	\$ 3,384,550	\$ 6,641,516	\$ 8,269,173	\$ 42,501,762

## ADELANTO 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*

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**Total net change in fund balances - governmental funds** **\$ 1,008,180**

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	618,736	
Depreciation expense	<u>(6,212,319)</u>	(5,593,583)

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (3,853)

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 reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,405,511

In governmental funds, accreted interest on capital appreciation bonds is not recorded as expenditures from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was: 753,047

In the governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: (10,588)

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expense are recognized on the accrual basis. This year, the difference between OPB expenses and actual employer OPBE contribution was: (1,502,767)

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits, such as retirement incentives financed over time, and structured legal settlements. This year, early retirement incentives paid exceeded the amounts granted by: 466,617

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: 2,473

In government 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 the accrual-basis pension costs and actual employer contributions was: (4,175,219)

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*). (178,668)

**Change in net position of governmental activities** **\$ (7,828,850)**

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Statement of Fiduciary Net Position**June 30, 2018*

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	<b>Agency Funds</b>	
	<b>Student Body Funds</b>	<b>Debt Service Fund for Special Tax Bonds</b>
<b>Assets</b>		
Cash	\$ 30,113	\$ 4,658,284
<b>Liabilities</b>		
Due to bondholders	\$ -	\$ 4,658,284
Due to student groups	30,113	-
<b>Total Liabilities</b>	\$ 30,113	\$ 4,658,284

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adelanto 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 Adelanto 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 Adelanto Elementary School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in 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.

The following is a summary of the Community Facilities Districts (CFDs) operated by the District:

Date of Formation	Name	Area
April 19, 2005	CFD No. 1	West Creek
September 6, 2005	CFD No. 2	New West
August 2, 2006	CFD No. 3	Griffin Communities
December 4, 2006	CFD No. 4	American Heritage

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 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.

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 maintains the following major governmental funds:

**General Fund:** This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District maintains a Special Reserve Fund for Other Than Capital Outlay Projects and a Self-Insurance Fund. The Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. The Self-insurance Fund is not operating as a true Self-Insurance Fund and is not composed of restricted or committed resources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity of these funds is being reported within the General Fund.

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

**County School Facilities Fund:** This fund is used primarily to account separately for state apportionments as provided by Ed. Code sections 17009.5 & 17070.10-17076.10.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2018*

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#### 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**

The District maintains the following non-major governmental funds:

###### **Special Revenue Funds:**

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

###### **Capital Projects Funds:**

**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.

**Capital Projects Funds for Blended Component Units:** This fund is used to account for the activity of the certificates of participation and of the Community Facilities Districts.

###### **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 debt service activity of the certificates of participation.

###### **Fiduciary Funds**

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

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

**Debt Service Fund for Special Tax Bonds:** This fund is used to account for the debt service activity of the Community Facilities Districts (CFDs).

## **ADELANTO ELEMENTARY SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2018*

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#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

##### **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.

###### **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.

# ADELANTO ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 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 capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years



## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

###### 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.

###### 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 annual 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 Adelanto 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### *Notes to Financial Statements*

*June 30, 2018*

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

###### 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.

###### 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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

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

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

##### F. Minimum Fund Balance Policy

Pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund. Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

The Board of Trustees recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of 8% of the District's general fund annual operating expenditures. If a fund balance drops below 8%, a plan will be developed to replenish the fund balance to the established minimum level within two years.

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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 2 - CASH

Cash at June 30, 2018, is reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 44,522,383	\$ -
Deposits:		
Cash on hand and in banks	92,627	30,113
Cash in revolving fund	60,920	-
Cash with fiscal agent	1,113,236	4,658,284
Total Deposits	1,266,783	4,688,397
Total Cash	\$ 45,789,166	\$ 4,688,397

#### 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 Depositary 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 2 – CASH (continued)

##### Fair Value Measurements

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

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

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

Level 3 – Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that 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 San Bernardino 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.

#### NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consisted of the following:

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government:					
Categorical aid programs	\$ 2,592,792	\$ 1,192,984	\$ -	\$ -	\$ 3,785,776
State Government:					
Lottery	346,942	-	-	-	346,942
Categorical aid programs	175,836	89,201	-	-	265,037
Local:					
Interest	83,642	1,220	26,564	8,586	120,012
Miscellaneous	171,553	1,853	-	-	173,406
Total	<u>\$ 3,370,765</u>	<u>\$ 1,285,258</u>	<u>\$ 26,564</u>	<u>\$ 8,586</u>	<u>\$ 4,691,173</u>

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 4 – INTERFUND ACTIVITIES

##### A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2018, consisted of the following:

General Fund due to Cafeteria Fund for reimbursement of federal program purchase	\$ 1,258
General fund due to Capital Facilities Fund for contribution to ongoing capital projects	40,000
Cafeteria Fund Due to General Fund for benefits, taxes, fuel and indirect costs	<u>687,895</u>
	<u>\$ 729,153</u>

##### B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2018, consisted of the following:

General Fund to Deferred Maintenance Fund for paving project	\$ 1,500,000
General Fund to Capital Facilities Fund for capital projects	40,000
Capital Facilities Fund transfer to Debt Service Fund for COP payment	<u>559,366</u>
	<u>\$ 2,099,366</u>



**ADELANTO ELEMENTARY SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2018***NOTE 5 – FUND BALANCES**

At June 30, 2018, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Cafeteria Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>					
Revolving cash	\$ 60,000	\$ 920	\$ -	\$ -	\$ 60,920
Stores inventories	101,695	134,320	-	-	236,015
Prepaid expenditures	13,447	1,734	-	-	15,181
Total Nonspendable	175,142	136,974	-	-	312,116
<b>Restricted:</b>					
Categorical programs	8,314,326	-	-	-	8,314,326
Child nutrition program	-	3,247,576	-	-	3,247,576
Capital projects	-	-	6,641,516	1,104,581	7,746,097
Debt service	-	-	-	5,038,180	5,038,180
Total Restricted	8,314,326	3,247,576	6,641,516	6,142,761	24,346,179
<b>Committed:</b>					
Deferred maintenance program	-	-	-	1,769,191	1,769,191
Total Committed	-	-	-	1,769,191	1,769,191
<b>Assigned:</b>					
Other assignments	184,467	-	-	357,221	541,688
Total Assigned	184,467	-	-	357,221	541,688
<b>Unassigned:</b>					
Reserve for economic uncertainties	465	-	-	-	465
Remaining unassigned balances	15,532,123	-	-	-	15,532,123
Total Unassigned	15,532,588	-	-	-	15,532,588
<b>Total</b>	<b>\$ 24,206,523</b>	<b>\$ 3,384,550</b>	<b>\$ 6,641,516</b>	<b>\$ 8,269,173</b>	<b>\$ 42,501,762</b>

# ADELANTO 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	\$ 17,806,485	\$ -	\$ -	\$ 17,806,485
Total capital assets not being depreciated	17,806,485	-	-	17,806,485
Capital assets being depreciated:				
Improvement of sites	5,614,719	-	-	5,614,719
Buildings	206,851,893	-	-	206,851,893
Equipment	12,963,454	618,736	(31,486)	13,550,704
Total capital assets being depreciated	225,430,066	618,736	(31,486)	226,017,316
Accumulated depreciation for:				
Improvement of sites	(4,206,619)	(256,693)	-	(4,463,312)
Buildings	(51,282,654)	(5,334,396)	-	(56,617,050)
Equipment	(9,940,752)	(621,230)	27,633	(10,534,349)
Total accumulated depreciation	(65,430,025)	(6,212,319)	27,633	(71,614,711)
Total capital assets being depreciated, net	160,000,041	(5,593,583)	(3,853)	154,402,605
Governmental activity capital assets, net	\$ 177,806,526	\$ (5,593,583)	\$ (3,853)	\$ 172,209,090

### 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	Adjustments for Restatements	Restated Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:							
Principal repayments	\$ 7,125,028	\$ -	\$ 7,125,028	\$ -	\$ 931,942	\$ 6,193,086	\$ 940,166
Accreted interest component	16,675,245	(2,081,016)	14,594,229	2,040,552	2,793,599	13,841,182	2,261,230
Total - G.O. Bonds	23,800,273	(2,081,016)	21,719,257	2,040,552	3,725,541	20,034,268	3,201,396
Certificates of Participation:							
Principal repayments	8,750,000	-	8,750,000	-	185,000	8,565,000	205,000
Unamortized issuance discount	(206,452)	-	(206,452)	-	(10,588)	(195,864)	(10,588)
Total - COPs	8,543,548	-	8,543,548	-	174,412	8,369,136	194,412
Compensated Absences	676,314	-	676,314	178,668	-	854,982	-
Capital Lease	1,214,736	-	1,214,736	-	288,569	926,167	298,410
Early Retirement Incentives	1,234,570	-	1,234,570	-	466,617	767,953	380,661
Other Postemployment Benefits	17,003,665	-	17,003,665	1,552,296	49,529	18,506,432	-
Totals	\$ 52,473,106	\$ (2,081,016)	\$ 50,392,090	\$ 3,771,516	\$ 4,704,668	\$ 49,458,938	\$ 4,074,879

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 Debt Service Fund for Blended Component Units. Capital lease payments are made by the General Fund. Accumulated vacation, early retirement incentive payments, and employment benefits will be paid for by the fund for which the employee worked.

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2018***NOTE 7 – GENERAL LONG-TERM DEBT (continued)****A. General Obligation Bonds**

In 1993, the District received authorization to issue \$10 million of general obligation bonds at an election held on June 8, 1993. 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. Bond proceeds were used to finance the construction of two new elementary schools.

In 1996, the District received authorization to issue \$12 million of general obligation bonds at an election held on June 4, 1996. 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. Bond proceeds were used to finance the construction of a new elementary school and a new middle school.

Below is a summary of bonds issued by the District:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018
1993A	10/26/1993	9/1/2018	2.6%-5.6%	\$ 3,999,350	\$ 546,314	\$ -	\$ 264,918	\$ 281,396
1994B	6/9/1994	9/1/2018	5.35%-6.7%	5,997,952	865,986	-	423,371	442,615
1996A	11/13/1996	9/1/2021	3.7%-5.95%	4,498,721	500,806	-	112,237	388,569
1997A	9/9/1997	9/1/2022	3.9%-5.67%	7,499,622	5,211,922	-	131,416	5,080,506
				<u>\$ 21,995,645</u>	<u>\$ 7,125,028</u>	<u>\$ -</u>	<u>\$ 931,942</u>	<u>\$ 6,193,086</u>
<u>Accreted Interest</u>								
				1993	\$ 1,147,321	\$ 266,383	\$ 723,924	\$ 689,780
				1994	2,042,312	808,596	1,533,328	1,317,580
				1996	1,145,776	88,126	267,763	966,139
				1997	10,258,820	877,447	268,584	10,867,683
					<u>\$ 14,594,229</u>	<u>\$ 2,040,552</u>	<u>\$ 2,793,599</u>	<u>\$ 13,841,182</u>

The amounts required to amortize general obligation bonds payable at June 30, 2018, were:

Fiscal Year	Principal	Interest	Total
2018-19	\$ 940,166	\$ 3,089,834	\$ 4,030,000
2019-20	1,265,527	3,089,473	4,355,000
2020-21	1,296,403	3,418,598	4,715,001
2021-22	1,322,593	3,772,407	5,095,000
2022-23	1,368,397	4,161,601	5,529,998
Total	<u>\$ 6,193,086</u>	<u>\$ 17,531,913</u>	<u>\$ 23,724,999</u>

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2018*

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**NOTE 7 – GENERAL LONG-TERM DEBT (continued)****B. Certificates of Participation**

On January 17, 2007, the District issued \$9,495,000 certificates of participation pursuant to a lease agreement with the Public Property Financing Corporation of California. The proceeds of the certificates were used primarily to finance the acquisition and construction of certain improvements and the acquisition of certain items of equipment for a new district administrative facility to be owned and operated by the District. The certificates were issued as \$1,870,000 Serial Certificates with stated interest rates of between 3.875% and 4.25% and maturing between September 1, 2011 and 2021, and Term Certificates of \$1,705,000, and \$5,920,000, having yields of 4.48% and 4.53%, and maturing September 1, 2026, and 2036, respectively. At June 30, 2018, the principal balance outstanding was \$8,565,000.

The annual amounts required to amortize the outstanding certificates are shown below.

Fiscal Year	Principal	Interest	Total
2018-19	\$ 205,000	\$ 366,784	\$ 571,784
2019-20	225,000	358,184	583,184
2020-21	245,000	348,631	593,631
2021-22	265,000	337,946	602,946
2022-23	290,000	326,080	616,080
2023-28	1,840,000	1,413,091	3,253,091
2028-33	2,645,000	928,703	3,573,703
2033-37	2,850,000	259,219	3,109,219
Total	<u>\$ 8,565,000</u>	<u>\$ 4,338,638</u>	<u>\$ 12,903,638</u>

**C. Early Retirement**

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2018, for these obligations are shown below.

Future Years	Amount
2018-19	\$ 380,661
2019-20	276,031
2020-21	111,261
Total	<u>\$ 767,953</u>

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 7 – GENERAL LONG-TERM DEBT (continued)

##### D. Capital Leases

On August 4, 2014, the District entered into a six year capital lease agreement with Wells Fargo for busses valued at \$1,551,758. Total future payments at June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
2018-19	\$ 298,410	\$ 31,676	\$ 330,086
2019-20	308,602	21,484	330,086
2020-21	319,155	10,931	330,086
Total	<u>\$ 926,167</u>	<u>\$ 64,091</u>	<u>\$ 990,258</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

##### E. 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 \$17,110,000 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 Adelanto Elementary School District participates in joint ventures under joint powers agreements with the Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). 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 JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 8 – JOINT VENTURES (continued)

Condensed audited financial information is as follows:

	SCSRM June 30, 2017	SCSEBA June 30, 2017
Total Assets	\$ 69,092,311	\$ 49,977,341
Total Liabilities	23,878,775	14,188,582
Total Net Position	<u>\$ 45,213,536</u>	<u>\$ 35,788,759</u>
Revenues	\$ 47,852,096	\$ 240,988,197
Expenses	41,033,799	232,895,668
Operating Income (Loss)	6,818,297	8,092,529
Non-Operating Revenue (Expense)	(688,269)	354,992
Change in Net Position	<u>\$ 6,130,028</u>	<u>\$ 8,447,521</u>

#### 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 SCSRM 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 2017-18, the District participated in the SCSRM JPA 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 High Desert and Inland Employee/Employer Trust to provide employee medical, vision, and life insurance benefits. The District provides dental benefits for management employees through SCSEBA.

#### 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

At June 30, 2018, the District had no commitments with respect to unfinished capital projects.

##### 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 60,826,865	\$ 24,344,121	\$ 2,680,907	\$ 7,888,315
CalPERS	24,265,105	8,020,091	285,692	4,699,737
Total	<u>\$ 85,091,970</u>	<u>\$ 32,364,212</u>	<u>\$ 2,966,599</u>	<u>\$ 12,588,052</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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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:

	<b>STRP Defined Benefit Program</b>	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	2% at 60	2% at 62
Benefit Formula	5 years of service	5 years of service
Benefit Vesting Schedule	Monthly for life	Monthly for life
Benefit Payments	60	62
Retirement Age	2.0%-2.4%	2.0%-2.4%
Monthly Benefits as a Percentage of Eligible Compensation	10.25%	9.205%
Required Employee Contribution Rate	14.43%	14.43%
Required Employer 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 \$5,546,070.

###### 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	\$ 60,826,865
State's proportionate share of the net pension liability associated with the District	14,205,422
Total	<u>\$ 75,032,287</u>



**ADELANTO 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 proportions of the net pension liability for the two most recent measurement periods were:

	<b>Percentage Share of Risk Pool</b>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending June 30, 2018</b>	<b>Fiscal Year Ending June 30, 2017</b>	
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.065773%	0.064000%	0.001773%

For the year ended June 30, 2018, the District recognized pension expense of \$7,888,315. In addition, the District recognized pension expense and revenue of \$641,252 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:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 5,546,070	\$ -
Net change in proportionate share of net pension liability	7,304,220	-
Difference between projected and actual earnings on pension plan investments	-	1,619,989
Changes of assumptions	11,268,887	-
Differences between expected and actual experience in the measurement of the total pension liability	224,944	1,060,918
Total	<u>\$ 24,344,121</u>	<u>\$ 2,680,907</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 (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 7 years.

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2018*

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**NOTE 11 – PENSION PLANS (continued)****A. California State Teachers' Retirement System (CalSTRS) (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	\$ 1,673,320
2020	4,039,175
2021	3,167,024
2022	1,580,580
2023	3,142,688
Thereafter	2,514,357
Total	<u>\$ 16,117,144</u>

**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.

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2018*

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**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:

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.1%. 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:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 89,313,148
Current discount rate (7.10%)	60,826,865
1% increase (8.10%)	37,708,315

**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 \$2,926,323 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have not been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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:

	<b>School Employer Pool (CalPERS)</b>	
	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%

###### 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.

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2018***NOTE 11 – PENSION PLANS (continued)****B. California Public Employees Retirement System (CalPERS) (continued)****Contributions (continued)**

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 \$2.2 million.

**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 \$24,265,105. 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 proportions of the net pension liability for the two most recent measurement periods were:

	<b>Percentage Share of Risk Pool</b>		
	<b>Fiscal Year Ending June 30, 2018</b>	<b>Fiscal Year Ending June 30, 2017</b>	<b>Change Increase/ (Decrease)</b>
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.101644%	0.099000%	0.002644%

For the year ended June 30, 2018, the District recognized pension expense of \$4,699,737. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 2,225,517	\$ -
Net change in proportionate share of net pension liability	541,549	-
Difference between projected and actual earnings on pension plan investments	839,407	-
Changes of assumptions	3,544,300	285,692
Differences between expected and actual experience in the measurement of the total pension liability	869,318	-
Total	<u>\$ 8,020,091</u>	<u>\$ 285,692</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 (EARSLS) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSLS for the measurement period is 4 years.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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	\$ 1,701,212
2020	2,491,079
2021	1,667,653
2022	(351,061)
2023	-
Thereafter	-
Total	<u>\$ 5,508,883</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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### 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:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assets	6%	1.39%
Private Equity	12%	6.63%
Real Estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

###### Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 35,701,745
Current discount rate (7.15%)	24,265,105
1% increase (8.15%)	14,777,454

##### 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 \$564,428 and \$34,101 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.

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2018

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#### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

##### 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	Classified	Management
Benefit types provided	Medical and vision	Medical only	Medical only
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years	10 years	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100%	100%	100%
District Cap	95% of the lowest supercomposite rate	100% of the lowest supercomposite rate	100% of the lowest supercomposite rate

###### Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	39
Active employees	646
Total	685

###### 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.



## ADELANTO 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 \$18,066,019 for the District Plan was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date. The District's proportionate share of the net MPP Program OPEB liability of \$440,413 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

	<b>Total OPEB Liability</b>
<b>Balance at July 1, 2017</b>	<b>\$ 16,513,723</b>
<b>Changes for the year:</b>	
Service cost	1,603,861
Interest	643,942
Benefit payments	(695,507)
Net changes	1,552,296
<b>Balance at June 30, 2018</b>	<b>18,066,019</b>
 <b>District's Proportionate Share of the Net MPP OPEB Liability</b>	 <b>440,413</b>
 <b>District's Total Reported Net OPEB Liability</b>	 <b>\$ 18,506,432</b>

##### Actuarial assumptions and other inputs

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

	District Plan	MPP Program
Valuation Date	June 30, 2018	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	2.75 percent	N/A
Salary increases	2.75 percent, average, including inflation	N/A
Healthcare cost trend rates	4.0 percent, net of OPEB plan investment expense, including inflation	3.58 percent
Retirees' share of benefit-related costs	5.0% of the lowest available super composite rate	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

##### District Plan

The discount rate is 3.8% per year, net of expenses 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.

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Notes to Financial Statements**June 30, 2018*

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**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.

**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 2.8%	Discount Rate 3.8%	1% Increase 4.8%
District Plan	\$ 19,486,891	\$ 18,066,019	\$ 16,809,958
	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
MPP Program	\$ 487,568	\$ 440,413	\$ 394,545

**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 3.0%	Healthcare Cost Trend Rates 4.0%	1% Increase 5.0%
District Plan	\$ 16,994,486	\$ 18,066,019	\$ 19,155,850
	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	\$ 397,980	\$ 440,413	\$ 482,421

## **ADELANTO ELEMENTARY SCHOOL DISTRICT**

### *Notes to Financial Statements*

*June 30, 2018*

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#### **NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

##### **C. 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 \$2,247,803. At June 30, 2018, the District reported no deferred overflows or inflows of resources related to OPEB.

#### **NOTE 13 – ADJUSTMENT FOR RESTATEMENT**

Beginning net position was increased by \$2,081,016 for accreted interest reductions in prior periods, which were not recognized previously. The effect of this restatement is to increase net position at July 1, 2017.

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***Required Supplementary Information***

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**ADELANTO 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		
<b>Revenues</b>				
LCFF sources	\$ 78,686,219	\$ 78,428,305	\$ 78,354,465	\$ (73,840)
Federal sources	4,600,911	6,079,130	5,919,234	(159,896)
Other state sources	3,395,808	9,704,945	9,887,156	182,211
Other local sources	1,646,691	2,107,676	2,156,453	48,777
Total Revenues	88,329,629	96,320,056	96,317,308	(2,748)
<b>Expenditures</b>				
Current:				
Certificated salaries	39,561,183	39,689,319	39,609,763	79,556
Classified salaries	13,996,441	14,619,141	14,412,390	206,751
Employee benefits	23,166,127	25,551,724	25,182,504	369,220
Books and supplies	4,862,851	3,211,738	2,634,994	576,744
Services and other operating expenditures	10,108,668	11,474,668	10,289,993	1,184,675
Transfers of indirect costs	(501,272)	(232,751)	(295,089)	62,338
Intergovernmental	1,100,000	1,565,304	1,523,767	41,537
Capital outlay	515,500	565,740	355,054	210,686
Debt service	460,000	460,000	398,775	61,225
Total Expenditures	93,269,498	96,904,883	94,112,151	2,792,732
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,939,869)	(584,827)	2,205,157	2,789,984
<b>Other Financing Sources and Uses</b>				
Interfund transfers out	(1,540,000)	(1,540,000)	(1,540,000)	-
Total Other Financing Sources and Uses	(1,540,000)	(1,540,000)	(1,540,000)	-
Net Change in Fund Balance	(6,479,869)	(2,124,827)	665,157	2,789,984
Fund Balance, July 1, 2017	23,539,359	23,539,359	23,539,359	-
Fund Balance, June 30, 2018	\$ 17,059,490	\$ 21,414,532	\$ 24,204,516	\$ 2,789,984

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

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – Cafeteria Fund*  
*For the Fiscal Year Ended June 30, 2018*

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Pos (Neg)</b>
<b>Revenues</b>				
Federal sources	\$ 4,873,346	\$ 5,308,922	\$ 5,337,098	\$ 28,176
Other state sources	398,342	372,142	372,218	76
Other local sources	165,100	96,359	97,035	676
<b>Total Revenues</b>	<b>5,436,788</b>	<b>5,777,423</b>	<b>5,806,351</b>	<b>28,928</b>
<b>Expenditures</b>				
Current:				
Classified salaries	1,909,190	2,003,570	1,806,843	196,727
Employee benefits	926,310	923,855	677,782	246,073
Books and supplies	1,816,825	3,449,137	2,680,681	768,456
Services and other operating expenditures	176,564	286,429	239,671	46,758
Transfers of indirect costs	501,272	297,657	295,089	2,568
Capital outlay	106,627	209,743	153,344	56,399
<b>Total Expenditures</b>	<b>5,436,788</b>	<b>7,170,391</b>	<b>5,853,410</b>	<b>1,316,981</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,392,968)	(47,059)	1,345,909
 Fund Balance, July 1, 2017	 3,431,609	 3,431,609	 3,431,609	 -
Fund Balance, June 30, 2018	\$ 3,431,609	\$ 2,038,641	\$ 3,384,550	\$ 1,345,909

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Schedule of Proportionate Share of the Net Pension Liability*  
*For the Fiscal Year Ended June 30, 2018*

	Last Ten Fiscal Years*			
	2017	2016	2015	2014
<b>CalSTRS</b>				
District's proportion of the net pension liability	0.0658%	0.0640%	0.0620%	0.0530%
District's proportionate share of the net pension liability	\$ 60,826,865	\$ 51,763,840	\$ 41,740,880	\$ 30,971,610
State's proportionate share of the net pension liability associated with the District	14,205,422	29,472,569	22,076,265	18,702,183
Totals	\$ 75,032,287	\$ 81,236,409	\$ 63,817,145	\$ 49,673,793
District's covered-employee payroll	\$ 34,593,625	\$ 31,428,472	\$ 30,042,489	\$ 26,275,442
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.83%	164.70%	138.94%	117.87%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
<b>CalPERS</b>				
District's proportion of the net pension liability	0.1016%	0.0990%	0.1012%	0.0976%
District's proportionate share of the net pension liability	\$ 24,265,105	\$ 19,552,561	\$ 14,916,980	\$ 11,079,976
District's covered-employee payroll	\$ 13,430,170	\$ 11,895,341	\$ 11,210,492	\$ 10,210,863
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	180.68%	164.37%	133.06%	108.51%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

**Notes to Schedule:**

**Changes in Benefit Terms**

A summary of the plan provisions that were used for a specific plan can be found in each plan's annual valuation report.

**Change of Assumptions and Methods**

**CalSTRS:**

The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

**CalPERS:**

In Fiscal Year 2016-17, the financial reporting discount rate for the PERF B was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF B from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2017, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

\* 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.



**ADELANTO 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>
<b>CalSTRS</b>				
Contractually required contribution	\$ 5,546,070	\$ 4,351,878	\$ 3,372,275	\$ 2,667,773
Contributions in relation to the contractually required contribution	<u>5,546,070</u>	<u>4,351,878</u>	<u>3,372,275</u>	<u>2,667,773</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 38,434,302</u>	<u>\$ 34,593,625</u>	<u>\$ 31,428,472</u>	<u>\$ 30,042,489</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>
<b>CalPERS</b>				
Contractually required contribution	\$ 2,225,517	\$ 1,865,182	\$ 1,409,241	\$ 1,319,587
Contributions in relation to the contractually required contribution	<u>2,225,517</u>	<u>1,865,182</u>	<u>1,409,241</u>	<u>1,319,587</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 14,329,515</u>	<u>\$ 13,430,170</u>	<u>\$ 11,895,341</u>	<u>\$ 11,210,492</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.

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Schedule of Changes in the District's Total OPEB Liability and Related Ratios  
For the Fiscal Year Ended June 30, 2018*

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Last 10 Fiscal Years\*

	<b>2018</b>
<b>Total OPEB liability</b>	
Service cost	\$ 1,603,861
Interest	643,942
Benefit payments	<u>(695,507)</u>
<b>Net change in total OPEB liability</b>	1,552,296
<b>Total OPEB liability - beginning</b>	<u>16,513,723</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 18,066,019</u></u>
 <b>Covered-employee payroll</b>	 <u>\$ 53,148,586</u>
 <b>Total OPEB liability as a percentage of covered- employee payroll</b>	 <u>33.99%</u>

**Notes to Schedule:**

*\* 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.*

**ADELANTO 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)*

	<b>2017</b>
<b>Total OPEB liability</b>	
Interest	\$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
<b>Net change in total OPEB liability</b>	(47,282)
<b>Total OPEB liability - beginning</b>	468,031
<b>Total OPEB liability - ending</b>	<u>\$ 420,749</u>
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
<b>Net change in plan fiduciary net position</b>	31
<b>Plan fiduciary net position - beginning</b>	10
<b>Plan fiduciary net position - ending</b>	<u>\$ 41</u>
 <b>Net OPEB liability</b>	<u>\$ 420,708</u>
 <b>District's proportionate share of net OPEB liability</b>	<u>\$ 440,413</u>
 <b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<u>0.01%</u>
 <b>Covered-employee payroll</b>	<u>N/A</u>
 <b>District's net OPEB liability as a percentage of covered-employee payroll</b>	<u>N/A</u>

**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.*

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2018*

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Budgetary Comparison Schedules**

These schedules are 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 did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

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## ***Supplementary Information***

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**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Local Educational Agency Organization Structure*  
*June 30, 2018*

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The Adelanto Elementary School District is an elementary school district established in 1873 and is comprised of an area of approximately 330 square miles located in San Bernardino County, encompassing a portion of the City of Adelanto and surrounding areas. There were no changes in the boundaries of the District during the current year. During the fiscal year, the District operated seven elementary schools (K-6), three K-8 schools, and two middle schools (7-8).

**GOVERNING BOARD**

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<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Holly Eckes	President	November, 2020
Debra S. Jones	Clerk	November, 2018
Evelyn Glasper	Member	November, 2018
Jayson Hughes	Member	November, 2018
Christine Turner	Member	November, 2020

**DISTRICT ADMINISTRATORS**

Dr. Amy Nguyen-Hernandez, Ed.D.,  
*Superintendent*

Dr. Fal Asrani, Ed.D.,  
*Chief Academic Officer*

Ajay Mohindra,  
*Chief Business Officer*

Andrea Credille,  
*Chief Personnel Officer*



**ADELANTO ELEMENTARY SCHOOL DISTRICT***Schedule of Average Daily Attendance  
For the Fiscal Year Ended June 30, 2018*

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	<b>Second Period Report</b>	<b>Annual Report</b>
	<b>Certificate No. (B46F6A00)</b>	<b>Certificate No. (EEC14FCD)</b>
<b>Regular &amp; Extended Year:</b>		
Transitional Kindergarten through Third	3,498.80	3,492.59
Fourth through Sixth	2,699.03	2,687.68
Seventh through Eighth	1,707.63	1,693.45
Total Regular & Extended Year	7,905.46	7,873.72
<b>Special Education-Nonpublic, Nonsectarian Schools:</b>		
Transitional Kindergarten through Third	-	0.09
Fourth through Sixth	-	0.12
Seventh through Eighth	0.25	0.26
Total Special Education-Nonpublic, Nonsectarian Schools	0.25	0.47
Total ADA	7,905.71	7,874.19

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Schedule of Instructional Time**For the Fiscal Year Ended June 30, 2018*

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Grade Level	Required Minutes	2017-18 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	55,960	180	Complied
Grade 1	50,400	52,610	180	Complied
Grade 2	50,400	52,610	180	Complied
Grade 3	50,400	52,610	180	Complied
Grade 4	54,000	56,050	180	Complied
Grade 5	54,000	56,050	180	Complied
Grade 6	54,000	56,050	180	Complied
Grade 7	54,000	58,491	180	Complied
Grade 8	54,000	58,491	180	Complied

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Schedule of Financial Trends and Analysis**For the Fiscal Year Ended June 30, 2018*

General Fund	(Budget) 2019 <sup>2</sup>	2018 <sup>3</sup>	2017	2016
Revenues and other financing sources	\$ 95,115,708	\$ 96,317,308	\$ 91,739,518	\$ 86,447,588
Expenditures	95,605,326	94,112,151	85,238,429	76,343,980
Other uses and transfers out	50,000	1,540,000	116,911	13,995
Total outgo	95,655,326	95,652,151	85,355,340	76,357,975
Change in fund balance (deficit)	(539,618)	665,157	6,384,178	10,089,613
Ending fund balance	\$ 23,664,898	\$ 24,204,516	\$ 23,539,359	\$ 17,155,181
Available reserves <sup>1</sup>	\$ 12,183,399	\$ 15,532,588	\$ 16,154,209	\$ 6,319,800
Available reserves as a percentage of total outgo	12.7%	16.5%	19.0%	8.3%
Total long-term debt	\$ 130,476,029	\$ 134,550,908	\$ 121,708,491	\$ 98,458,436
Average daily attendance at P-2	7,891	7,906	7,906	7,940

The General Fund balance has increased by \$7,049,335 over the past two years. The fiscal year 2018-19 adopted budget projects a decrease of \$539,618. 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 not incurred an operating deficit in any of the past three years, but anticipates incurring an operating deficit during the 2018-19 fiscal year. Long-term debt has increased by \$36,092,472 over the past two years from the net pension liability and other postemployment benefits.

Average daily attendance has decreased by 34 over the past two years. ADA is expected to decrease by 15 in fiscal year 2018-19.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> Revised Budget September, 2018.

<sup>3</sup> The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and Self-Insurance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**ADELANTO ELEMENTARY SCHOOL DISTRICT***Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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	<u>Cafeteria Fund</u>
June 30, 2018, annual financial and budget report (SACS) fund balances	\$ 2,978,520
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts receivable overstated	(35,566)
Accounts payable overstated	<u>441,596</u>
June 30, 2018, audited financial statement fund balances	<u><u>\$ 3,384,550</u></u>

**ADELANTO 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:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,079,567	
School Breakfast Program - Basic	10.553	13390	19,571	
National School Lunch Program	10.555	13391	3,991,699	
Summer Food Service Program Operations	10.559	13004	37,239	
USDA Donated Foods	10.555	N/A	351,686	
Subtotal Child Nutrition Cluster				\$ 5,479,762
Fresh Fruit and Vegetable Program	10.582	14968		153,164
Total U.S. Department of Agriculture				5,632,926
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants	84.010	14329		3,415,514
Title II, Part A, Supporting Effective Instruction	84.367	14341		266,961
Title III, Limited English Proficiency	84.365	14346		200,813
Title IV, 21st Century Community Learning Centers (CCLC) Technical Assistance	84.287	14681		64,875
Individuals with Disabilities Education Act (IDEA):				
Passed through the San Bernardino County				
Superintendent of Schools Desert Mountain SELPA:				
Local Assistance Entitlement	84.027	13379	1,598,206	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	1,006	
Preschool Local Entitlement, Part B	84.027A	13682	3,064	
Total Special Education (IDEA) Cluster				1,602,276
Total U.S. Department of Education				5,550,439
U.S. Department of Health & Human Services:				
Passed through California Department of Education (CDE):				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	65,241	
Medi-Cal Administrative Activities (MAA)	93.778	10060	111,545	
Total U.S. Department of Health & Human Services				176,786
Total Expenditures of Federal Awards				\$ 11,360,151

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

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Schedule of Charter Schools*  
*For the Fiscal Year Ended June 30, 2018*

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<u>Name of Charter School</u>	<u>Included in District Audit</u>
Taylion High Desert Academy (No. 1520)	No

## ADELANTO ELEMENTARY SCHOOL DISTRICT

### *Note to the Supplementary Information*

*June 30, 2018*

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#### **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.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 11,552,160
Differences between Federal Revenues and Expenditures:		
Medi-Cal Billing Option	93.778	<u>(192,009)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 11,360,151</u>

##### **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 school is included in the District audit.

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***Other Independent Auditors' Reports***

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

Board of Trustees  
Adelanto Elementary School District  
Adelanto, 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 Adelanto Elementary School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Adelanto Elementary School District's basic financial statements, and have issued our report thereon dated November 19, 2018.

**Internal Control Over Financial Reporting**

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



Murrieta, California  
November 19, 2018



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees  
Adelanto Elementary School District  
Adelanto, California

### Report on State Compliance

We have audited Adelanto 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 Adelanto 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 Adelanto 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 Adelanto 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 Adelanto 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:

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
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	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

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

#### ***Unmodified Opinion on Compliance with State Programs***

In our opinion, Adelanto Elementary School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

#### ***Other Matter***

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2018-001 and 2018-002. Our opinion on each state program is not modified with respect to these matters.

#### ***District's Responses to Findings***

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

*Nigro + Nigro, PC.*

Murrieta, California  
November 19, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Adelanto Elementary School District  
Adelanto, California

**Report on Compliance for Each Major Federal Program**

We have audited Adelanto 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 Adelanto Elementary School District's major federal programs for the year ended June 30, 2018. Adelanto 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 Adelanto 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 Adelanto 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 Adelanto Elementary School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Adelanto 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 Adelanto 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 Adelanto 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.



Murrieta, California  
November 19, 2018

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## ***Findings and Questioned Costs***

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**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2018*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's 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 Reported</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 Reported</u>
Type of auditor's 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:	
CFDA Numbers	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	<u>Child Nutrition Cluster</u>
84.027, 84.173	<u>Special Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

***State Awards***

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2018*

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**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.***

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2018*

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**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.*

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2018*

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

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

**Finding 2018-001: Instructional Materials (70000)**

**Criteria:** California Education Code Section 60119 requires that school districts conduct a public hearing regarding the sufficiency of textbooks and instructional materials. The public hearing must be held on or before the 8<sup>th</sup> week of school.

**Condition:** The District's sufficiency of instructional materials public hearing was held on October 10, 2017. This was after the 8<sup>th</sup> week of school which began on August 9, 2017. The hearing needed to be held on or prior to the week of October 2.

**Context:** The exception is limited to the 2017-18 school year.

**Questioned Cost:** There is no financial penalty associated with noncompliance.

**Cause:** The District failed to hold the public hearing for instructional materials on or before the 8<sup>th</sup> week of school.

**Effect:** The public hearing was not held until October 10.

**Recommendation:** We recommend that the District ensure that the instructional material public hearing is completed on or before the 8<sup>th</sup> week of school for the 2018-19 school year.

**View of Responsible Officials:** The District will ensure that instructional material public hearing is completed on or before the 8<sup>th</sup> week of school in future years

**Finding 2018-002: CALPADS Unduplicated Pupil Count (40000)**

**Criteria:** 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:

- 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.

**ADELANTO ELEMENTARY SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2018*

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

**Finding 2018-002: CALPADS Unduplicated Pupil Count (40000) (continued)**

**Condition:** During our testing of the English Learner (EL) and Free and Reduced Price Meal (FRPM) eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student was classified as an EL student, but did not have a CELDT or other evidence as being an EL student in accordance with the District's policy.

**Context:** We noted an error in one of the four schools we tested, for a total of one exception out of a sample size of 51.

**Cause:** This was due to human error. It was an isolated event, not an indication of a weakness in internal controls.

**Questioned Cost:** \$524

**Effect:** The unduplicated pupil counts in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes:

School Site	CALPADS Reported	Adjusted based on eligibility	Adjusted Total
		English Learner	
Melva Davis Academy of Excellence	695	(1)	694
Aggregate remaining school sites	6,287	-	6,287
District-wide	6,982	(1)	6,981

The enrollment count of 8,374 was not impacted as a result of the procedures performed.

**Recommendation:** We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.

**View of Responsible Officials:** We are implementing additional review procedures, to help ensure that students from other districts have a proper EL classification.

## ADELANTO 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
<i>Finding 2017-001: Cafeteria Fund Cash Reserves</i>	<p>The school food authority should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b).</p> <p>At June 30, 2017, fund balance in the Cafeteria Fund was \$3,431,235, which exceeds the average of three months expenditures by \$1,808,287.</p>	50000	We recommend the District create a spending plan and submit to the California Department of Education (CDE) for approval. Once approved, the District should work with CDE to reduce cash reserves.	Implemented.
<i>Finding 2017-002: Restricted Routine Maintenance Contribution</i>	<ul style="list-style-type: none"><li>Pursuant to Education Code Section 17070.75, an LEA with a project funded by the State Allocation Board after November 1998 under the Leroy F. Greene School Facilities Act of 1998 must establish and maintain a restricted maintenance account within their general fund to be used for ongoing and major maintenance of school buildings.</li><li>Pursuant to Education Code Section 17070.75 (b)(2)(B), for the 2016-17 fiscal year, the minimum amount required to be deposited into the account shall be the lesser of the following amounts:<ul style="list-style-type: none"><li>Three percent of the total general fund expenditures for 2016-17 fiscal year.</li><li>The amount that the school district deposited into the account in the 2014-15 fiscal year.</li></ul></li></ul> <p>During our testing of restricted routine maintenance contribution, we noted the District contributed \$772,566 for 2016-17 fiscal year. The District should have contributed \$1,177,163 because the District contributed \$1,177,163 to restricted routine maintenance in 2014-15 fiscal year and 3 percent of 2016-17 general fund expenditures was \$2,529,905.</p>	60000	We recommend that the District closely monitor restricted routine maintenance requirement and deposit the required amount into the restricted routine maintenance account.	Implemented.

## ADELANTO 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
<i>Finding 2017-003: Unduplicated Pupil Count</i>	<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"><li>• 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 (<i>EC</i> sections 2574(b)(2) and 42238.02(b)(1)).</li><li>• Divided by total enrollment in the LEA (<i>EC</i> 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.</li></ul> <p>During our testing of the English Learner eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student who was classified as an EL student in CALPADS, but was reclassified in 2015 and did not get updated in CALPADS.</p>	40000	We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.	Implemented in 2017. See Finding 2018-002 for 2018.



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To the Board of Trustees  
Adelanto Elementary School District  
Adelanto, California

In planning and performing our audit of the basic financial statements of Adelanto Elementary School District for the year ending June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 19, 2018 on the financial statements of Adelanto Elementary School District.

## FOOD SERVICE OPERATIONS

**Observation:** We noted that a reconciliation between inventory and daily sales for a-la-carte items is not being performed.

**Recommendation:** We recommend that inventory be reconciled to daily sales for all a-la-carte items and to the number of meals served. Reconciling inventory to daily sales improves control over food items and may identify any discrepancies in cash counts.

**Observation:** We noted that there is no receipt generated by site employees who collect cash for students' pre-pay accounts. Without issuing a receipt or using a cash collection log, there is no audit trail to prove that all cash collected is being deposited in the District account.

**Recommendation:** We recommend that a pre-numbered receipt book be used by site employees to record pre-payments and any cash collection to help keep adequate records from the point of collection to deposit. We recommend the District reconcile receipts with actual cash collected to ensure it is deposited in full with the District.

## DISTRICT OFFICE

**Observation:** We discovered that the District does not keep a check log to record checks that are being received at the point of collection. Without a proper receipt or a check log, there is no audit trail to prove that all checks being collected are deposited in the District account.

**Recommendation:** We recommend that the District assign a person to log all checks that are received before distributing them to the appropriate department. We then recommend that this log is used to compare with deposits made as part of the reconciliation process.

## **DISTRICT OFFICE (continued)**

**Observation:** During our testing of cash receipts, we noted that there was cash that was received and not deposited until three weeks later. In addition, cafeteria cash collections were left at the sites over the weekends and not deposited until the following Monday.

**Recommendation:** We recommend that the District train all employees regarding deposits to ensure that cash is not left on hand over the weekend or holidays. For cafeteria, we recommend that there be a final courier pick up and deposit on Fridays for all sites where cash is collected.

**Observation:** In our test of cash disbursements, we noted that 3 of approximately 60 disbursements selected in our sample lacked supporting receipts. We determined upon further inquiry that the disbursements were used for tips as part of travel and conference costs. These expenditures are not consistent with District Board Policy 3350 which states that: "The District shall not reimburse personal travel expenses including, but not limited to, tips or gratuities... while on district business."

**Recommendation:** We recommend that the District remind all district employees, managers, and all other district personnel with regard to the District policy over travel expenses.

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

*Nigro + Nigro, PC.*

Murrieta, California  
November 19, 2018

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## APPENDIX D

### ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE CITY OF ADELANTO AND SAN BERNARDINO COUNTY

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

#### General Information

**The City.** The City, incorporated in 1970, is located near US Highway 395, in the California Mojave Desert, 35 miles (56km) north of the City of San Bernardino via Interstate 15. Highway 395, “The Three Flags Highway,” provides a direct link between Baja California and Canada. Interstate 15 provides a route north to Nevada and south to the metropolitan Los Angeles and San Diego area. El Mirage Dry Lake, located west of Adelanto, has been used for filming movies and television commercials, and is popular for racing off-road vehicles and land yachts.

The cool prevailing winds from the southwest provide a nearly smog free environment throughout the year. Average temperatures range from a minimum of 30 degrees Fahrenheit in January to a maximum of 96 degrees Fahrenheit in August. Average annual rainfall is 5.5 inches occurring primarily during the winter months with some additional accumulation from summer thunderstorms.

**The County.** The County is located in Southern California and was established by an act of the State Legislature on May 23, 1853, separating the County from the eastern part of the County of Los Angeles. The County encompasses an area of over 22,000 square miles, making it geographically the largest county in the nation, and includes twenty-four incorporated communities. The County is bordered on the west by the Counties of Los Angeles and Kern, on the north by the County of Inyo and on the south by the County of Riverside.

## Population

The following table lists population estimates for the City and County for the last five calendar years, as of January 1.

**SAN BERNARDINO COUNTY**  
**Population Estimates**  
**Calendar Years 2015 through 2019 as of January 1**

<b>Area</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Adelanto</b>	33,791	34,367	35,192	35,162	35,136
Apple Valley	71,765	72,234	72,412	72,891	73,464
Barstow	23,663	23,875	24,037	24,075	24,150
Big Bear Lake	5,269	5,279	5,334	5,427	5,461
Chino	85,041	85,284	86,950	87,574	89,829
Chino Hills	77,859	78,225	79,892	83,379	84,364
Colton	53,666	53,739	53,940	54,061	54,391
Fontana	205,476	206,606	207,984	209,455	212,078
Grand Terrace	12,424	12,472	12,564	12,570	12,654
Hesperia	92,459	93,173	94,233	95,127	96,362
Highland	54,586	54,562	54,940	55,326	55,778
Loma Linda	23,923	23,868	24,001	24,006	24,335
Montclair	38,647	38,841	38,990	39,220	39,563
Needles	5,024	5,013	5,048	5,067	5,085
Ontario	169,858	170,268	172,168	174,244	178,268
Rancho Cucamonga	175,145	175,717	177,662	178,619	179,412
Redlands	70,827	71,033	71,236	71,441	71,839
Rialto	104,237	105,554	106,272	106,582	107,271
San Bernardino	215,292	216,834	218,514	218,992	219,233
Twentynine Palms	26,016	25,838	26,741	27,247	28,958
Upland	76,420	77,080	78,001	78,027	78,481
Victorville	123,465	124,600	125,338	125,782	126,543
Yucaipa	53,287	53,692	54,003	54,293	54,844
Yucca Valley	21,543	21,672	21,859	21,905	22,050
Total Unincorporated	303,879	306,416	308,804	311,045	312,654
<b>Total County</b>	<b>2,123,562</b>	<b>2,136,242</b>	<b>2,156,115</b>	<b>2,171,517</b>	<b>2,192,203</b>

*Source: State Department of Finance estimates (as of January 1).*

## Employment and Industry

The unemployment rate in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (“**MSA**”) was 4.4 percent in August 2019, down from a revised 4.6 percent in July 2019, and below the year-ago estimate of 4.6 percent. This compares with an unadjusted unemployment rate of 4.2 percent for California and 3.8 percent for the nation during the same period. The unemployment rate was 4.6 percent in Riverside County, and 4.1 percent in San Bernardino County.

The following table shows civilian labor force and wage and salary employment data for the Riverside-San Bernardino-Ontario MSA, which is coterminous with Riverside and San Bernardino Counties and, therefore, includes the City of Adelanto, for the past five calendar years. These figures are area-wide statistics and may not necessarily accurately reflect employment trends in the City.

### **RIVERSIDE-SAN BERNARDINO-ONTARIO MSA (San Bernardino and Riverside Counties) Annual Average Civilian Labor Force, Employment and Unemployment, Employment by Industry (March 2018 Benchmark)**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Civilian Labor Force <sup>(1)</sup>	1,916,500	1,954,200	1,983,300	2,017,700	2,053,400
Employment	1,761,200	1,825,800	1,865,200	1,914,900	1,966,800
Unemployment	155,300	128,500	118,000	102,800	86,600
Unemployment Rate	8.1%	6.6%	6.0%	5.1%	4.2%
<u>Wage and Salary Employment:</u> <sup>(2)</sup>					
Agriculture	14,400	14,800	14,600	14,500	14,500
Mining and Logging	1,300	1,300	900	1,000	1,200
Construction	77,600	85,700	92,000	97,400	104,800
Manufacturing	91,400	96,200	98,700	99,200	101,300
Wholesale Trade	58,100	60,500	61,600	62,600	64,900
Retail Trade	169,600	174,400	178,300	180,900	180,800
Trans., Warehousing and Utilities	87,100	98,100	108,000	122,100	132,600
Information	11,300	11,400	11,500	11,300	11,200
Finance and Insurance	26,600	26,900	26,700	25,900	24,800
Real Estate and Rental and Leasing	16,300	17,000	17,900	18,400	18,900
Professional and Business Services	138,700	147,400	144,900	146,900	150,600
Educational and Health Services	195,900	206,300	215,700	226,700	240,000
Leisure and Hospitality	144,800	151,700	160,200	166,300	170,000
Other Services	43,000	44,000	44,600	45,400	45,600
Federal Government	20,200	20,300	20,400	20,600	20,700
State Government	28,200	28,700	29,700	30,400	31,000
Local Government	180,400	184,400	192,200	200,100	205,900
Total, All Industries <sup>(3)</sup>	1,304,800	1,369,100	1,417,900	1,469,400	1,518,700

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

## Largest Employers

The following table lists the major employers within the County as of October 2019, in alphabetical order.

### SAN BERNARDINO COUNTY Major Employers October 2019

Employer Name	Location	Industry
Amazon Fulfillment Ctr	Redlands	Mail Order Fulfillment Service
Amazon Fulfillment Ctr	San Bernardino	Mail Order Fulfillment Service
Arrowhead Regional Medical Ctr	Colton	Hospitals
Burlington	San Bernardino	Department Stores
California State Univ Sn	San Bernardino	Schools-Universities & Colleges Academic
Environmental Systems Research	Redlands	Geographics Information Systems
Fedex Ground	Bloomington	Delivery Service
Iehp	Rancho Cucamonga	Health Services
Kaiser Permanente Fontana Med	Fontana	Hospitals
Loma Linda Uni Med Ctr	Loma Linda	Schools-Universities & Colleges Academic
Loma Linda Univ Health Board	Loma Linda	Univ/Clg-Governing Body/Regent/Trustee
Loma Linda University Med Ctr	Loma Linda	Hospitals
National Orange Show Events	San Bernardino	Halls & Auditoriums
Ontario International Airport	Ontario	Airports
Ontario Montclair School Dist	Ontario	School Districts
Patton State Hospital	Patton	Hospitals
Redlands Community Hospital	Redlands	Hospitals
San Antonio Community Hospital	Upland	Hospitals
San Bernardino County Sch Supt	San Bernardino	Schools & Educational Services NEC
San Bernardino County Sheriff	San Bernardino	County Government-General Offices
St Bernardine Medical Ctr	San Bernardino	Hospitals
St Mary's Medical Ctr	Apple Valley	Hospitals
Transportation Department	San Bernardino	Government Offices-State
US Veterans Medical Ctr	Loma Linda	Hospitals
YRC Freight	Bloomington	Trucking-Motor Freight

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2019 2nd Edition.

## Effective Buying Income

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



fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income and median household effective buying income for the City, the County, the State and the United States for the period 2015 through 2019.

**CITY OF ADELANTO, SAN BERNARDINO COUNTY,  
STATE OF CALIFORNIA AND UNITED STATES  
Effective Buying Income  
2015 through 2019**

<b>Year</b>	<b>Area</b>	<b>Total Effective Buying Income (000's Omitted)</b>	<b>Median Household Effective Buying Income</b>
2015	City of Adelanto	\$315,893	\$34,573
	San Bernardino County	33,866,800	43,919
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2016	City of Adelanto	\$324,813	\$34,052
	San Bernardino County	36,970,540	46,789
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	City of Adelanto	\$309,378	\$31,203
	San Bernardino County	38,150,684	47,423
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	City of Adelanto	\$324,138	\$32,645
	San Bernardino County	40,600,305	50,226
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	City of Adelanto	\$341,292	\$32,175
	San Bernardino County	42,984,313	52,631
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

*Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019.*

## Commercial Activity

Total taxable sales during the first quarter of calendar year 2018 in the City were reported to be \$40,517,039, a 35.52% increase over the total taxable sales of \$29,897,129 reported during the first quarter of calendar year 2017. Annual figures are not yet available for calendar year 2018.

### CITY OF ADELANTO Taxable Transactions (Figures in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	161	\$47,308	273	\$139,694
2014	183	48,492	289	130,856
2015 <sup>(1)</sup>	205	49,302	349	111,743
2016	205	115,929	343	115,929
2017	236	61,270	404	149,777

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

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Total taxable sales during the first quarter of calendar year 2018 in the County were reported to be \$9,418,744,666, a 7.18% increase over the total taxable sales of \$8,788,156,773 reported during the first quarter of calendar year 2017. Annual figures are not yet available for calendar year 2018.

### SAN BERNARDINO COUNTY Taxable Transactions (Figures in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	32,986	\$21,173,875	46,632	\$31,177,823
2014	34,455	22,240,376	48,349	33,055,967
2015 <sup>(1)</sup>	18,499	23,142,828	56,961	35,338,556
2016	38,366	24,242,145	57,542	36,981,694
2017	39,067	25,341,773	58,956	38,137,915

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

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

## Construction Trends

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

### CITY OF ADELANTO Total Building Permit Valuations Calendar Years 2014 through 2018 (dollars in thousands)

	2014	2015	2016	2017	2018
<u>Permit Valuation</u>					
New Single-family	\$9,918.5	\$35,350.2	\$1,539.5	\$14,456.3	\$3,053.9
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	<u>243.5</u>	<u>935.5</u>	<u>69.0</u>	<u>102.3</u>	<u>739.2</u>
Total Residential	10,162.0	36,285.7	1,608.5	14,558.6	3,793.1
New Commercial	18,898.9	15.0	36.0	0.0	1,615.3
New Industrial	0.0	0.0	60.0	6,370.0	5,784.9
New Other	2,569.5	56,589.1	718.8	54.0	294.7
Com. Alterations/Additions	<u>27,039.5</u>	<u>322.1</u>	<u>500.0</u>	<u>1,440.0</u>	<u>22,123.9</u>
Total Nonresidential	48,507.9	56,926.2	1,314.8	7,864	29,818.8
<u>New Dwelling Units</u>					
Single Family	36	123	5	88	24
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	36	123	5	88	24

Source: Construction Industry Research Board, Building Permit Summary.

### SAN BERNARDINO COUNTY Total Building Permit Valuations Calendar Years 2014 through 2018 (dollars in thousands)

	2014	2015	2016	2017	2018
<u>Permit Valuation</u>					
New Single-family	\$490,036.4	\$830,771.7	\$706,601.8	\$1,009,450.8	\$1,114,777.8
New Multi-family	137,909.2	155,341.4	119,497.6	278,760.5	268,564.9
Res. Alterations/Additions	<u>80,525.4</u>	<u>70,459.1</u>	<u>62,042.4</u>	<u>77,811.9</u>	<u>71,937.8</u>
Total Residential	708,470.9	1,056,572.2	888,141.8	1,366,023.3	1,455,280.5
New Commercial	240,662.5	276,493.3	189,230.5	324,540.4	230,518.8
New Industrial	265,851.8	445,168.7	426,747.9	543,462.7	387,108.6
New Other	221,124.3	166,531.8	96,402.8	86,981.8	74,356.9
Com. Alterations/Additions	<u>230,628.1</u>	<u>258,527.9</u>	<u>308,269.9</u>	<u>330,612.1</u>	<u>388,145.5</u>
Total Nonresidential	958,267.0	1,146,721.7	1,020,651.1	1,285,597.0	1,080,129.8
<u>New Dwelling Units</u>					
Single Family	1,937	2,743	2,896	4,253	3,311
Multiple Family	<u>1,266</u>	<u>1,159</u>	<u>976</u>	<u>2,578</u>	<u>1,775</u>
TOTAL	3,203	3,912	3,872	6,831	5,086

Source: Construction Industry Research Board, Building Permit Summary.

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## APPENDIX E

### PROPOSED FORM OF FINAL OPINION

\_\_\_\_\_, 2019

Board of Trustees  
Adelanto Elementary School District  
11824 Air Expressway  
Adelanto, CA 92301

OPINION:     \$\_\_\_\_\_ Adelanto Elementary School District Certificates of  
Participation (District Administrative Facility Lease Refinancing),  
Series 2019

Members of the Board of Trustees:

We have acted as special counsel to the Adelanto Elementary School District (the "District") in connection with the delivery by the District of the Lease Agreement dated as of December 1, 2019 (the "Lease Agreement") between the California Municipal Finance Authority (the "Authority") as lessor and the District as lessee. The Authority has, pursuant to the Assignment Agreement dated January 1, 2017 (the "Assignment Agreement") between the Authority and Zions Bancorporation, National Association (the "Trustee"), assigned to the Trustee certain of its rights under the Lease Agreement, including the right to receive lease payments made by the District thereunder (the "Lease Payments"). Pursuant to the Trust Agreement dated as of December 1, 2019 (the "Trust Agreement") among the District, the Authority and the Trustee, the Trustee has executed and delivered the above-captioned certificates of participation dated the date hereof (the "Certificates") evidencing direct, undivided and fractional interests of the owners thereof in Lease Payments. The District authorized execution and delivery of the Lease Agreement, the Trust Agreement and the Certificates pursuant to a resolution of the Board of Trustees of the District adopted on November 12, 2019 (the "Resolution").

We have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the District and the Authority contained in the Lease Agreement and the Trust Agreement, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The District is duly created and validly existing as a school district with the power to adopt the Resolution, enter into the Lease Agreement and the Trust Agreement and perform the agreements on its part contained therein.

2. The Lease Agreement and the Trust Agreement have been duly authorized, executed and delivered by the District and the Authority, and constitute the valid and binding

obligations of the District and the Authority, enforceable against the District and the Authority in accordance with their terms.

3. The Certificates have been validly executed and delivered by the Trustee under the Trust Agreement and, by virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the provisions of the Trust Agreement.

4. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The Lease Agreement is a "qualified tax-exempt obligation" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Tax Code"), and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable with respect to the Certificates.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the execution and delivery of the Certificates in order that the interest with respect thereto be, and continue to be, excludable from gross income for federal income tax purposes, and that the Lease Agreement be, or continue to be, a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Tax Code. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of delivery of the Lease Agreement, or may cause the Lease Agreement not to be a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Tax Code.

5. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Lease Agreement or the Certificates.

The rights of the owners of the Certificates and the enforceability of the Lease Agreement and the Trust Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ \_\_\_\_\_  
**Adelanto Elementary School District**  
**Certificates of Participation**  
**(District Administrative Facility Lease Refinancing), Series 2019**

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Adelanto Elementary School District (the “District”) in connection with the execution and delivery of the certificates of participation captioned above (the “Certificates”). The Certificates evidence the direct, undivided fractional interests of the owners thereof in lease payments to be made by the District under a Lease Agreement dated as of December 1, 2019 (the “Lease Agreement”) between the California Municipal Finance Authority (the “Authority”), as lessor, and the District as lessee. The Certificates will be delivered under a Trust Agreement dated as of December 1, 2019 (the “Trust Agreement”) among the District, the Authority and Zions Bancorporation, National Association, as trustee (the “Trustee”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Certificates and in order to assist the Participating Underwriters in complying with Rule 15c-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

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

“*Annual Report*” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4.

“*Annual Report Date*” means the date that is nine months after the end of the District’s fiscal year (currently March 31 based on the District’s fiscal year end of June 30).

“*Dissemination Agent*” means, initially, Cooperative Strategies, LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the District in connection with the issuance of the Certificates.

*“Participating Underwriter”* means Stifel, Nicolaus & Company, as the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

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

### Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2020, with the report for the 2018-19 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District in a timely manner shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

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

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) Audited financial statements of the District prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.



(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following information for the most recently completed fiscal year:

- (i) The District's current budget and most recently filed interim report.
- (ii) Total assessed value (per the County Assessor's records) of all parcels within the District, showing the total assessed valuation for all land and the total assessed valuation for all improvements within the District.
- (iii) The principal amount of the Certificates outstanding and the balance in the Reserve Fund (along with a statement of the Reserve Requirement) as of the September 30 next preceding the Annual Report Date.

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

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

#### Section 5. Reporting of Significant Events.

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

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.

- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person. This event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person 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 obligated person, 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 obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the 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.
- (16) 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) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such

event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

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

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

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

Section 7. Termination of Reporting Obligation. The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 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(b).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the District. The initial Dissemination Agent is Cooperative Strategies, LLC.

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

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

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

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

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

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Certificates 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 Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

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

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: \_\_\_\_\_, 2019

**ADELANTO ELEMENTARY SCHOOL  
DISTRICT**

By \_\_\_\_\_  
Superintendent

**ACCEPTANCE OF DUTIES  
AS DISSEMINATION AGENT**

**Cooperative Strategies, LLC**

By \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Adelanto Elementary School District

Name of Issue: \$\_\_\_\_\_ Adelanto Elementary School District Certificates of Participation  
(District Administrative Facility Lease Refinancing), Series 2019

Date of Issuance: \_\_\_\_\_, 2019

NOTICE IS HEREBY GIVEN that the Adelanto Elementary School District has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate dated as of \_\_\_\_\_, 2019, executed by the Adelanto Elementary School District. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**DISSEMINATION AGENT:**

\_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

## APPENDIX G

### BOOK-ENTRY PROVISIONS

*The following description of the Depository Trust Company, New York, New York (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments with respect to the Certificates to DTC Direct and Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Certificates and other related transactions by and between DTC, DTC’s Direct and Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC’s Direct and Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or DTC’s Direct and Indirect Participants, as the case may be.*

*Neither the issuer of the Certificates (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC’s Direct 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’s Direct Participants or Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC’s Direct Participants and Indirect Participants are on file with DTC.*

1. DTC will act as securities depository for the securities (the “**Securities**”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

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

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

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI



Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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## **APPENDIX H**

### **SAN BERNADINO COUNTY INVESTMENT POLICY AND REPORT**

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**OFFICE OF THE  
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR  
COUNTY OF SAN BERNARDINO**

**TREASURER'S STATEMENT OF INVESTMENT POLICY**

As approved by the Board of Supervisors on June 25, 2019

**SCOPE:**

The County of San Bernardino's Investment Policy has been prepared in accordance with California State law. This policy shall be reviewed annually by the County's Treasury Oversight Committee and approved by the County Board of Supervisors. The purpose of this policy is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the management and investment of the County Treasury Pool, which consists of the pooled monies held on behalf of the County, school districts, community college districts and certain special districts within the County.

This policy shall apply to all investments held within the County Treasury Pool and made on behalf of the County and member agencies of the Pool, with the exception of certain bond funds for which the Board of Supervisors may specifically authorize other allowable investments, consistent with State law. The Treasurer and Treasurer's staff are responsible for the full-time, active management of the Pool. All investments and activities of the Treasurer and staff are made with the understanding that the Treasurer holds a public trust with the citizens of the County, which shall not be compromised.

**FIDUCIARY RESPONSIBILITY:**

The California Government Code, Section 27000.3, declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a fiduciary subject to the prudent investor standard.

This standard requires that *"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law."* This standard shall be applied in the context of managing the overall portfolio.

**PORTFOLIO OBJECTIVES:**

It is the policy of the Treasurer to invest public funds in a manner that will preserve the safety and liquidity of all investments within the County investment pool while obtaining a reasonable return within established investment guidelines. The portfolio should be actively managed in a manner that is responsive to the public trust and consistent with State law. Accordingly, the County investment pool will be guided by the following principles, in order of importance:

- The primary objective of the Treasurer's investment of public funds is to safeguard investment principal.
- The secondary objective is to maintain sufficient liquidity to insure that funds are available to meet daily cash flow requirements.
- The third and last consideration is to achieve a reasonable rate of return or yield consistent with these objectives.

**AUTHORITY:**

The Treasurer's authority for making investments is delegated by the Board of Supervisors in accordance with the California Government Code. Statutory authority for the investment and safekeeping functions are found in Sections 53600 et seq. and 53630 et seq. of the California Government Code.

**AUTHORIZED INVESTMENTS:**

Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I, which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply. Whenever a maximum allowable percentage of the portfolio is stated for any type of security as detailed above, the maximum allowable limit is determined by the portfolio size at the market close of the regular business day prior to the security purchase date. Maximum limits are applicable at the time of security purchase only unless otherwise noted or defined in Schedule I.

In conjunction with these restrictions, County Treasurer staff shall diversify its investments by security type, issuer and maturity as specified in Schedule I. The purpose of this diversification is to reduce portfolio risk by avoiding an overconcentration in any particular maturity sector, asset class or specific issuer. As Agency security holdings are the largest portion of the pool, diversification among the Agency issuers should be considered to the extent practical when making investments.

**PROHIBITED INVESTMENTS:**

No investment shall be made that is prohibited by law. Thus, no investments are authorized in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, nor in any other investment that could result in zero interest if held to maturity. Additionally, the following types of investments are also prohibited:

- Mutual bond funds that do not maintain a constant Net Asset Value (NAV).
- Illiquid investments which lack a readily available market for trading. These investments are defined to be: private placement notes or bonds, funding agreements, master notes, and loan participations.

**STAFF AUTHORIZED TO MAKE INVESTMENTS:**

Only the Auditor-Controller/Treasurer/Tax Collector, Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, Investment Analyst(s) and authorized contracted consultant(s) may make investments and jointly order (with the settlement staff) the receipt and delivery of investment securities among custodial security clearance accounts. Authority granted to contracted consultant(s) shall be defined in their contract(s).

**AUTHORIZED BROKER/DEALERS:**

The County Treasurer shall maintain an 'Eligible Broker/Dealer List'. Security transactions are limited solely to those banks, direct issuers and dealers included on this list. All financial institutions must be approved by the County Treasurer before they receive County funds or are able to conduct business with the County Treasurer.

All firms with whom the County does business shall comply with the requirements set forth in Schedule IV. County Treasurer staff shall conduct an annual review of each Broker/Dealer's current financial condition and performance in servicing the County over the prior year. Furthermore, in compliance with Section 27133(c) & (d) of the California Government Code, no dealer and/or securities firm shall be eligible if they have made a political contribution in excess of the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board or exceeded the limit on honoraria, gifts, and gratuities set by State law, by the Fair Political Practices Commission, or by County ordinance.

**DUE DILIGENCE:**

County Treasurer staff shall conduct a thorough review and perform due diligence of all brokers, dealers, issuers of securities, and mutual funds prior to investing or conducting transactions with these parties and on a continuing basis. This due diligence shall include a periodic review of recent news, financial statements and SEC filings related to each entity.

**INTERNAL CONTROLS:**

The County Treasurer has established a system of internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets of the County Treasury Pool are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. The County Treasurer shall develop and maintain written procedures for the operation of the investment program, which are consistent with this policy. These procedures shall include reference to separation of duties, safekeeping, collateralization, wire transfers and banking related activities.

Except for declared emergencies, the County Treasurer's Office shall observe the following procedures on a daily basis:

- Investment transactions in excess of overnight maturity conducted by the County Treasurer's office shall be documented and subsequently reviewed by the Treasurer.
- All investment transactions shall be entered into the Treasurer's accounting system.
- County investments shall be transacted, settled, accounted for, and audited by different people.

**SECURITY CUSTODY & DELIVERIES:**

All securities purchased shall be deposited for safekeeping with the custodial bank that has contracted to provide the County Treasurer with custodial security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. All security holdings shall be reconciled monthly by the County Treasurer and audited at least quarterly by the independent certified public accounting firm approved by the County Board of Supervisors. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

All security transactions are to be conducted on a "delivery-versus-payment basis." Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation. Confirmations resulting from securities purchased under repurchase agreements should clearly state the exact and complete nomenclature of the underlying securities purchased, that these securities have been sold to the County under a repurchase agreement, and the stipulated date and amount of the resale by the County back to the seller of the securities.

**REPURCHASE AGREEMENTS:**

Repurchase agreements are restricted to primary dealers of the Federal Reserve Bank of New York. All counterparties must sign a Securities Industry & Financial Markets Association (formerly known as The Bond Market Association) Master Repurchase Agreement and, for tri-party repurchase agreements, a Tri-Party Repurchase Agreement as well before engaging in any repurchase agreement transactions. Collateral for repurchase agreements shall have a market value of at least 102% of the amount invested and must be marked to market by staff or by an independent third-party or custodial bank acting under contract to the County. Collateral for term repurchase agreements shall be marked to market no less than once weekly. Repurchase agreements are required to be collateralized by securities authorized under Section 53601 et seq. of the California Government Code.

**COMPETITIVE PRICING:**

Investment transactions are to be made at current market prices. When possible, competitive prices should be obtained through multiple bids or offers and documented on the trade ticket or other written forms. When possible, bids and offers for any investment security should be taken from a minimum of three security broker/dealers or banks and awards should be made to the best offer. When identical securities are not available from multiple sources, or investments are purchased directly from issuers (e.g. commercial paper and certificates of deposit), market prices may be documented by reference to offerings of similar securities that are of comparable rating and maturity by other issuers.

**LIQUIDITY:**

The duration-to-maturity of the portfolio shall not exceed 2.00. To provide sufficient liquidity to meet daily expenditure requirements for the following 12 months, the portfolio shall maintain at least 40% of its par value in securities having a maturity of 12 months or less.

**PERFORMANCE EVALUATION:**

Portfolio performance is monitored daily by the Treasurer and monthly by third-party analysis, which includes security pricing, evaluation, and a total return measurement using the Bank of America Merrill Lynch 6-month Treasury Bill Index "G002" as a benchmark.



**MITIGATING MARKET & CREDIT RISKS:**

Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the credit ratings issued by Standard & Poor's, Moody's and/or Fitch rating services on the credit worthiness of each issuer of securities, by limiting the duration of investments to the time frames noted in Schedule I, and by maintaining the diversification and liquidity standards expressed within this policy.

In the event of a downgrade of a security held in the portfolio, the Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book loss. In the event of a potential loss upon sale, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.

**TRADING & EARLY SALE OF SECURITIES:**

Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, securities may be sold prior to maturity, either at a profit or loss, when market conditions or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal. In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the County's books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale. However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

**PURCHASE OF SECURITIES FOR FORWARD SETTLEMENT:**

Purchases of securities for forward settlement are only authorized as long as the intent of the purchase is to hold them in the portfolio and not for speculative trading, sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date, there is the ability at purchase to hold them in the portfolio to maturity without violating any of the diversification/maturity limits of this policy, and the forward settlement period does not exceed 21 days.

**PORTFOLIO REPORTS/AUDITING:**

On a monthly basis, the County Treasurer shall prepare and file with the Board of Supervisors, Chief Executive Officer, Chief Deputy Auditor, Superintendent of Schools and Treasury Oversight Committee a report consisting of, but not limited to, the following:

- All investments detailing each by type, issuer, date of maturity, and par value and stating the book vs. current market value together with all other portfolio information required by law.
- Compliance of investments to the existing County Investment Policy.
- A statement confirming the ability of the Pool to meet anticipated cash requirements for the next six months.

**TREASURY OVERSIGHT COMMITTEE:**

In accordance with California Government Code Section 27131, the Board of Supervisors has established a Treasury Oversight Committee. The Treasury Oversight Committee will render unbiased and objective opinions on matters involving the Treasurer's investment of public funds. Specifically, the law requires that the Treasury Oversight Committee meet to:

- Review the Treasurer's annual Investment Policy Statement and any subsequent changes thereto prior to submission to the Board of Supervisors for review and adoption.
- Review the Treasurer's investment portfolio reports and the portfolio's compliance with law and this Investment Policy.
- Cause an annual audit to be conducted on the Treasurer's pooled investment portfolio.

The Treasury Oversight Committee shall receive a copy of every Audit Report as prepared by the independent certified public accounting firm approved by the County Board of Supervisors. Such reports are made in accordance with the California Government Code Sections 26920 and 26922 and County Board of Supervisor's resolution dated July 6, 1971, and which includes an evaluation of investments for compliance with California Government Code Section 53601 and 53635.

All meetings of the Oversight Committee are to be open to the public and subject to the Ralph M. Brown Act. By law, the Treasury Oversight Committee is not allowed to direct individual investment decisions, nor select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury. Members of the Oversight Committee are prohibited from accepting gifts or gratuities from investment advisors, brokers, dealers, bankers or other persons with whom the county treasury conducts business.

**QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS:**

All moneys deposited in the pool by the participants represent an individual interest in all assets and investments in the pool based upon the amount deposited. Portfolio income shall be reconciled daily against cash receipts and quarterly prior to the distribution of earnings among those entities sharing in pooled fund investment income. It is the intent of this policy to safeguard and maintain the principal value of funds invested and to minimize "paper losses" caused by changes in market value. Nonetheless, actual portfolio income and/or losses, and net of any reserves, will be distributed quarterly among those participants sharing in pooled investment income in compliance with the California Government Code. Except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the calendar quarter.

**QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS:**

Prior to the quarterly apportionment of pooled fund investment earnings, the County Treasurer is permitted, pursuant to the California Government Code, to deduct from investment earnings the actual cost of the investments, auditing, depositing, handling and distribution of such income. Accordingly, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: banking services, wire transfers, custodial safekeeping charges, building remodeling costs and other capital outlays, the costs of investment advisory services, credit ratings, the pro-rata annual cost of the salaries including fringe benefits for the personnel in the Treasurer/Tax Collector's office engaged in the administration, investment, auditing, cashing, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions.

**WITHDRAWAL OF FUNDS:**

Any depositor or public official having funds on deposit, either voluntarily or involuntarily, with this pool, that seeks to withdraw these funds for the purpose of investing or depositing them outside the Treasury Pool, shall first submit a request for withdrawal to the Treasurer for approval prior to withdrawing funds.

The request should be submitted and processed as follows:

- In writing, from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit is to be made, and the reason for the request.
- The request must be received by the County Treasurer no less than thirty (30) days prior to the requested date of withdrawal.
- Prior to approving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the County Treasury pool, in accordance with California Government Code Section 27136(b).

**CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY INTO THE TREASURY POOL:**

The County Treasurer is not soliciting nor accepting any new agency's voluntary entry into the Treasury Pool.

**ETHICS & CONFLICTS OF INTEREST:**

Officers and staff members involved in the investment process shall refrain from any personal business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. The Auditor-Controller/Treasurer/Tax Collector, Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, and Investment Analyst(s) are required to file annually the applicable financial disclosure statements as mandated by the Fair Political Practices Commission (FPPC) and/or by County ordinance. In addition, the Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, and Investment Analyst(s), are required to sign and abide by an Ethics Policy instituted by the Auditor-Controller/Treasurer/Tax Collector.

**POLICY ADOPTION & AMENDMENTS:**

This policy statement will become effective immediately following adoption by the Board of Supervisors. It will remain in force as long as the delegation of authority to the Treasurer to invest is in effect and until the policy statement is subsequently amended in writing by the County Auditor-Controller/Treasurer/Tax Collector, reviewed by the Treasury Oversight Committee and approved by the Board of Supervisors.

<p align="center"><b>COUNTY OF SAN BERNARDINO INVESTMENT POLICY</b></p> <p align="center"><b>OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR</b></p> <p align="center"><b>(SCHEDULE I)</b></p>				
AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS	MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest	100%	None	5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises (excluding mortgage-backed securities)	100%	Senior debt only	5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank	30%	US Dollar denominated Senior Unsecured debt only	5 years	AA by at least one rating agency*
Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within the County of San Bernardino	10%	With approval of Treasurer	5 years	AAA by at least 2 of the 3 rating agencies*
Commercial paper of U.S. Corps with total assets in excess of \$500 MM	40% total for all Commercial Paper	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit	270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*
Asset-backed Commercial Paper	40% total for all Commercial Paper	Issuer must have program-wide credit enhancements	270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*
Negotiable CDs issued by approved banks	30%	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit	3 years from settlement date	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 short-term rating or long-term letter rating of A- and/or A3, or higher (if rated)*
Collateralized Certificates of Deposit	10%	As stipulated in Article 2, Section 53630 et al. of the Calif. Govt. Code	1 year from settlement date	See Section 53630 et al. of the California Government Code

Repurchase Agreements with 102% collateral	40%	Repurchase Agreements (contracts) must be on file	180 days	Restricted to Primary Dealers on Eligible Broker/Dealer List
Reverse Repurchase Agreements	10%	See Schedule II	92 days (See Schedule II)	Restricted to Primary Dealers on Eligible Broker/Dealer List
Medium Term Notes of U.S. Corporations & Depository Institutions and/or Corporate or Bank notes	20% (shall not exceed 10% over 13 months)	Max \$200MM par value of any one issuer, subject to 5% overall corporate issuer limit.	3 years and 2 months (38 months) from settlement date	Rated long-term A- and/or A3, or higher by at least 2 of the 3 rating agencies*
Asset-Backed Securities	10%	Max \$200MM par value of any one issuer, subject to 5% overall special purpose entity** limit	5 years	As per Section 53601(o) of the California Government Code
FDIC Insured Deposit Accounts Authorized under California Government Code Sections 53601.8 & 53635.8	5%	Max \$100MM per selected depository institution. Max \$100MM per placement service	Term Deposits not permitted	Not Applicable
JPA Investment Pools authorized under California Government Code Section 53601(p)	5%	Max \$300MM per JPA Pool Maintain Constant Net Asset Value (NAV)	Immediate Liquidity	AAA by at least one rating agency*
Money Market mutual funds that meet requirements of California Government Code	15%	Registered with SEC. No NAV adjustments. No loads. Max 10% per fund.	Immediate Liquidity	AAA by at least 2 of the 3 rating agencies*
<p>* Standard &amp; Poor's Ratings Services, Moody's Investors Service Inc., and Fitch Ratings Ltd. "New Issue" securities may be purchased and settled based on anticipated ratings.</p> <p>** See Glossary Terms</p>				

**OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR  
COUNTY OF SAN BERNARDINO  
STATEMENT OF INVESTMENT POLICY**

**SCHEDULE II**

**POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS  
AND SECURITIES LENDING AGREEMENTS**

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

1. The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio.
2. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.
3. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.
4. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.
5. Only U.S. Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.
6. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities that are intended to be held to maturity, have been fully paid for, and have been held in the portfolio for a minimum of 30 days.
7. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.
8. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.
9. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

**OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR  
COUNTY OF SAN BERNARDINO  
STATEMENT OF INVESTMENT POLICY**

**SCHEDULE III**

**POLICY CRITERIA FOR COLLATERALIZED CERTIFICATE OF DEPOSITS**

1. The bank must provide us with an executed copy of the authorization for deposit of moneys.
2. The money-market yield on the certificate of deposit must be competitive with negotiable CD's offered by banks on the county's pre-approved list in the maturities desired by the County. The County Treasurer's Office reserves the right to negotiate higher yields based on market conditions at the time.
3. Collateral Requirements: the County will only accept U.S. Treasury and/or Agency securities as collateral. The collateral must be held by a separate custodial bank in an account in the name of San Bernardino County. The County must have perfected interest in the collateral. The maximum maturity of securities is 5 years, the collateral must be priced at 110% of the face value of the CD on a daily basis, and the minimum face value per pledged security is \$5 million. The County Treasury must receive written confirmation that these securities have been pledged in repayment of the time deposit. Additionally, a statement of the collateral shall be provided on a monthly basis from the custodial bank.
4. The County Treasurer must be given a current audited financial statement for the financial year just ended. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.
5. The County Treasurer must receive a certificate of deposit, which specifically expresses the terms governing the transaction, such as: deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc.).
6. Notwithstanding the above, the certificate of deposit must meet the requirements of Fitch Ratings Ltd. for the County to maintain its AAA pool rating. These requirements typically include an A-1/P-1 and/or F1 short-term rating. The County may rely on credit ratings of Standard & Poor's, Moody's and Fitch to determine the creditworthiness of an institution and/or may supplement this research with its own financial analysis.
7. Deposits will only be made with banks and savings and loans having branch office locations within San Bernardino County.

**OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR  
COUNTY OF SAN BERNARDINO  
STATEMENT OF INVESTMENT POLICY**

**SCHEDULE IV**

**POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS**

1. All financial institutions wishing to be considered for the County of San Bernardino's Broker/Dealer List must confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses.
2. The County Treasurer's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
3. The firm must acknowledge receipt of the County Treasurer's written Investment Policy guidelines.
4. It is important that the firm provide related services that will enhance the account relationship, which could include:
  - (a) An active secondary market for its securities.
  - (b) Internal credit research analysis on commercial paper, bankers' acceptances and other securities it offers for sale.
  - (c) Be willing to purchase securities from our portfolio.
  - (d) Be capable of providing market analysis, economic projections, and newsletters.
5. The firm must provide the County with annual financial statements. All firms with whom the County does business must have a stable financial condition.
6. The County Treasury is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank.
7. Without exception, all transactions are to be conducted on a delivery vs. payment (DVP) basis or, for repurchase agreements, on a tri-party basis.
8. The broker/dealer must have been in operation for more than five (5) years.
9. Firms must have adequate financial strength and capital to support the level of trading that is approved. Adequate financial strength will be assessed by a review of the balance sheet and income statement of the dealer. Broker/dealers with less than \$10 million of net capital may be approved for trading that is limited in maturity or amount or may not be approved for extended settlement trades.
10. Repurchase agreement counterparties will be limited to primary government securities dealers who report to the Federal Reserve Bank of New York and meet the following criteria:
  - (a) Counterparties must have a minimum of one short-term credit rating of at least A-1, P-1, and/or F1.
  - (b) Counterparties and/or their parent must have a minimum of \$25 billion in assets and \$350 million in capital.



## **GLOSSARY OF TERMS**

**ACCRUED INTEREST** – Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

**AGENCY ISSUES** – Securities issued by federal agencies, those chartered by the federal government or Government Sponsored Enterprises that are considered to be backed by the federal government. See also Government Sponsored Enterprises.

**AMORTIZED COST** – The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called “Book Value”).

**ASSET-BACKED SECURITY (ABS)** – A financial security backed by a loan, lease, or receivables against assets other than real estate and mortgage-backed securities.

**BASIS POINT** – A unit of measurement equal to 1/100 of 1 percent. As an example, the difference between a security yielding 3.25% and one yielding 3.20% is five basis points.

**BENCHMARK** – An index or security used to compare the performance of a portfolio.

**BOND** – A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

**BULLET** – A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

**CALLABLE BOND** – A bond in which all or a portion of its outstanding principal may be redeemed prior to maturity by the issuer under specified conditions.

**COLLATERALIZATION** – Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

**COLLATERALIZED CERTIFICATE OF DEPOSIT** – An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities at a minimum of 110% of the deposit amount.

**COMMERCIAL PAPER** – Money Market instrument representing an unsecured short-term promissory note of a corporation at a specified rate of return for a specified period of time.

**COUPON** – The stated interest rate on a debt security that an issuer promises to pay.

**CREDIT QUALITY** – An indication of risk that an issuer of a security will fulfill its obligation, as rated by a rating agency.

**CREDIT RATING** – A standardized assessment, expressed in alphanumeric characters, of a company's creditworthiness.

**CREDIT RISK** – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**CUSIP** – A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit.

**DERIVATIVES** – Securities that derive their value from that of another security or an underlying index, currency or other measure. Floating rate notes (also “floaters”) are not considered derivatives.

**DISCOUNT INSTRUMENTS** – Securities that are sold at a discount to face value.

**DIVERSIFICATION** – The practice or concept of investing in a range of securities by sector, maturity, asset class or credit quality in order to reduce and spread financial risk.

**DOLLAR WEIGHTED AVERAGE MATURITY** – The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

**DURATION** – Is a measure of the price volatility of a portfolio and reflects an estimate of the projected increase or decrease in the value of that portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would decrease by 1.0 percent.

**EARNINGS APPORTIONMENT** – Is the quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

**GOVERNMENT OBLIGATIONS** – Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees.

**GOVERNMENT SPONSORED ENTERPRISES (GSE’S)** – Private, shareholder-owned companies with a relationship with government agencies. These agencies generally are viewed to have an implied guarantee of the U.S. government. These include:

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Bank (FHLB)
- Federal Farm Credit Bank (FFCB)
- Federal Home Loan Mortgage Corporation (FHLMC)

**HIGHLY LIQUID** – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

**ILLIQUID** – A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

**INTEREST RATE RISK** – The risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value. Also called “Market Risk”.

**INVERSE FLOATERS** – Floating rate notes that pay interest in inverse relationship to an underlying index.

**LIQUID** – A security that is easily bought and sold because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

**LOCAL AGENCY OBLIGATION** – An indebtedness issued by a local agency, department, board, or authority within the State of California.

**LONG-TERM** – The term used to describe a security when the maturity is greater than one year.

**MARKET VALUE** – An estimate of the value of a security at which the principal would be sold from a willing seller to a willing buyer at the date of pricing.

**MEDIUM TERM NOTES** – These are Corporate Notes and Bank Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

**MONEY MARKET MUTUAL FUND** – A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

**NEGOTIABLE CERTIFICATE OF DEPOSIT** – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

**PAR** – The stated maturity value, or face value, of a security.

**PASS-THROUGH SECURITIES** – A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

**POOL** – In this context, the pooled monies of different government agencies administered by the County Treasurer. Each pool member owns a fractional interest in the securities held in the Pool.

**PORTFOLIO VALUE** – The total book value amount of all the securities held in the Treasurer's Pooled Money Fund.

**PRIMARY DEALER** – A group of dealers and banks that can buy and sell securities directly with the Federal Reserve Bank of New York.

**PRIVATE PLACEMENTS** – Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

**RANGE NOTES** – Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

**REPURCHASE AGREEMENT** – A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the County), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

**REVERSE REPURCHASE AGREEMENT** – The mirror image of Repurchase Agreements. In this instance the County Pool is the seller of securities to an investor (i.e. brokers).

**SAFEKEEPING** – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

**SECURITIES LENDING** – A transaction wherein the Treasurer's Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

**SHORT-TERM** – The term used to describe a security when the maturity is one year or less.

**SPECIAL PURPOSE ENTITY (or TRUST)** - A legally separated pass-through entity, trust or equivalent that makes its obligation secure and independent from the parent entity. This term is used to define purchase of Asset-Backed Securities at either the depositor or master trust level.

**TOTAL RETURN** – The sum of all investment income plus changes in the capital value of a portfolio for a given period.

**VOLUNTARY PARTICIPANTS** – Local agencies that are not required to deposit their funds with the County Treasurer.

**WEIGHTED AVERAGE MATURITY** – The remaining average maturity of all securities held in a portfolio. See Dollar Weighted Average Maturity.

**WHEN-ISSUED SECURITIES** – A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

**YIELD** – The gain, expressed as a percentage that an investor derives from a financial asset.

**YIELD TO MATURITY** – The percentage rate of return paid if the security is held to its maturity date. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate.



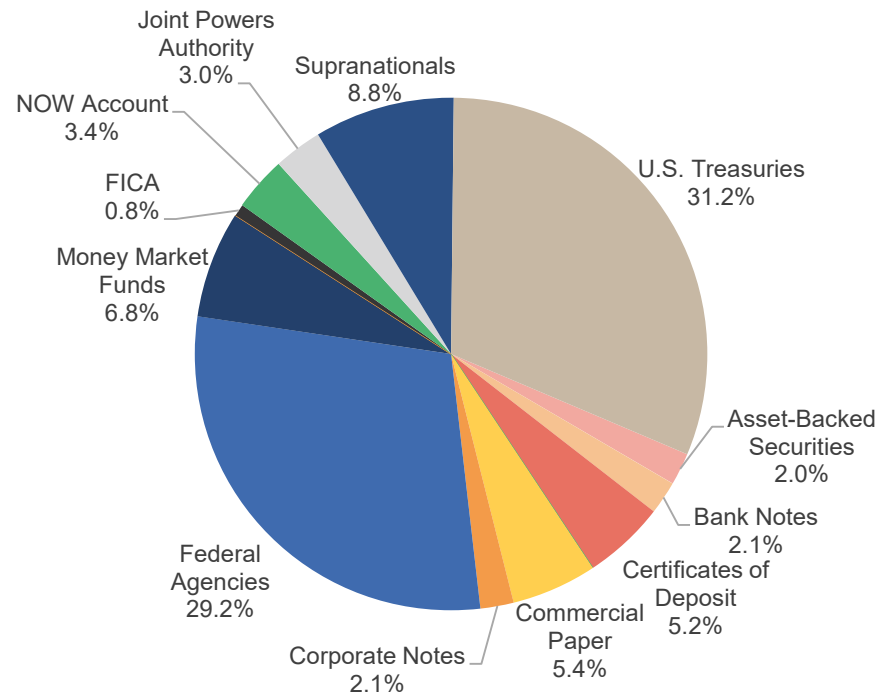
## San Bernardino County Pool Summary (as of 9/30/2019)

Security Type	Par Value	Amortized Cost	Market Value	Market % of Portfolio	Yield to Maturity at Cost	Wtd. Avg. Maturity	Modified Duration
Asset-Backed Securities	132,600,000.00	132,820,196.72	133,474,259.92	2.0%	2.37%	1187	1.60
Bank Notes	137,000,000.00	137,045,123.86	137,817,115.00	2.1%	2.56%	599	1.59
Certificates of Deposit	340,000,000.00	340,000,000.00	339,797,625.75	5.2%	2.18%	105	0.28
Collateralized CD	0.00	0.00	0.00	-	-	-	-
Commercial Paper	355,000,000.00	354,140,221.75	354,170,145.00	5.4%	2.22%	42	0.11
Corporate Notes	137,050,000.00	136,467,580.33	138,075,540.30	2.1%	2.64%	595	1.57
Federal Agencies	1,900,698,000.00	1,900,966,718.47	1,919,287,379.40	29.2%	2.22%	618	1.63
Money Market Funds	444,000,000.00	444,000,000.00	444,000,000.00	6.8%	1.85%	1	-
Municipal Debt	0.00	0.00	0.00	-	-	-	-
Repurchase Agreements	0.00	0.00	0.00	-	-	-	-
Bank Deposit Account	50,000,000.00	50,000,000.00	50,000,000.00	0.8%	1.80%	1	-
NOW Account	225,000,000.00	225,000,000.00	225,000,000.00	3.4%	2.10%	1	-
Joint Powers Authority	200,000,000.00	200,000,000.00	200,000,000.00	3.0%	2.12%	1	-
Supranationals	580,000,000.00	577,802,610.05	581,954,580.00	8.8%	2.13%	385	1.02
U.S. Treasuries	2,050,000,000.00	2,034,748,474.25	2,053,577,675.00	31.2%	2.13%	705	1.87
<b>Total Securities</b>	<b>6,551,348,000.00</b>	<b>6,532,990,925.43</b>	<b>6,577,154,320.37</b>	<b>100.0%</b>	<b>2.16%</b>	<b>492</b>	<b>1.30</b>
Cash Balance	263,849,360.85	263,849,360.85	263,849,360.85				
<b>Total Investments</b>	<b>6,815,197,360.85</b>	<b>6,796,840,286.28</b>	<b>6,841,003,681.22</b>				
Accrued Interest		26,661,582.57	26,661,582.57				
<b>Total Portfolio</b>	<b>6,815,197,360.85</b>	<b>6,823,501,868.85</b>	<b>6,867,665,263.79</b>				

1. Yield for the money market funds is a weighted average of the month-end yields for the Federated, Goldman, and Fidelity money market funds.
2. Statistics for the total portfolio include money market funds.
3. Market prices are derived from closing bid prices as of the last business day of the month as supplied by F.T. Interactive Data, Bloomberg, or Telerate.



## Sector Distribution



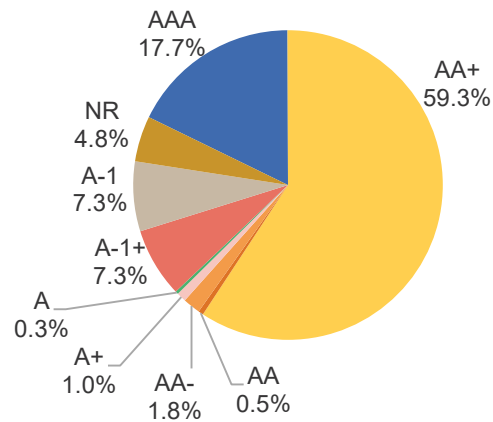
Sector	Market Value
Asset-Backed Securities	\$133,474,260
Bank Notes	\$137,817,115
Certificates of Deposit	\$339,797,626
Collateralized CD	\$0
Commercial Paper	\$354,170,145
Corporate Notes	\$138,075,540
Federal Agencies	\$1,919,287,379
Money Market Funds	\$444,000,000
Municipal Debt	\$0
Repurchase Agreements	\$0
FICA	\$50,000,000
NOW Account	\$225,000,000
Joint Powers Authority	\$200,000,000
Supranationals	\$581,954,580
U.S. Treasuries	\$2,053,577,675

Percentages may not sum to 100% due to rounding.



## Credit Quality Distribution

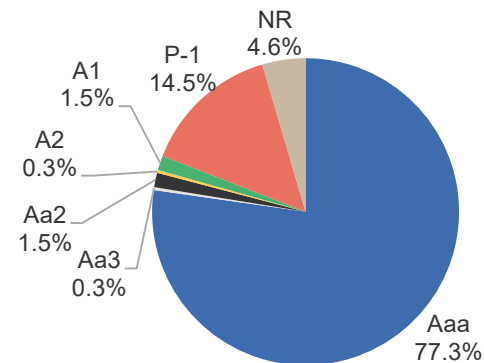
### S&P RATINGS



Credit Rating	Market Value
A-1+ (Short-Term)	\$477,432,031
A-1 (Short-Term)	\$479,208,139
AAA (Long-Term)	\$1,165,854,016
AA+ (Long-Term)	\$3,901,279,259
AA (Long-Term)	\$34,448,427
AA- (Long-Term)	\$120,133,231
A+ (Long-Term)	\$65,331,629
A (Long-Term)	\$20,186,970
Not Rated	\$313,280,618

Percentages may not sum to 100% due to rounding.

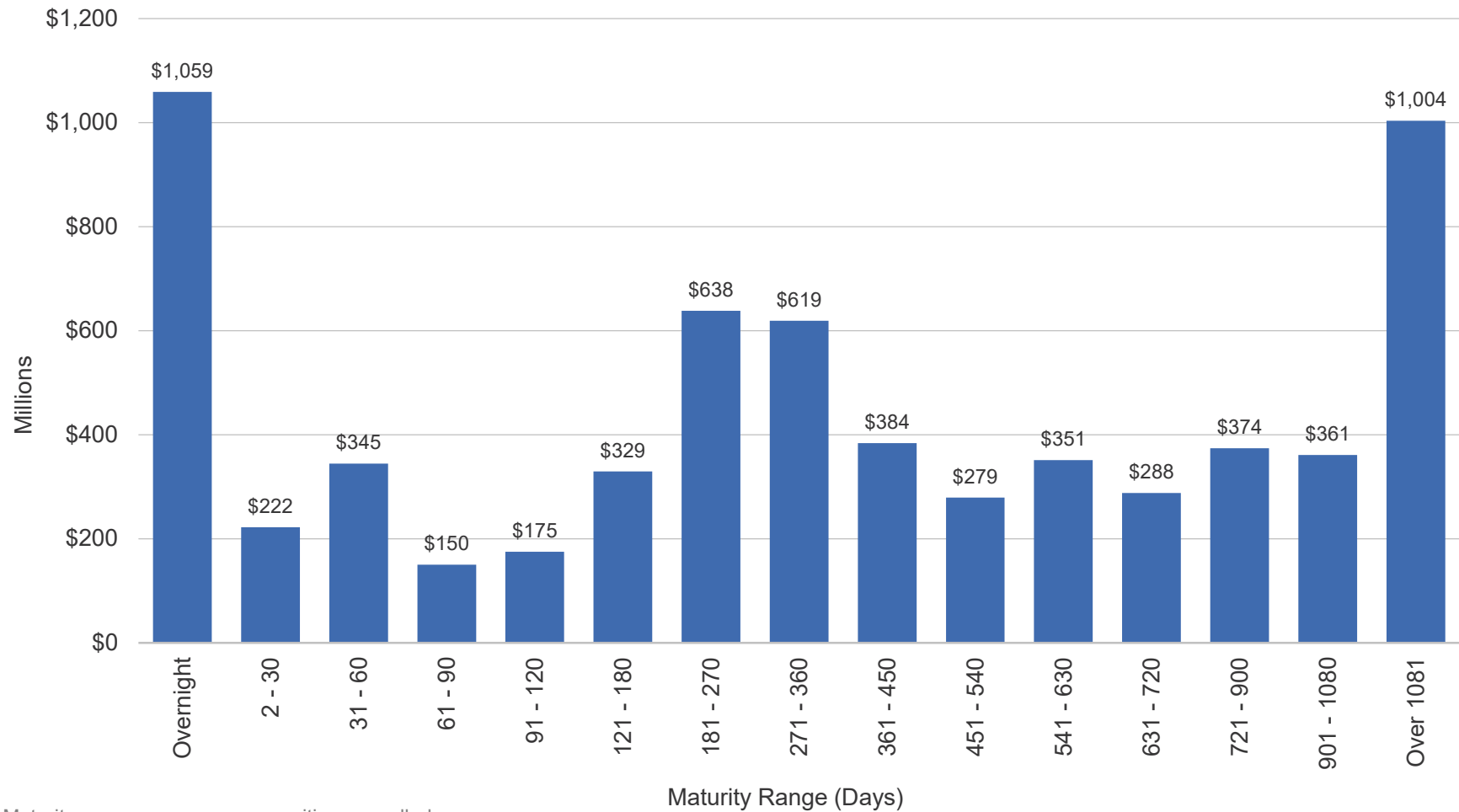
### MOODY'S RATINGS



Credit Rating	Market Value
P-1 (Short-Term)	\$956,640,170
Aaa (Long-Term)	\$5,081,141,584
Aa3 (Long-Term)	\$20,247,510
Aa2 (Long-Term)	\$99,780,057
Aa1 (Long-Term)	\$0
A3 (Long-Term)	\$0
A2 (Long-Term)	\$20,186,970
A1 (Long-Term)	\$99,885,721
Not Rated	\$299,272,308



## Maturity Distribution



Maturity range assumes no securities are called.





## San Bernardino County Pool Portfolio Yield Summary

Month	Yield to Maturity At Cost
September 2018	1.93%
October 2018	2.01%
November 2018	2.03%
December 2018	2.11%
January 2019	2.15%
February 2019	2.18%
March 2019	2.21%
April 2019	2.25%
May 2019	2.25%
June 2019	2.27%
July 2019	2.25%
August 2019	2.24%
<b>September 2019</b>	<b>2.16%</b>

1. Gross yields not including non-earning assets (compensating bank balances) or administrative costs for management of the pool.
2. All historical yields restated to include money market funds.

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**APPENDIX I**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

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

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN