

NEW ISSUE—FULL BOOK-ENTRY

**RATINGS: Fitch: “AAA”; Moody’s: “Aa2”
(See “RATINGS” herein)**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See “TAX MATTERS” herein with respect to tax consequences relating to the Bonds.

\$70,000,000*

**HARTNELL COMMUNITY COLLEGE DISTRICT
(Monterey and San Benito Counties, California)
Election of 2016 General Obligation Bonds, Series B**

Dated: Date of Delivery

Due: August 1, as shown on inside cover

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision. Capitalized terms used in this cover page and not otherwise defined shall have the meanings set forth herein.

The Hartnell Community College District (Monterey and San Benito Counties, California) Election of 2016 General Obligation Bonds, Series B (the “Bonds”), were authorized at an election of the registered voters of the Hartnell Community College District (the “District”) held on November 8, 2016, at which the requisite 55% of the persons voting on the proposition voted to authorize the issuance and sale of \$167,000,000 aggregate principal amount of general obligation bonds of the District. The Bonds are being issued to (i) finance the acquisition, construction, modernization and equipping of District sites and facilities, and (ii) pay the costs of issuing the Bonds.

The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes. The Boards of Supervisors of Monterey and San Benito Counties are empowered and obligated to annually levy such *ad valorem* taxes for the payment of the principal of and interest on the Bonds upon all property subject to taxation by the District without limitation of rate or amount (except as to certain personal property which is taxable at limited rates).

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as “DTC”). Purchasers of the Bonds (the “Beneficial Owners”) will not receive physical certificates representing their interests in the Bonds, but will receive credit balances on the books of their respective nominees.

The Bonds will be issued as current interest bonds, such that interest thereon will accrue from the date of delivery of the Bonds and be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2021. Principal of the Bonds is due on August 1 of the years and in the amounts set forth on the inside cover page hereof. The Bonds are issuable as fully registered Bonds in denominations of \$5,000 principal amount or any integral multiple thereof.

Payments of the principal of and interest on the Bonds will be made by MUFG Union Bank, N.A., as the designated paying agent, registrar and transfer agent (the “Paying Agent”), to DTC for subsequent disbursement through DTC Participants (as defined herein) who will remit such payments to the Beneficial Owners of the Bonds. See “THE BONDS – Book-Entry Only System” herein.

The Bonds are subject to optional and mandatory sinking fund redemption prior to their stated maturity dates as further set forth herein.*

MATURITY SCHEDULE

(See inside cover page)

The Bonds are offered when, as and if issued, and received by the Underwriters subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel and Disclosure Counsel. Certain matters will be passed on for the Underwriters by Kutak Rock LLP, Denver, Colorado. The Bonds, in book-entry form, will be available for delivery through the facilities of DTC in New York, New York on or about _____, 2020.*



Dated: _____, 2020.

* Preliminary, subject to change.

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 them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

MATURITY SCHEDULE*

Base CUSIP⁽¹⁾: 417123

\$70,000,000*

**HARTNELL COMMUNITY COLLEGE DISTRICT
(Monterey and San Benito Counties, California)
Election of 2016 General Obligation Bonds, Series B**

\$ _____ Serial Bonds				
Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP⁽¹⁾ Suffix

\$ _____ – _____ % Term Bonds due August 1, 20__ – Yield _____ %; CUSIP⁽¹⁾: _____

* Preliminary, subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (“CGS”), managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. Neither the Underwriter, the Municipal Advisor nor the District is responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP numbers have been assigned by an independent company not affiliated with the District, the Municipal Advisor nor the Underwriter and are included solely for the convenience of the registered owners of the applicable Bonds. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Section 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities. The Bonds are not registered under the securities laws of any state. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement:

“The Underwriters have 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 Underwriters do not guarantee the accuracy or completeness of such information.”

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN SECURITIES DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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

HARTNELL COMMUNITY COLLEGE DISTRICT

Board of Trustees

Aurelio Salazar, Jr. (District 2), *President*
Patricia Donohue (District 3), *Vice President*
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District Administrative Staff

Dr. Raúl Rodríguez, *Interim Superintendent/President*
Linda Wilczewski, *Vice President of Administrative Services*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
San Francisco, California

Municipal Advisor

Keygent LLC
El Segundo, California

Paying Agent

MUFG Union Bank, N.A.
San Francisco, California

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\$70,000,000*
HARTNELL COMMUNITY COLLEGE DISTRICT
(Monterey and San Benito Counties, California, California)
Election of 2016 General Obligation Bonds, Series B

INTRODUCTION

This Official Statement, which includes the cover page, inside cover page and appendices hereto, provides information in connection with the sale of Hartnell Community College District (Monterey and San Benito Counties, California) Election of 2016 General Obligation Bonds, Series B (the “Bonds”).

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

The District

Salinas Junior College was founded in 1920 and renamed Hartnell College in 1948. The following year, the Hartnell Community College District (the “District”) was formed. The District, located in Salinas, California, serves Monterey County (the “County”) and San Benito County (together with the County, the “Counties”). The District offers the first and second years of a college program basic skills courses in English and math, and workplace and career training, and awards associate of arts degrees, associate of science degrees, and certificates of proficiency. The District has transfer agreements with many California State Universities and University of California campuses which guarantee admission for District students who have completed the two-year requirements. The District also has a nursing and allied health program.

The District operates Hartnell College, which is fully accredited by the Accrediting Commission for Community and Junior Colleges (the “ACCJC”). See “HARTNELL COMMUNITY COLLEGE DISTRICT – Accreditation” herein. Most of the District’s students come from Salinas and the surrounding communities of Bradley, Castroville, Chualar, Gonzales, Greenfield, Jolon, King City, Lockwood, Moss Landing, San Ardo, San Lucas, Soledad, and adjacent rural areas. As a result of the current outbreak of COVID-19 (as defined herein), the College campus is currently closed, and the District has largely transitioned to distance learning through at least the fall term of the 2020-21 academic year. See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Considerations Regarding COVID-19” herein.

For fiscal year 2020-21 the District has budgeted a resident full-time equivalent student (“FTES”) count of 7,557, and taxable property within the District for fiscal year 2019-20 has an assessed valuation of \$29,999,153,753.

The governing board of the District is called the Board of Trustees (the “Board”). The Board includes seven voting members elected by the voters of the District (the “Trustees”). The Trustees serve four-year terms. Elections for Trustee positions to the Board are held every two years, alternating between three and four available positions. The management and policies of the District are administered by a Board-appointed Superintendent/President. Dr. Raúl Rodríguez is the District’s current Interim Superintendent/President. See “HARTNELL COMMUNITY COLLEGE DISTRICT” herein.

* Preliminary, subject to change.

See “TAX BASE FOR REPAYMENT OF BONDS” herein for information regarding the District’s assessed valuation, and “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA” and “HARTNELL COMMUNITY COLLEGE DISTRICT” herein for information regarding the District generally. The District’s audited financial statements for the fiscal year ended June 30, 2019 are attached hereto as APPENDIX A and should be read in their entirety.

Security and Sources of Payment for the Bonds

The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes. The Boards of Supervisors of the Counties are empowered and obligated to annually levy such *ad valorem* taxes for the payment of the principal of and interest on the Bonds upon all property subject to taxation by the District without limitation of rate or amount (except as to certain personal property which is taxable at limited rates). See “THE BONDS – Security and Sources of Payment” herein.

Purpose of Issue

The proceeds of the Bonds will be used to (i) finance the acquisition, construction, modernization and equipping of District sites and facilities, and (ii) pay the costs of issuing the Bonds. See “THE BONDS – Application and Investment of Bond Proceeds,” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Description of the Bonds

Form and Registration. The Bonds will be issued in fully registered, book-entry form only (without coupons), initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of interests in the Bonds (the “Beneficial Owners”) through the book-entry only system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (defined herein). Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See “THE BONDS – Book-Entry Only System” herein. In event that the book-entry only system described herein is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution (defined herein). See “THE BONDS – Discontinuation of Book-Entry Only System; Registration, Payment and Transfer of Bonds” herein.

So long as Cede & Co. is the registered Owner of the Bonds, as nominee of DTC, references herein to the “Owners” “Bond Owners” or “Holders” of the Bonds (other than under the caption “TAX MATTERS” and in APPENDIX B) will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in denominations of \$5,000 principal amount or any integral multiple thereof.

Redemption.* The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as further described herein. See “THE BONDS – Redemption” herein.

Payments. The Bonds are being issued as current interest bonds, such that interest thereon will accrue from the initial date of delivery of the Bonds, and be payable semiannually on each February 1 and August 1 (each a “Bond Payment Date”), commencing February 1, 2021. Principal of the Bonds is payable on August 1 in the amounts and years as set forth on the inside cover page hereof.

* Preliminary, subject to change.

Payments of the principal of and interest on the Bonds will be made by MUFG Union Bank, N.A., as the designated paying agent, registrar and transfer agent (the “Paying Agent”), to DTC for subsequent disbursement through DTC Participants (as defined herein) who will remit such payments to the Beneficial Owners of the Bonds. See “THE BONDS – Book-Entry Only System” herein.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State personal income tax. See “TAX MATTERS” herein with respect to tax consequences relating to the Bonds.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the Government Code and other applicable law, and pursuant to a resolution adopted by the Board on June 16, 2020 (the “Resolution”). See “THE BONDS – Authority for Issuance” herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about _____, 2020.*

Continuing Disclosure

The District will covenant for the benefit of the Owners and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain listed events, in order to assist the Underwriters (as defined herein) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). See “LEGAL MATTERS – Continuing Disclosure” herein. The specific nature of the information to be made available and of the notices of listed events required to be provided are described in APPENDIX C attached hereto.

Professionals Involved in the Offering

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Bonds. Keygent LLC, El Segundo, California is acting as Municipal Advisor to the District with respect to the Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation and Keygent LLC will receive compensation from the District contingent upon the sale and delivery of the Bonds. Certain matters will be passed on for the Underwriters by Kutak Rock LLP, Denver, Colorado.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation

* Preliminary, subject to change.

Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “intend,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding the District herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the Hartnell Community College District, 411 Central Avenue, Salinas, California 93901, telephone (831) 755-6900. The District may impose a charge for copying, mailing and handling.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. 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 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

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

Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Resolution.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Government Code Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title, Article XIII A of the State Constitution, and pursuant to the Resolution. The District received authorization at an election held on November 8, 2016, by the requisite 55% of the votes cast by eligible voters within the District, to issue not-to-exceed \$167,000,000 of general obligation bonds (the "2016 Authorization"). The Bonds are the second issuance of bonds pursuant to the 2016 Authorization, and following the issuance thereof, \$27,000,000* of bonds shall remain authorized but unissued.

Security and Sources of Payment

The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes. The Boards of Supervisors of the Counties are empowered and obligated to annually levy such *ad valorem* taxes for the payment of the principal of and interest on the Bonds upon all property subject to taxation by the District without limitation of rate or amount (except as to certain personal property which is taxable at limited rates). The levy may include an allowance for an annual reserve, established for the purpose of avoiding fluctuating tax levies. The Counties, however, are not obligated to establish such a reserve, and the District can make no representation that the Counties will do so. Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be placed in the Debt Service Fund (defined herein), which is segregated and held by the County and which is designated for the payment of the Bonds and interest thereon when due, and for no other purpose. Pursuant to the Resolution, the District has pledged funds on deposit in the Debt Service Fund to the payment of the Bonds. Although the Counties are obligated to levy *ad valorem* property taxes for the payment of the Bonds, and the County will maintain the Debt Service Fund, the Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same becomes due and payable, will be transferred to the Paying Agent. The Paying Agent will in turn remit the funds to DTC for remittance of such principal and interest to its Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Bonds.

The rate of the annual *ad valorem* property taxes levied by the Counties to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rates to fluctuate. Economic and other factors beyond the District's control, such as general market decline in property values, outbreak of disease, disruption in financial markets that may reduce the availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, drought, fire, wildfire, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the respective annual tax rates. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "CONSTITUTIONAL AND STATUTORY PROVISIONS

* Preliminary, subject to change.

AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution”, “TAX BASE FOR REPAYMENT OF BONDS” and “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Considerations Regarding COVID-19” herein.

Statutory Liens

Pursuant to Government Code Section 53515, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. The lien automatically attaches, without further action or authorization by the Board, and is valid and binding from the time the Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the lien, and such lien will be enforceable against the District, its successor, transferees and creditors, and all other parties asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

This statutory lien, by its terms, secures not only the Bonds, but also any other bonds of the District issued after January 1, 2016 and payable, both as to principal and interest, from the proceeds of *ad valorem* property taxes that may be levied pursuant to paragraphs (2) and (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution. The statutory lien provision does not specify the relative priority of obligations so secured or a method of allocation in the event that the revenues received pursuant to the levy and collection of such *ad valorem* property taxes are insufficient to pay all amounts then due and owing that are secured by the statutory lien.

General Provisions

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for DTC. Purchasers will not receive physical certificates representing their interests in the Bonds. See “THE BONDS – Book Entry Only System” herein.

The Bonds are being issued as current interest bonds, such that interest thereon will accrue from the date of delivery of the Bonds, and be payable semiannually on each Bond Payment Date, commencing February 1, 2021. Interest on the Bonds will be computed on the basis of a 360-day year of 12, 30-day months. Each Bond will bear interest from the Bond Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month immediately preceding any Bond Payment Date to and including such Bond Payment Date, in which event it shall bear interest from such Bond Payment Date, or unless it is authenticated on or before January 15, 2021, in which event it shall bear interest from its date of delivery. The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof and mature on August 1 in the years and amounts set forth on the inside cover page hereof.

The principal of the Bonds will be payable in lawful money of the United States of America to the registered Owner thereof, upon the surrender thereof at the principal office of the Paying Agent. The interest on the Bonds will be payable in lawful money to the person whose name appears on the bond registration books of the Paying Agent as the registered Owner thereof as of the close of business on the 15th day of the month immediately preceding any Bond Payment Date (a “Record Date”), whether or not such day is a business day. Such interest is to be paid by wire transfer on such Bond Payment Date to such registered Owner to the bank and account number on file with the Paying Agent as of the Record Date. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof.

Annual Debt Service

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

<u>Year Ending (August 1)</u>	<u>Annual Principal Payment</u>	<u>Annual Interest Payment⁽¹⁾</u>	<u>Total Annual Debt Service</u>
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
Total			

⁽¹⁾ Interest payments on the Bonds will be made semiannually on February 1 and August 1 of each year, commencing February 1, 2021.

See “HARTNELL COMMUNITY COLLEGE DISTRICT – District Debt Structure – General Obligation Bonds” herein for a schedule of the combined debt service requirements for all of the District’s outstanding general obligation bonds.

Application and Investment of Bond Proceeds

The proceeds of the Bonds will be used to (i) finance the acquisition, construction, modernization and equipping of District sites and facilities, and (ii) pay the costs of issuing the Bonds.

The net proceeds from the sale of the Bonds will be paid to the County to the credit of the “Hartnell Community College District Election of 2016 General Obligation Bonds, Series B Building Fund” (the “Building Fund”). Any premium received by the District from the sale of the Bonds will be kept separate and apart in the fund designated as the “Hartnell Community College District Election of 2016 General Obligation Bonds, Series B Debt Service Fund” (the “Debt Service Fund”) and used only for payment of principal of and interest on the Bonds, and for no other purpose. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal of and interest on the Bonds. If, after payment in full of the Bonds, there remain excess proceeds, any such excess amounts will be transferred to the general fund of the District.

Moneys in the Debt Service Fund and the Building Fund will be invested through the Monterey County Treasury Pool. See “APPENDIX E – MONTEREY COUNTY TREASURY POOL” attached hereto.

Book-Entry Only System

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal of or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “MMI Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of maturity of the Bonds, each in the aggregate principal amount of such bond, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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. However, the information presented on such website is not incorporated herein by any reference to such website.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds or distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds or distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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

Redemption

Optional Redemption.* The Bonds maturing on or before August 1, 20__ are not subject to redemption prior to their respective maturity dates. The Bonds maturing on or after August 1, 20__ are subject to redemption prior to their respective stated maturity dates at the option of the District, from any source of available funds, in whole or in part, on any date on or after August 1, 20__, at a redemption price equal to the principal amount of such Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

* Preliminary, subject to change.

Mandatory Sinking Fund Redemption.* The Term Bonds maturing on August 1, 20__, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on or after August 1, 20__, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount of such Term Bonds to be so redeemed and the dates therefore and the final payment date are as indicated in the following table:

<u>Year Ending (August 1)</u>	<u>Principal To Be Redeemed</u>
--	--

⁽¹⁾ Maturity.

In the event that a portion of the Term Bonds maturing on August 1, 20__ are optionally redeemed prior to maturity, the remaining mandatory sinking fund payments shown above shall be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000 principal amount, in respect of the portion of such Term Bonds optionally redeemed.

Selection of Bonds for Redemption. Whenever provision is made in the Resolution for the optional redemption of Bonds and less than all Outstanding Bonds are to be redeemed, the Paying Agent, upon written instruction from the District, will select Bonds for redemption as so directed by the District and if not directed, in inverse order of maturity. Within a maturity, the Paying Agent will select Bonds for redemption as directed by the District, and if not so directed, by lot. Redemption by lot will be in such manner as the Paying Agent shall determine; provided, however, that with respect to redemption by lot, the portion of any Bond to be redeemed in part will be in the principal amount of \$5,000 or any integral multiple thereof.

Redemption Notice. When redemption is authorized or required pursuant to the Resolution, the Paying Agent, upon written instruction from the District, will give notice (a “Redemption Notice”) of the redemption of the Bonds. Such Redemption Notice will specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the Bond numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the portion of the principal amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part.

The Paying Agent will take the following actions with respect to each such Redemption Notice: (a) at least 20 but not more than 45 days prior to the redemption date, such Redemption Notice will be given to the respective Owners of Bonds designated for redemption by registered or certified mail, postage prepaid, at their addresses appearing on the Bond Register; (b) at least 20 but not more than 45 days prior to the redemption date, such Redemption Notice will be given by (i) registered or certified mail, postage prepaid, (ii) telephonically confirmed facsimile transmission, or (iii) overnight delivery service, to the Securities Depository; (c) at least 20 but not more than 45 days prior to the redemption date, such Redemption Notice will be given by (i) registered or certified mail, postage prepaid, or (ii) delivery service, to one of the Information Services; and (d) provide a Redemption Notice to such other persons as may be required pursuant to the Continuing Disclosure Certificate.

* Preliminary, subject to change.

“Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System; or, such other services providing information with respect to called municipal obligations as the District may specify in writing to the Paying Agent or as the Paying Agent may select.

“Securities Depository” shall mean The Depository Trust Company, 55 Water Street, New York, New York 10041.

A certificate of the Paying Agent or the District that a Redemption Notice has been given as provided in the Resolution will be conclusive as against all parties. Neither failure to receive any Redemption Notice nor any defect in any such Redemption Notice so given will affect the sufficiency of the proceedings for the redemption of the affected Bonds. Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Bonds will bear or include the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer. The Redemption Notice may state that no representation is made as to the accuracy or correctness of CUSIP numbers printed thereon.

Payment of Redeemed Bonds. When a Redemption Notice has been given substantially as described above, and, when the amount necessary for the redemption of the Bonds called for redemption (principal, interest, and premium, if any) is set aside in trust for that purpose, as described in “– Defeasance” herein, the Bonds designated for redemption in such notice will become due and payable on the date fixed for redemption thereof and upon presentation and surrender of said Bonds at the place specified in the Redemption Notice, said Bonds will be redeemed and paid at the redemption price out of such funds. All unpaid interest payable at or prior to the redemption date will continue to be payable to the respective Owners, but without interest thereon.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will authenticate and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in principal amounts to the unredeemed portion of the Bond surrendered. Such partial redemption is valid upon payment of the amount required to be paid to such Owner, and the District will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Redemption Notice. If on the applicable designated redemption date, money for the redemption of the Bonds to be redeemed, together with interest to such redemption date, is held by an independent escrow agent selected by the District so as to be available therefore on such redemption date as described in “– Defeasance” herein, and if a Redemption Notice thereof will have been given substantially as described above, then from and after such redemption date, interest on the Bonds to be redeemed shall cease to accrue and become payable.

Rescission of Redemption Notice. With respect to any Redemption Notice in connection with the optional redemption of Bonds (or portions thereof) as described above, unless upon the giving of such notice such Bonds or portions thereof shall be deemed to have been defeased as described in “– Defeasance” herein, such Redemption Notice will state that such redemption will be conditional upon the receipt by an independent escrow agent selected by the District, on or prior to the date fixed for such redemption, of the moneys necessary and sufficient to pay the principal, premium, if any, and interest on, such Bonds (or portions thereof) to be redeemed, and that if such moneys shall not have been so received said Redemption Notice will be of no force and effect, no portion of the Bonds will be subject to redemption on such date and such Bonds will not be required to be redeemed on such date. In the event that such Redemption Notice contains such a condition and such moneys are not so received, the redemption will not be made and the Paying Agent will within a reasonable time thereafter (but in no

event later than the date originally set for redemption) give notice to the persons to whom and in the manner in which the Redemption Notice was given that such moneys were not so received. In addition, the District will have the right to rescind any Redemption Notice, by written notice to the Paying Agent, on or prior to the date fixed for such redemption. The Paying Agent will distribute a notice of such recession in the same manner as the Redemption Notice was originally provided.

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity under the provisions of the Resolution, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and sufficient moneys will be held irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, and accrued interest thereon to the date fixed for redemption, then such Bonds will no longer be deemed Outstanding and will be surrendered to the Paying Agent for cancellation.

Discontinuation of Book-Entry Only System; Registration, Payment and Transfer of Bonds

So long as any of the Bonds remain Outstanding, the District will cause the Paying Agent to maintain and keep at its designated office all books and records necessary for the registration, exchange and transfer of such Bonds, which shall at all times be open to inspection by the District, and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register, exchange or transfer or cause to be registered, exchanged or transferred, on said books, Bonds as provided in the Resolution.

In the event that the book-entry only system as described herein is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

The principal of the Bonds and any premium and interest upon the redemption thereof prior to maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the principal office of the Paying Agent. Interest on the Bonds will be paid by the Paying Agent by check or wire transfer to the person whose name appears on the registration books of the Paying Agent as the Owner, and to that person's address appearing on the registration books as of the close of business on the Record Date.

Any Bond may be exchanged for Bonds of like tenor, maturity and Transfer Amount (which, with respect to any Outstanding Bonds, means the principal amount thereof) upon presentation and surrender at the principal trust office of the Paying Agent, together with a request for exchange signed by the registered Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of the Bond at the designated corporate trust office of the Paying Agent together with an assignment executed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the Transfer Amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 16th day next preceding any Bond Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Bond Payment Date or any day on which the applicable Redemption Notice is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

Defeasance

All or any portion of the outstanding maturities of the Bonds may be defeased prior to maturity in the following ways:

(a) Cash: by irrevocably depositing with an independent escrow agent selected by the District an amount of cash, which together with any amounts transferred from the Debt Service Fund (if any) is sufficient to pay all such Bonds Outstanding and designated for defeasance (including all, principal thereof, interest thereon and redemption premium, if any) at or before their maturity date; or

(b) Government Obligations: by irrevocably depositing with an independent escrow agent selected by the District noncallable Government Obligations together with cash, if required, and moneys transferred from the Debt Service Fund (if any), in such amount as will, together with the interest to accrue thereon, in the opinion of an independent certified public accountant, be fully sufficient to pay and discharge all Bonds Outstanding and designated for defeasance (including all principal thereof, accrued interest thereon and redemption premiums, if any) at or before their maturity date;

then, notwithstanding that Bonds designed for defeasance shall not have been surrendered for payment, all obligations of the District with respect to all such designated Outstanding Bonds shall cease and terminate, except only the obligation of the independent escrow agent selected by the District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the Owners of such designated Bonds not so surrendered and paid all sums due with respect thereto.

“Government Obligations” means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America (which may consist of obligations of the Resolution Funding Corporation that constitute interest strips), or obligations secured or otherwise guaranteed, directly or indirectly, as to principal and interest by a pledge of the full faith and credit of the United States of America. In the case of direct and general obligations of the United States of America, Government Obligations shall include evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances where (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed at least as high as direct and general obligations of the United States of America by either Moody’s Investors Service (“Moody’s”) or S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”).

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount
Original Issue Premium
Total Sources

Uses of Funds

Building Fund
Debt Service Fund
Underwriters' Discount
Costs of Issuance⁽¹⁾
Total Uses

⁽¹⁾ Reflects all costs of issuance, including, but not limited to, demographics fees, filing fees, rating agencies fees, municipal advisor and legal fees, and the costs and fees of the Paying Agent.

TAX BASE FOR REPAYMENT OF BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the District. The Bonds are payable solely from ad valorem property taxes levied and collected by the Counties on taxable property in the District. The District's general fund is not a source for the repayment of the Bonds.

Ad Valorem Property Taxation

District property taxes are assessed and collected by the Counties at the same time and on the same rolls as special district property taxes. Assessed valuations are the same for both the District and the County taxing purposes.

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property is assessed on the "unsecured roll." Unsecured property comprises all property not attached to land, such as personal property or business property. Boats and airplanes are examples of unsecured property. A supplemental roll is developed when property changes hands or new construction is completed. Each of the Counties levies and collects all property taxes for property falling within that county's taxing boundaries.

The valuation of secured property is established as of January 1 and is subsequently enrolled in August. Property taxes on the secured roll are payable in two installments, due November 1 and February 1 of the calendar year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent installment plus any additional amount determined by the Treasurer. After the second installment of taxes on the secured roll is delinquent, the tax collector shall collect a cost of \$10 for preparing the delinquent tax records and giving notice of delinquency. Property on the secured roll with delinquent taxes is declared tax-defaulted on July 1 of the calendar year. Such property may thereafter be redeemed, until the right of redemption is terminated, by

payment of the delinquent taxes and the delinquency penalty, plus a \$15 redemption fee and a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer.

Property taxes on the unsecured roll as of July 31 become delinquent if they are not paid by August 31 and are thereafter subject to a delinquent penalty of 10%. Taxes added to the unsecured tax roll after July 31, if unpaid are delinquent and subject to a penalty of 10% on the last day of the month succeeding the month of enrollment. In the case of unsecured property taxes, an additional penalty of 1.5% per month begins to accrue when such taxes remain unpaid on the last day of the second month after the 10% penalty attaches. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the assessee; (2) filing a certificate in the office of a county Clerk specifying certain facts in order to obtain a judgment lien on specific property of the assessee; (3) filing a certificate of delinquency for record in a county Recorder's office in order to obtain a lien on specified property of the assessee; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. See also "– Tax Levies, Collections and Delinquencies" herein.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

Assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies, including community college districts, share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

Assessed Valuations

The assessed valuation of property in the District is established by the tax assessing authority for the county in which such property is located, except for public utility property which is assessed by the State Board of Equalization (the "SBE"). Assessed valuations are reported at 100% of the "full cash value" of the property, as defined in Article XIII A of the State Constitution. For a discussion of how properties currently are assessed and re-assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein. Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

Property within the District has a total assessed valuation for fiscal year 2019-20 of \$29,999,153,753. Shown in the following table are the assessed valuations for the District for fiscal years 2010-11 through 2019-20, as of the date the equalized assessment tax roll is established in August of each year, excluding any exemptions granted after such date in each year.

ASSESSED VALUATIONS
Fiscal Years 2010-11 through 2019-20
Hartnell Community College District

Monterey County Portion Only

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2010-11	\$19,352,956,765	\$663,751,283	\$1,142,407,904	\$21,159,115,952
2011-12	19,297,423,050	629,353,949	1,194,637,808	21,121,414,807
2012-13	19,619,455,097	577,077,711	1,227,535,163	21,424,067,971
2013-14	20,350,492,888	499,355,611	1,235,977,219	22,085,825,718
2014-15	21,812,468,420	366,286,611	1,289,824,876	23,468,579,907
2015-16	23,028,575,808	359,878,611	1,354,679,373	24,743,133,792
2016-17	23,754,129,038	331,221,838	1,379,265,440	25,464,616,316
2017-18	25,197,150,022	239,121,838	1,479,654,006	26,915,925,866
2018-19	26,651,409,618	315,334,539	1,546,517,143	28,513,261,300
2019-20	28,028,805,080	169,540,087	1,747,990,931	29,946,336,098

San Benito County Portion Only

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2010-11	\$39,389,122	--	\$1,133,783	\$40,522,905
2011-12	39,256,090	--	1,142,401	40,398,491
2012-13	39,905,791	--	1,046,725	40,952,516
2013-14	43,569,853	--	1,217,225	44,787,078
2014-15	43,872,885	--	1,168,335	45,041,220
2015-16	45,696,432	--	1,244,774	46,941,206
2016-17	47,448,935	--	1,226,222	48,675,157
2017-18	49,415,831	--	1,244,841	50,660,672
2018-19	50,338,645	--	1,110,675	51,449,320
2019-20	52,157,756	--	659,899	52,817,655

Total District

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2010-11	\$19,392,345,887	\$663,751,283	\$1,143,541,687	\$21,199,638,857
2011-12	19,336,679,140	629,353,949	1,195,780,209	21,161,813,298
2012-13	19,659,360,888	577,077,711	1,228,581,888	21,465,020,487
2013-14	20,394,062,741	499,355,611	1,237,194,444	22,130,612,796
2014-15	21,856,341,305	366,286,611	1,290,993,211	23,513,621,127
2015-16	23,074,272,240	359,878,611	1,355,924,147	24,790,074,998
2016-17	23,801,577,973	331,221,838	1,380,491,662	25,513,291,473
2017-18	25,246,565,853	239,121,838	1,480,898,847	26,966,586,538
2018-19	26,701,748,263	315,334,539	1,547,627,818	28,564,710,620
2019-20	28,080,962,836	169,540,087	1,748,650,830	29,999,153,753

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the District's control, such as general market decline in property values, outbreak of disease, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, drought,

fire, wildfire, flood or toxic contamination could cause a reduction in the assessed value of taxable property within the boundaries of the District. Any such reduction would result in a corresponding increase in the annual tax rates levied by the Counties to pay the debt service on the Bonds. See “THE BONDS – Security and Sources of Payment” and “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Considerations Regarding COVID-19” herein.

Appeals and Adjustments of Assessed Valuation. Under State law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the SBE, 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. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be 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. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution” herein.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution” herein. Such reductions are subject to yearly reappraisals by the county assessor and may be adjusted back to their original values when real estate market conditions improve. Once property has regained its prior assessed value, adjusted for inflation, it once again is subject to the annual inflationary growth rate factor allowed under Article XIII A.

No assurance can be given that property tax appeals, actions by a county assessor, or other factors in the future will not significantly reduce the assessed valuation of property within the District.

Assembly Bill 102. On June 27, 2017, the Governor signed into law Assembly Bill 102 (“AB 102”). AB 102 restructures the functions of the SBE and creates two new separate agencies: (i) the California Department of Tax and Fee Administration, and (ii) the Office of Tax Appeals. Under AB 102, the California Department of Tax and Fee Administration will take over programs previously in the BOE Property Tax Department, such as the Tax Area Services Section, which is responsible for maintaining all property tax-rate area maps and for maintaining special revenue district boundaries. Under AB 102, the SBE will continue to perform the duties assigned by the State Constitution related to property taxes, however, beginning January 1, 2018, the SBE will only hear appeals related to the programs that it constitutionally administers and the Office of Tax Appeals will hear tax appeals will hear appeals on all other taxes and fee matters, such as sales and use tax and other special taxes and fees. AB 102 obligates the Office of Tax Appeals to adopt regulations as necessary to carry out its duties, powers,

and responsibilities. No assurances can be given as to the effect of such regulations on the appeals process or on the assessed valuation of property within the District.

Assessed Valuation by Jurisdiction. The following table shows an analysis of the distribution of taxable property in the District by jurisdiction, in terms of its fiscal year 2019-20 assessed valuation.

ASSESSED VALUATION BY JURISDICTION
Fiscal Year 2019-20
Hartnell Community College District

Jurisdiction:	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Gonzales	\$778,080,896	2.59%	\$778,080,896	100.00%
City of Greenfield	756,504,286	2.52	756,504,286	100.00
City of King City	864,405,754	2.88	864,405,754	100.00
City of Marina	33,967,514	0.11	2,400,311,000	1.42
City of Salinas	12,080,694,193	40.27	12,080,694,193	100.00
City of Soledad	1,067,853,621	3.56	1,067,853,621	100.00
Unincorporated Monterey County	14,364,829,834	47.88	35,898,423,996	40.02
Unincorporated San Benito County	<u>52,817,655</u>	<u>0.18</u>	4,532,562,618	1.17
Total District	\$29,999,153,753	100.00%		
Summary by County:				
Monterey County	\$29,946,336,098	99.82%	\$71,265,526,245	42.02%
San Benito County	<u>52,817,655</u>	<u>0.18</u>	\$9,116,114,194	0.58%
Total District	\$29,999,153,753	100.00%		

Source: California Municipal Statistics, Inc.

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Assessed Valuation and Parcels by Land Use. The following table shows the distribution of taxable property within the District by principal use, as measured by assessed valuation and parcels in fiscal year 2019-20.

ASSESSED VALUATION AND PARCELS BY LAND USE
Fiscal Year 2019-20
Hartnell Community College District

	2019-20	% of	No. of	% of
<u>Non-Residential:</u>	<u>Assessed Valuation</u> ⁽¹⁾	<u>Total</u>	<u>Parcels</u>	<u>Total</u>
Agricultural	\$4,655,530,231	16.48%	5,891	8.69%
Commercial	2,468,303,313	8.74	2,287	3.37
Vacant Commercial	124,866,244	0.44	345	0.51
Industrial/Food Processing	2,048,424,138	7.25	562	0.83
Vacant Industrial	72,210,203	0.26	169	0.25
Recreational	53,000,500	0.19	124	0.18
Government/Social/Institutional	117,830,289	0.42	301	0.44
Power Plant/Utilities	169,540,087	0.60	30	0.04
Miscellaneous/Unclassified Vacant	<u>113,418,232</u>	<u>0.40</u>	<u>1,786</u>	<u>2.63</u>
Subtotal Non-Residential	\$9,823,123,237	34.77%	11,495	16.96%
<u>Residential:</u>				
Single Family Residence	\$15,342,839,012	54.31%	46,104	68.01%
Condominium/Townhouse	652,228,354	2.31	1,010	1.49
Mobile Home	78,643,229	0.28	601	0.89
Mobile Home Park	44,886,034	0.16	18	0.03
2-4 Residential Units	369,333,462	1.31	1,716	2.53
5+ Residential Units/Apartments	1,331,802,226	4.71	1,294	1.91
Vacant Residential	<u>607,647,369</u>	<u>2.15</u>	<u>5,555</u>	<u>8.19</u>
Subtotal Residential	\$18,427,379,686	65.23%	56,298	83.04%
Total	\$28,250,502,923	100.00%	67,793	100.00%

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

Source: California Municipal Statistics, Inc.

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Assessed Valuation of Single Family Homes. The following table shows the distribution of single family homes within the District among various fiscal year 2019-20 assessed valuation ranges, as well as the average and median assessed valuation of single family homes within the District.

**ASSESSED VALUATION OF SINGLE FAMILY HOMES
Fiscal Year 2019-20
Hartnell Community College District**

	No. of Parcels	2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	46,104	\$15,342,839,012	\$332,788	\$283,512

2019-20 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	178	0.386%	0.386%	\$3,326,355	0.022%	0.022%
25,000 - 49,999	757	1.642	2.028	30,356,757	0.198	0.220
50,000 - 74,999	1,720	3.731	5.759	108,692,424	0.708	0.928
75,000 - 99,999	1,655	3.590	9.348	144,688,604	0.943	1.871
100,000 - 124,999	1,722	3.735	13.083	193,132,288	1.259	3.130
125,000 - 149,999	2,039	4.423	17.506	281,606,504	1.835	4.965
150,000 - 174,999	2,622	5.687	23.193	426,367,526	2.779	7.744
175,000 - 199,999	2,892	6.273	29.466	543,699,158	3.544	11.288
200,000 - 224,999	2,951	6.401	35.867	625,487,351	4.077	15.365
225,000 - 249,999	2,868	6.221	42.087	680,001,804	4.432	19.797
250,000 - 274,999	2,742	5.947	48.035	718,586,876	4.684	24.480
275,000 - 299,999	2,454	5.323	53.358	704,115,510	4.589	29.069
300,000 - 324,999	2,319	5.030	58.388	725,043,054	4.726	33.795
325,000 - 349,999	2,065	4.479	62.867	696,378,269	4.539	38.334
350,000 - 374,999	2,031	4.405	67.272	735,443,896	4.793	43.127
375,000 - 399,999	1,982	4.299	71.571	767,249,098	5.001	48.128
400,000 - 424,999	1,766	3.830	75.401	727,501,651	4.742	52.869
425,000 - 449,999	1,562	3.388	78.789	682,433,421	4.448	57.317
450,000 - 474,999	1,379	2.991	81.780	637,172,386	4.153	61.470
475,000 - 499,999	1,068	2.317	84.097	520,082,055	3.390	64.860
500,000 and greater	<u>7,332</u>	<u>15.903</u>	100.000	<u>5,391,474,025</u>	<u>35.140</u>	100.000
Total	46,104	100.000%		\$15,342,839,012	100.000%	

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

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Tax Levies, Collections and Delinquencies

Property taxes on the secured roll are due in two installments, November 1 and February 1 of the calendar year, and if unpaid, become delinquent after December 10 and April 10, respectively. A 10% penalty attaches to any delinquent installment plus a minimum \$10 cost on the second installment, plus any additional amount determined by the Treasurer-Tax Collector of each county. See “— *Ad Valorem* Property Taxation” herein.

Pursuant to Revenue and Taxation Code Section 4985.2, the Treasurer-Tax Collector may cancel any penalty, costs or other charges resulting from tax delinquency upon a finding that the late payment is due to reasonable cause and circumstances beyond the taxpayer’s control, and occurred notwithstanding the exercise of ordinary care in the absence of willful neglect, provided the property taxes are paid within four fiscal years of such taxes coming due. See “— Alternative Method of Tax Apportionment - ‘Teeter Plan’” and “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Considerations Regarding COVID-19” herein.

The Counties levy and collect all property taxes for property falling within their respective taxing boundaries. The annual secured tax levies and delinquencies for the Monterey County portion of the District in fiscal years 2010-11 through 2018-19 are shown below. Secured tax charge and delinquency information is not available for the San Benito County portion of the District.

SECURED TAX CHARGES AND DELINQUENCIES Fiscal Years 2010-11 through 2018-19 Hartnell Community College District (Monterey County Portion)

<u>Fiscal Year</u>	<u>Secured Tax Charge⁽¹⁾</u>	<u>Amount Delinquent as of June 30</u>	<u>Percent Delinquent June 30</u>
2010-11	\$4,251,209.00	\$94,367.98	2.22%
2011-12	4,572,760.00	77,918.49	1.70
2012-13	4,453,807.00	74,104.22	1.66
2013-14	4,493,298.00	56,890.05	1.27
2014-15	4,537,244.00	54,470.48	1.20
2015-16	4,906,832.00	52,968.51	1.08
2016-17	20,305,932.00	189,529.02	0.93
2017-18	21,526,774.00	188,163.29	0.87
2018-19	22,846,968.00	303,571.39	1.33

⁽¹⁾ Bond debt service levy only.

Source: *California Municipal Statistics, Inc.*

<u>Fiscal Year</u>	<u>Secured Tax Charge⁽²⁾</u>	<u>Amount Delinquent as of June 30</u>	<u>Percent Delinquent June 30</u>
2016-17	\$4,594,068.00	\$48,440.72	1.05%
2017-18	9,962,617.00	83,212.52	0.84
2018-19	10,090,051.00	108,320.19	1.07

⁽²⁾ District’s general obligation bond debt service levy.

Source: *California Municipal Statistics, Inc.*

Alternative Method of Tax Apportionment - Teeter Plan

San Benito County. The Board of Supervisors of San Benito County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (a “Teeter Plan”), as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code. Under the Teeter Plan, San Benito County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the county acts as the tax-levying or tax-collecting agency.

The Teeter Plan for San Benito County is applicable to all secured tax levies for which such county acts as the tax-levying or tax-collecting agency, or for which such county’s treasury is the legal depository of the tax collections.

The secured *ad valorem* property tax to be levied to pay the interest on and principal of general obligation bonds of the District will be subject to the Teeter Plan of San Benito County. The District will receive 100% of the secured *ad valorem* property tax levied in San Benito County to pay such bonds irrespective of actual delinquencies in the collection of the tax by San Benito County.

The Teeter Plan of San Benito County is to remain in effect unless the Board of Supervisors of San Benito County orders its discontinuance or unless, prior to the commencement of any fiscal year of San Benito County (which commences on July 1), the Board of Supervisors of San Benito County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in San Benito County, in which event the Board of Supervisors of San Benito County is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors of San Benito County may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply, after holding a public hearing on the matter, discontinue the procedures under its Teeter Plan with respect to any tax levying agency or assessment levying agency in such county if the rate of secure tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency. In the event the Board of Supervisors of San Benito County is to order discontinuance of its county’s Teeter Plan subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which such county acts as the tax-levying or tax-collecting agency.

Property tax delinquencies may be impacted by economic and other factors beyond the District’s control or the control of either of the Counties, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or depression could be caused by many factors outside the control of the District, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of the spread of COVID-19 or other pandemic or natural or manmade disaster. See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Considerations Regarding COVID-19” herein.

There can be no assurance that San Benito County will always maintain the Teeter Plan or will have sufficient funds available to distribute the full amount of the District’s share of property tax collections to the District. The ability of San Benito County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies.

Monterey County. Monterey County has not adopted the Teeter Plan, and consequently the Teeter Plan is not available to local taxing entities within Monterey County, including the District. The District’s receipt of property taxes from those portions of Monterey County subject to taxation by the

District is therefore subject to delinquencies. In 2019-20, property in Monterey County represented 99.82% of the assessed valuation of the District.

The District is a member of the Monterey County Educational Delinquent Tax Finance Authority (“MCEDTFA”). MCEDTFA is a joint exercise of powers agency formed for the purpose of purchasing delinquent *ad valorem* property taxes of its members in accordance with Government Code Section 6516.6. The District anticipates that MCEDTFA will from time to time purchase delinquent *ad valorem* tax receivables from the District at a purchase price equal to at least 110% of such receivable. MCEDTFA does not currently purchase *ad valorem* property tax receivables related to the payment of general obligation bonds of the District. Thus, the District’s participation in MCEDTFA’s program does not ensure that the District will receive the timely payment of *ad valorem* property taxes levied to secure the Bonds. See also “—*Ad Valorem* Property Taxation” herein.

Notwithstanding any possible future change to or discontinuation of the Teeter Plan in San Benito County or increases in property tax delinquencies, State law requires the Counties to levy *ad valorem* property taxes sufficient to pay the Bonds when due.

Tax Rates

A representative tax rate area (a “TRA”) located within the District is Tax Rate Area 05-015. The tables below demonstrates the total *ad valorem* property tax rates, as a percentage of assessed valuation, levied by all taxing entities in this TRA during the five-year period from fiscal year 2015-16 through 2019-20.

**TYPICAL TAX RATES (TRA 05-015)⁽¹⁾
Fiscal Years 2015-16 through 2019-20
Hartnell Community College District**

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
General Tax Rate	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Salinas Union High School District	.072048	.069467	.065209	.030790	.033890
Salinas Union High School District SFID	.042331	.029566	--	--	--
Hartnell Community College District	.021133	.019209	.037237	.037649	.035605
Salinas City School District	<u>.041507</u>	<u>.030944</u>	<u>.023094</u>	<u>.034066</u>	<u>.024411</u>
Total Tax Rate	1.177019%	1.149186%	1.125540%	1.102505%	1.093906%

⁽¹⁾ The fiscal year 2019-20 assessed valuation of TRA 05-015 is \$2,886,792,805, which constitutes approximately 9.62% of the District’s total assessed valuation.

Source: *California Municipal Statistics, Inc.*

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Largest Property Owners

The following table lists the 20 largest local secured taxpayers in the District in terms of their fiscal year 2019-20 secured assessed valuations.

LARGEST LOCAL SECURED TAXPAYERS Fiscal Year 2019-20 Hartnell Community College District

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2019-20 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1.	Aera Energy	Gas and Oil	\$323,719,750	1.15%
2.	Chevron USA Inc.	Gas and Oil	289,310,455	1.02
3.	D'Arrigo Bros. Co.	Agricultural/Food Processing	217,688,226	0.77
4.	Dynegy Moss Landing LLC	Power Plant	160,800,000	0.57
5.	Northridge Owner LP	Shopping Center	133,705,896	0.47
6.	Global AG Properties II USA LLC	Agricultural/Food Processing	132,157,151	0.47
7.	Scheid Vineyards California Inc.	Agricultural/Food Processing	116,932,589	0.41
8.	Valle Del Sol Properties LLC	Agricultural/Food Processing	101,593,800	0.36
9.	Mann Packing Company Inc.	Agricultural/Food Processing	98,863,527	0.35
10.	Tanimura & Antle Partnership	Agricultural/Food Processing	97,561,034	0.35
11.	Jackson Family Estates II LLC	Agricultural/Food Processing	96,284,683	0.34
12.	Jerry J. Rava II Trust	Food Processing	89,631,878	0.32
13.	Dole Fresh Vegetables Inc.	Food Processing	84,999,655	0.30
14.	CMP-1 LLC	Apartments	83,459,852	0.30
15.	Harden Ranch Plaza Associates LLC	Shopping Center	82,516,608	0.29
16.	Yuki Farms LP III	Agricultural	81,400,656	0.29
17.	California Water Service Company	Water Company	76,885,161	0.27
18.	Pacific Wine Partners LLC	Food Processing	74,341,230	0.26
19.	William D. Massa Trust	Food Processing	61,667,119	0.22
20.	The Uni-Kool Partners	Warehouse	<u>61,199,912</u>	<u>0.22</u>
			\$2,464,719,182	8.72%

⁽¹⁾ The fiscal year 2019-20 local secured assessed valuation of the District is \$28,250,502,923.
Source: *California Municipal Statistics, Inc.*

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Statement of Direct and Overlapping Debt

Set forth on the following page is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. effective as of March 1, 2020 for debt outstanding as of March 1, 2020. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The table shows the percentage of each overlapping entity’s assessed value located within the boundaries of the District. The table also shows the corresponding portion of the overlapping entity’s existing debt payable from property taxes levied within the District. The total amount of debt for each overlapping entity is not given in the table.

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

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**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Hartnell Community College District**

2019-20 Assessed Valuation: \$29,999,153,753

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

Hartnell Joint Community College District	% Applicable	Debt 3/1/20
	100.000	\$196,796,667⁽¹⁾
Unified School Districts	0.096-100.000	89,913,726
Salinas Union High School District and School Facilities Improvement District	100.000	91,202,176
South Monterey County Joint Union High School District	100.000	24,825,000
Alisal Union School District	100.000	57,246,030
Greenfield Union School District	100.000	30,609,965
Salinas City School District	100.000	40,616,475
Other School Districts	100.000	54,790,645
City of Marina	1.415	98,626
Monterey County Water Resources Agency, Zone No. 2C Benefit Assessment District	42.021	8,879,037
California Statewide Communities Development Authority Community Facilities District No. 97-1	100.000	807,542
City of Salinas Community Facilities District No. 2016-1	100.000	4,765,000
1915 Act Bonds	100.000	<u>7,305,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$607,855,889

OVERLAPPING GENERAL FUND DEBT:

Monterey County General Fund Obligations	42.021%	\$62,284,625
Monterey County Board of Education Certificates of Participation	42.021	560,980
San Benito County Certificates of Participation	0.579	101,672
Unified School District Certificates of Participation	100.000	8,252,493
Salinas Union High School District General Fund Obligations	100.000	17,944,419
South Monterey County Joint Union High School District General Fund Obligations	100.000	9,345,000
Salinas City School District Certificates of Participation	100.000	16,148,923
Other School District Certificates of Participation	100.000	29,992,639
City of Gonzales General Fund Obligations	100.000	6,425,093
City of Greenfield General Fund Obligations	100.000	1,022,141
City of Salinas Certificates of Participation	100.000	111,867,114
Monterey County Regional Fire Protection District Certificates of Participation	54.053	13,915,945
Pajaro/Sunny Mesa Community Services District General Fund Obligations	28.526	<u>78,447</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$277,939,491
Less: Monterey County supported obligations		<u>1,471,042</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$276,468,449

OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):

	\$38,865,827⁽²⁾
GROSS COMBINED TOTAL DEBT	\$924,661,207
NET COMBINED TOTAL DEBT	\$923,190,165

Ratios to 2019-20 Assessed Valuation:

Direct Debt (\$196,796,667)	0.66%
Total Overlapping Tax and Assessment Debt	2.03%
Gross Combined Total Debt.....	3.08%
Net Combined Total Debt	3.08%

Ratios to Redevelopment Incremental Valuation (\$2,114,281,257):

Total Overlapping Tax Increment Debt.....	1.84%
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⁽¹⁾ Excludes the Bonds described herein.

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

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable solely from the proceeds of an ad valorem property tax levied by the Counties on the taxable property in the District for the payment thereof. See “THE BONDS – Security and Sources of Payment” herein. Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 98 and 111, 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 Counties to levy taxes on behalf of the District and the District to 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 Counties to levy taxes for payment of the principal and interest on the Bonds. The tax levied by the Counties for payment of the Bonds was approved by the District’s voters in compliance with Article XIII A, Article XIII C, and all applicable laws.

Article XIII A of the California Constitution

Article XIII A (“Article XIII A”) of the State Constitution limits the amount of *ad valorem* property taxes on real property to 1% of “full cash value” as determined by the county assessor of each county. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the fiscal year 1975-76 bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. Determined in this manner, the full cash value is also referred to as the “base year value.” The full cash value is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the adjusted base year value described above. Proposition 8—approved by State voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the adjusted base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rates levied by the Counties to pay debt service on the Bonds. See “THE BONDS – Security and Sources of Payment” and “TAX BASE FOR REPAYMENT OF BONDS – Assessed Valuations” herein.

Article XIII A requires a vote of two-thirds or more of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b), as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) 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 fifty-five percent or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception described in (c) of the immediately preceding sentence. In addition, Article XIII A requires the approval

of two-thirds of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues.

Split Roll Property Tax Ballot Measure. On May 29, 2020, a proposed ballot initiative became eligible for the November 2020 Statewide ballot (the “Proposition 15”). If approved by a majority of voters casting a ballot at the November 2020 Statewide election, Proposition 15 would amend Article XIII A such that the “full cash value” of commercial and industrial real property, for each lien date, would be equal to the fair market value of that property. If approved, Proposition 15 would not affect the “full cash value” of residential property, real property used for commercial agricultural production, or commercial and industrial real property with combined value of \$3 million or less, which would continue to be subject to annual increases not to exceed 2%. In addition Proposition 15 would eliminate the business tangible personal property tax on equipment and fixtures for small businesses and provide a \$500,000 per year exemption for all other businesses. After compensating the State General Fund for resulting reductions in State personal income tax and corporate tax revenues, and compensating cities, counties and special districts for the cost of implementing Proposition 15, approximately 40% of the remaining additional tax revenues generated as a result of Proposition 15 would be deposited into a fund created pursuant to Proposition 15 called the Local School and Community College Property Tax Fund, with such funds being used to supplement, and not replace, existing funding school districts and community college districts receive under the State’s constitutional minimum funding requirement. With respect to the tax revenues deposited into the Local School and Community College Property Tax Fund, 11% would be allocated by the Board of Governors of the California Community Colleges to community college districts and 89% of such tax revenues would be allocated by the Superintendent of Public Instruction to school districts, charter schools and county offices of education.

The District cannot predict whether Proposition 15 will be approved by a majority of voters casting a ballot. If approved, the District cannot make any assurance as to what effect the implementation of Proposition 15 will have on District revenues or the assessed valuation of real property in the District.

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 relevant 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.

All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

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

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. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State’s financing formula for community college districts. See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Major Revenues” and “HARTNELL COMMUNITY COLLEGE DISTRICT” herein.

Proposition 50 and Proposition 171

On June 3, 1986, the voters of the State approved Proposition 50. Proposition 50 amends Section 2 of Article XIII A of the State Constitution to allow owners of property that was “substantially damaged or destroyed” by a disaster, as declared by the Governor (the “Damaged Property”), to transfer their existing base year value (the “Original Base Year Value”) to a comparable replacement property within the same county, which is acquired or constructed within five years after the disaster. At the time of such transfer, the Damaged Property will be reassessed at its full cash value immediately prior to damage or destruction (the “Original Cash Value”); however, such property will retain its base year value notwithstanding such a transfer. Property is substantially damaged or destroyed if either the land or the improvements sustain physical damage amounting to more than 50% of either the land or improvements full cash value immediately prior to the disaster. There is no filing deadline, but the assessor can only correct four years of assessments when the owner fails to file a claim within four years of acquiring a replacement property.

Under Proposition 50, the base year value of the replacement property (the “Replacement Base Year Value”) depends on the relation of the full cash value of the replacement property (the “Replacement Cash Value”) to the Original Cash Value: if the Replacement Cash Value exceeds 120% of the Original Cash Value, then the Replacement Base Year Value is calculated by combining the Original Base Year Value with such excessive Replacement Cash Value; if the Replacement Cash Value does not exceed 120% of the Original Cash Value, then the Replacement Base Year Value equals the Original Base Year Value; if the Replacement Cash Value is less than the Original Cash Value, then the Replacement Base Year Value equals the Replacement Cash Value. The replacement property must be comparable in size, utility, and function to the Damaged Property.

On November 2, 1993, the voters of the State approved Proposition 171. Proposition 171 amends subdivision (e) of Section 2 of Article XIII A of the State Constitution to allow owners of Damaged Property to transfer their Original Base Year Value to a “comparable replacement property” located within another county in the State, which is acquired or newly constructed within three years after the disaster.

Intra-county transfers under Proposition 171 are more restrictive than inter-county transfers under Proposition 50. For example, Proposition 171 (1) only applies to (a) structures that are owned and occupied by property owners as their principal place of residence and (b) land of a “reasonable size that is used as a site for a residence;” (2) explicitly does not apply to property owned by firms, partnerships, associations, corporations, companies, or legal entities of any kind; (3) only applies to replacement property located in a county that adopted an ordinance allowing Proposition 171 transfers; (4) claims must be timely filed within three years of the date of purchase or completion of new construction; and (5) only applies to comparable replacement property, which has a full cash value that is of “equal or lesser value” than the Original Cash Value.

Within the context of Proposition 171, “equal or lesser value” means that the amount of the Replacement Cash Value does not exceed either (1) 105% of the Original Cash Value when the replacement property is acquired or constructed within one year of the destruction, (2) 110% of the Original Cash Value when the replacement property is acquired or constructed within two years of the destruction, or (3) 115% of the Original Cash Value when the replacement property is acquired or constructed within three years of the destruction

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, community college 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. As amended, Article XIII B defines

- (a) “change in the cost of living” with respect to school districts and community college districts to mean the percentage change in State per capita income from the preceding year, and
- (b) “change in population” with respect to a school district or community college district to mean the percentage change in the average daily attendance of such school district or community college district from the preceding fiscal year.

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 pursuant to 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 such as the Bonds, (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 State 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.

Article XIII B also includes a requirement that fifty percent 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 pursuant to Section 8.5 of Article XVI of the State Constitution. See “– Propositions 98 and 111” below.

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the State Constitution Articles XIII C and XIII D (respectively, “Article XIII C” and “Article XIII D”), which contain a number of provisions affecting the ability of local agencies, including community college 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 State Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C 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 community college 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 XIII C 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 State Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic one percent *ad valorem* property tax levied and collected by the Counties pursuant to Article XIII A of the State Constitution. 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.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution 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 XIII D. 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.

Propositions 98 and 111

On November 8, 1988, 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 were modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changed 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 State general fund revenues as the percentage appropriated to such districts in the 1986-87 fiscal year, and (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the State Legislature to suspend this formula for a one-year period.

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

Since the Accountability Act is unclear in some details, there can be no assurances that the State Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the State budget.

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limitation 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:

- a. 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 State 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.
- b. 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.

- c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit: (i) all appropriations for "qualified capital outlay projects" as defined by the State Legislature, and (ii) 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 State Legislature and the Governor, which was expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.
- d. 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.
- e. 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 ("Test 1") 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 ("Test 2"). Under Proposition 111, schools will receive the greater of (1) Test 1, (2) Test 2, or (3) a third test ("Test 3"), which will replace Test 2 in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in State per capita personal income. Under Test 3, 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 Test 3 is used in any year, the difference between Test 3 and Test 2 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, State voters approved an amendment (commonly known as "Proposition 39") to the State Constitution. This amendment (1) allows school facilities bond measures to be approved by fifty-five percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current one percent limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the State Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, community college districts, and county offices of education. As noted above, the State Constitution

previously limited property taxes to one percent of the value of property, such that 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 fifty-five percent 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 governing board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the governing 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 facilities bonds to be approved by fifty-five percent 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 or high school district), or \$25 (for a community college district), per \$100,000 of taxable property value, when assessed valuation is projected to increase in accordance with Article XIII A of the Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the State Legislature and approval by the Governor.

Proposition 1A and Proposition 22

On November 2, 2004, State 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-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Proposition 1A allows the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends 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, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools and community colleges or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was expected to be approximately \$1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

Proposition 55

The California Children’s Education and Health Care Protection Act of 2016 (also known as “Proposition 55”) is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends, through 2030, the increases to personal income tax rates for high-income taxpayers that were approved as part of Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”). Proposition 30 increased the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,001 for single filers (over \$500,000 but less than \$600,001 for joint filers and over \$340,000 but less than \$408,001 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,001 for single filers (over \$600,000 but less than \$1,000,001 for joint filers and over \$408,000 but less than \$680,001 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

The revenues generated from the personal income tax increases will be included in the calculation of the Proposition 98 Minimum Funding Guarantee (defined herein) for school districts and community college districts. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Propositions 98 and 111” herein. From an accounting perspective, the revenues generated from the personal income tax increases are being 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 board is prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

Jarvis v. Connell

On May 29, 2002, the State Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the State Constitution or a federal mandate is necessary for the State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District’s budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the State Supreme Court upheld the holding of the Court of Appeal, stating that the State Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 2

On November 4, 2014, voters approved the Rainy Day Budget Stabilization Fund Act (also known as “Proposition 2”). Proposition 2 is a legislatively-referred constitutional amendment which makes certain changes to State budgeting practices, including substantially revising the conditions under which transfers are made to and from the State’s Budget Stabilization Account (the “BSA”) established by the California Balanced Budget Act of 2004 (also known as Proposition 58).

Under Proposition 2, and beginning in fiscal year 2015-16 and each fiscal year thereafter, the State will generally be required to annually transfer to the BSA an amount equal to 1.5% of estimated State general fund revenues (the “Annual BSA Transfer”). Supplemental transfers to the BSA (a “Supplemental BSA Transfer”) are also required in any fiscal year in which the estimated State general fund revenues that are allocable to capital gains taxes exceed 8% of total estimated general fund tax revenues. Such excess capital gains taxes—net of any portion thereof owed to K-14 school districts pursuant to Proposition 98—will be transferred to the BSA. Proposition 2 also increases the maximum size of the BSA to an amount equal to 10% of estimated State general fund revenues for any given fiscal year. In any fiscal year in which a required transfer to the BSA would result in an amount in excess of the 10% threshold, Proposition 2 requires such excess to be expended on State infrastructure, including deferred maintenance.

For the first 15-year period ending with the 2029-30 fiscal year, Proposition 2 provides that half of any required transfer to the BSA, either annual or supplemental, must be appropriated to reduce certain State liabilities, including making certain payments owed to K-14 school districts, repaying State interfund borrowing, reimbursing local governments for State mandated services, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. Following the initial 15-year period, the Governor and the State Legislature are given discretion to apply up to half of any required transfer to the BSA to the reduction of such State liabilities. Any amount not applied towards such reduction must be transferred to the BSA or applied to infrastructure, as described above.

Proposition 2 changes the conditions under which the Governor and the State Legislature may draw upon or reduce transfers to the BSA. The Governor does not retain unilateral discretion to suspend transfers to the BSA, nor does the State Legislature retain discretion to transfer funds from the BSA for any reason, as previously provided by law. Rather, the Governor must declare a “budget emergency,” defined as an emergency within the meaning of Article XIII B of the Constitution or a determination that estimated resources are inadequate to fund State general fund expenditures, for the current or ensuing fiscal year, at a level equal to the highest level of State spending within the three immediately preceding fiscal years. Any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the BSA are limited to the amount necessary to address the budget emergency, and no draw in any fiscal year may exceed 50% of funds on deposit in the BSA unless a budget emergency was declared in the preceding fiscal year.

Proposition 2 also requires the creation of the Public School System Stabilization Account (the “PSSSA”) into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is required (as described above). Such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would otherwise be paid to K-14 school districts as part of the minimum funding guarantee. A transfer to the PSSSA will only be made if certain additional conditions are met, as follows: (i) the minimum funding guarantee was not suspended in the immediately preceding fiscal year, (ii) the operative Proposition 98 formula for the fiscal year in which a PSSSA transfer might be made is “Test 1,” (iii) no maintenance factor obligation is being created in the budgetary legislation for the fiscal year in which a PSSSA transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the fiscal year in which a PSSSA transfer might be

made is higher than the immediately preceding fiscal year, as adjusted for enrollment growth and cost of living. Proposition 2 caps the size of the PSSSA at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Reductions to any required transfer to the PSSSA, or draws on the PSSSA, are subject to the same budget emergency requirements described above. However, Proposition 2 also mandates draws on the PSSSA in any fiscal year in which the estimated minimum funding guarantee is less than the prior year's funding level, as adjusted for enrollment growth and cost of living.

Proposition 51

The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) is a voter initiative that was approved by voters on November 8, 2016. Proposition 51 authorizes the sale and issuance of \$9 billion in general obligation bonds for the new construction and modernization of K-14 facilities. The District makes no guarantee that it will either pursue or qualify for Proposition 51 state facilities funding.

K-12 School Facilities. Proposition 51 includes \$3 billion for the new construction of K-12 facilities and an additional \$3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school district lacks sufficient local funding, it may apply for additional state grant funding, up to 100% of the project costs. In addition, a total of \$1 billion will be available for the modernization and new construction of charter school (\$500 million) and technical education (\$500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for State loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, State grants are capped at \$3 million for a new facility and \$1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

Community College Facilities. Proposition 51 includes \$2 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment. In order to receive funding, community college districts must submit project proposals to the Chancellor of the community college system, who then decides which projects to submit to the Legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and Legislature will select among eligible projects as part of the annual state budget process.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the State Constitution and Propositions 22, 26, 30, 39, 51, 55 and 98 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA

The information in this section concerning State funding of community college districts is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of and interest on the Bonds is payable from the general fund of the District. The Bonds are payable solely from the proceeds of an ad valorem property tax required to be levied by the Counties in an amount sufficient for the payment thereof.

Major Revenues

General. California community college districts (other than “community supported” Basic Aid districts, as described below) receive a majority of their funding from the State, and the balance from local and federal sources. State funds include general apportionment, categorical funds, capital construction, lottery funds, and other minor sources. Every community college district receives the same amount of State lottery funds on a per-student basis (which is generally less than 3%), although lottery funds are not categorical funds as they are not for particular programs or students. The initiative authorizing the lottery requires the funds to be used for instructional purposes, and prohibits their use for capital purposes.

The major local revenue source is local property taxes that are collected from within district boundaries, with student enrollment fees accounting for the most of the remainder. A small part of a community college district’s budget is from local sources other than property taxes and student enrollment fees, such as interest income, donations, educational foundation contributions and sales or leases of property.

The sum of property taxes, student enrollment fees, EPA funds, and State aid comprise a district’s revenue limit. State funding is generally subject to the appropriation of funds in the State’s annual budget. Thus, decreases in State revenues may affect appropriations made by the State Legislature to community college districts.

“Basic Aid” community college districts (also referred to “community supported” districts) are those districts whose local property taxes, student enrollment fee collections, and Education Protection Account funds exceed the revenue allocation determined by the current State funding model. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 55.” Thus, Basic Aid districts do not receive any general apportionment funding from the State. The current law in the State allows these districts to keep the excess funds without penalty. The implication for Basic Aid districts is that legislatively determined annual COLAs and other politically determined factors are less significant in determining such districts primary funding sources. Rather, property tax growth and the local economy become the determining factors. The District is not currently a Basic Aid district.

Enrollment Based Funding. California community college districts apportionments were previously funded pursuant to a system established by Senate Bill 361 (“SB 361”). SB 361 provided for a basic allocation (a “Basic Allocation”) based on the number of colleges, state-approved education centers and total enrollment, together with funding based on per-student rates for credit FTES, non-credit FTES and career development and college preparation (“CDCP”) non-credit FTES.

SB 361 specified that, commencing with the 2006-07 fiscal year the minimum funding per FTES would be: (a) not less than \$4,367 per credit FTES; (b) at a uniform rate of \$2,626 per non-credit FTES; and (c) \$3,092 per CDCP FTES. Although CDCP FTES were initially funded at a lower rate than credit FTES, subsequent legislation effective as of the 2015-16 fiscal year set the minimum funding for CDCP

FTES at the same level as credit FTES. Each such minimum funding rate was subject to cost of living adjustments (each, a “COLA”), if any, funded through the State budgeting legislation in each fiscal year.

One unit of FTES is equivalent to 525 student contact hours, which is determined based on a State formula of one student multiplied by 15 weekly contact hours multiplied by 35 weeks. Accordingly, the number of FTES in the District may not equal the number of students enrolled in the District.

In each fiscal year, the State budget established an enrollment cap on the maximum number of resident FTES, known as the “funded” FTES, for which a community college district would receive a revenue allocation. A district’s enrollment cap was based on the previous fiscal year’s reported FTES, plus the growth allowance provided for by the State budget, if any. All student hours in excess of the enrollment cap were considered “unfunded” FTES. Nonresident and international students are excluded from the State funding formula and pay full tuition.

Student Centered Funding Formula. Assembly Bill 1809 (“AB 1809”), the higher education trailer bill passed as part of the State budget for fiscal year 2018-19, implemented a new funding mechanism for community college districts referred to as the “Student Centered Funding Formula,” (the “SCFF”). The SCFF includes three components: (1) a base allocation (the “Base Allocation”) driven primarily by enrollment, (2) a supplemental allocation (the “Supplemental Allocation”) based on the number of certain types of low-income students, and (3) a student success allocation (the “Student Success Allocation”) calculated using various performance-based metrics.

The SCFF includes several hold-harmless provisions to provide districts greater financial stability in transitioning to the new formula: (i) for fiscal years 2018-19 through 2020-21, community college districts will receive no less in total apportionment funding than they received in 2017-18, adjusted for COLAs; (ii) for fiscal year 2021-22 and onward, districts will receive no less in apportionment funding per-student than they received in fiscal year 2017-18; and (iii) beginning in fiscal year 2018-19, districts will receive the greater of the amount calculated by the SCFF for the current or prior year (excluding amounts districts receive pursuant to the provision summarized in (i) above.)

Base Allocation. The Base Allocation is composed of (1) the Basic Allocation, determined consistent with the prior funding formula (see “—Enrollment Based Funding”), and (2) funding for credit, non-credit and CDCP FTES. The Base Allocation was expected to constitute approximately 70% of Statewide funding for community college districts in fiscal year 2018-19, 65% in fiscal year 2019-20 and 60% in fiscal years 2020-21 and onward.

The SCFF provides minimum funding levels for credit FTES for the first three fiscal years, as follows: (i) \$3,727 for fiscal year 2018-19, (ii) \$3,387 for fiscal year 2019-20, adjusted for COLAs and other base adjustments, and (iii) \$3,046 for fiscal year 2020-21, adjusted for COLAs and other base adjustments in both the then-current and prior fiscal year. Notwithstanding the foregoing, the SCFF provides higher credit FTES funding rates for certain districts, which do not include the District, that were entitled to higher funding rates under the prior funding formula. Beginning in fiscal year 2021-22, the provision of COLAs and other adjustments will be subject to appropriation therefor in the annual State budget. Total funding for credit FTES will be based on a rolling three-year average of the funded credit FTES from the current fiscal year and the two immediately preceding fiscal years.

Funding levels for non-credit and CDCP FTES are determined consistent with the prior funding formula. See “—Enrollment Based Funding” herein. Total funding for these categories will be based on actual non-credit and CDCP FTES for the most recent fiscal year.

The table on the next page shows the District’s resident FTES figures for the last nine fiscal years, along with projected FTES for the current fiscal year.

RESIDENT FULL TIME EQUIVALENT STUDENTS⁽¹⁾
Fiscal Years 2011-12 through 2020-21
Hartnell Community College District

<u>Fiscal Year</u>	<u>Funded FTES</u>	<u>Unfunded FTES⁽²⁾</u>	<u>Total Resident FTES</u>
2011-12	6,465	624	7,089
2012-13	6,565	184	6,749
2013-14	6,717	137	6,854
2014-15	7,082	112	7,194
2015-16	7,294	--	7,294
2016-17	7,345	--	7,345
2017-18	7,359	--	7,359
2018-19	7,338	--	7,338
2019-20	7,362	210	7,572
2020-21 ⁽³⁾	7,557	--	7,557

⁽¹⁾ One FTES is equivalent to 525 student contract hours, which is determined based on a State formula of one student multiplied by 15 weekly contact hours multiplied by 35 weeks. Accordingly, the number of FTES in the District may not equal the number of students enrolled in the District. Reflects resident FTES counts only; non-resident students pay full tuition and are excluded from State funding formula calculations.

⁽²⁾ Prior to the implementation of the LCFF, the State budget would establish an enrollment cap on the maximum number of FTES, known as the “funded” FTES, for which a community college district will receive a revenue allocation. A district’s enrollment cap was based on the previous fiscal year’s reported FTES, plus the growth allowance provided for by the State budget, if any. All student hours in excess of the enrollment cap were considered “unfunded” FTES.

⁽³⁾ Budgeted.

Source: Hartnell Community College District.

Supplemental Allocation. The Supplemental Allocation, accounting for approximately 20% of Statewide funding, will be distributed to districts based on their headcounts of students that qualify for Federal Pell Grants, California College Promise Grants or student fee waivers under Education Code 76300. The SCFF provides \$919 per qualifying student for fiscal year 2018-19. Beginning in fiscal year 2019-20, the provision of COLAs and other adjustments to this amount will be subject to appropriation therefor in the annual State budget. Headcounts are not unduplicated, such that districts will receive twice as much supplemental funding for a student that falls into more than one of the aforementioned categories.

Student Success Allocation. The Student Success Allocation will be distributed to districts based on their performance in a various student outcome metrics, including obtaining various degrees and certificates, completing transfer-level math and English courses within a student’s first year, and having students obtain a regional living wage within a year of completing community college. The Student Success Allocation is expected to account for 10% of statewide funding for community college districts in fiscal year 2018-19, 15% in fiscal year 2019-20 and 20% in fiscal years 2020-21 and onward. Each metric is assigned a point value, with some metrics are weighted more than others. A single student outcome with more points will generate more funding. Outcome metrics for students that qualify for Federal Pell Grants and California College Promise Grants are eligible for additional funding.

For fiscal year 2018-19, the SCFF provides a rate for all students of \$440 per point, and an additional \$111 per point for Pell Grant and California College Promise Grant students. For fiscal year 2019-20, these rates increase to \$660 per point and \$167 per point, respectively, subject to COLAs and other base adjustments. For fiscal year 2020-21, the rates increase to \$880 per point and \$222 per point, respectively, subject to COLAs and other base adjustments.

Considerations Regarding COVID-19

An outbreak of disease or similar public health threat, such as the novel strain of coronavirus (“COVID-19”) outbreak, or fear of such an event, could have an adverse impact on the District’s financial condition and operating results.

The spread of COVID-19 is having significant negative impacts throughout the world, including in the District. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the State and the United States. The purpose behind these declarations are to coordinate and formalize emergency actions across federal, State and local governmental agencies, and to proactively prepare for a wider spread of the virus.

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed by the President of the United States. The CARES Act appropriates over \$2 trillion to, among other things, (i) provide cash payments to individuals, (ii) expand unemployment assistance and eligibility, (iii) provide emergency grants and loans for small businesses, (iv) provide loans and other assistance to corporations, (v) provide funding for hospitals and community health centers, (vi) expand funding for safety net programs, including child nutrition programs, and (vii) provide aid to state and local governments. The CARES Act includes approximately \$14.25 billion in funding for higher education, including California community college districts, principally in the form of direct emergency aid to students and institutional grants. The CARES Act also waives a number of federal regulatory requirements to provide institutions greater flexibility in addressing the effects of the COVID-19 outbreak. The District has received approximately \$3.6 million pursuant to the CARES Act, 50% of which is allocated for student grants and 50% for the District, as well as a grant of approximately \$240,000 as a result of the District’s designation as a Hispanic-Serving Institution.

On March 17, 2020, the Governor signed Senate Bill 89 (“SB 89”), which amends the Budget Act of 2019 by appropriating \$500,000,000 from the State General Fund for any purpose related to executing the emergency proclamation issued by the Governor on March 4, 2020. On March 19, 2020, the Governor ordered all California residents to stay home or at their place of residence to protect the general health and well-being, except as needed to maintain continuity of 16 critical infrastructure sectors described therein (the “Stay Home Order”). Beginning in March, 2020, the District is closed for face-to-face classes and student services, shifting to remote delivery of instruction and services, through at least the fall term of the 2020-21 academic year.

Pursuant to an Order of the State Public Health Officer on May 7, 2020, all local health jurisdictions in the State could move into Stage 2 of the State’s four stage Pandemic Roadmap (the “Pandemic Roadmap”) for easing restrictions implemented in the initial Stay Home Order. Stage 2 consists of the gradual reopening of some lower risk workplaces with modifications, including retail, related logistics and manufacturing, office workplaces, limited person services, outdoor museums, child care, and essential businesses. However, local health jurisdictions may implement or continue more restrictive health measures as needed or may move further ahead in the Pandemic Roadmap if certain criteria are met.

The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools (including the District’s schools). The U.S. is restricting certain non-US citizens and permanent residents from entering the country. In addition, stock markets in the U.S. and globally have been volatile, with significant declines attributed to coronavirus concerns.

During certain emergency conditions, state regulations provide that a community college district may be provided an “emergency conditions allowance,” calculated to approximate the same general

purpose apportionment that such district would have received in absence of the emergency. Emergency conditions are defined to include epidemics, an order from a city or county board of health or the State Board of Health, or another emergency declared by the State or federal government. Districts are required to demonstrate that the occurrence of the emergency condition prevented the district from maintaining its schools during a fiscal year for a period of 175 days, or caused the district's general purpose apportionment to be materially decreased in that year or in subsequent years. To receive the emergency conditions allowance, a district must demonstrate to the satisfaction of the Chancellor that the district made good faith efforts to avoid material decreases in general purposes apportionments. Community college districts may also seek a waiver of the 175-day requirement. Finally, the Board of Governors of the California Community Colleges (the "Board of Governors"), on March 16, 2020, granted the Chancellor temporary emergency powers to suspend or waive State regulatory requirements and local rules and regulations that present barriers to the continuity of educational services. This temporary grant is in addition to standing emergency powers the Chancellor has to hold community college districts financially harmless in the wake of campus closures.

Other potential impacts to the District associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges relating to establishing distance learning programs or other measures to permit instruction while District facilities remain closed, disruption of the regional and local economy with corresponding decreases in tax revenues (including property tax revenue, sales tax revenue and other revenues), potential declines in property values, and decreases in new home sales and real estate development. The economic consequences and the declines in the U.S. and global stock markets resulting from the spread of COVID-19, and responses thereto by local, State, and the federal governments, could have a material impact on the investments in the State pension trusts, which could materially increase the unfunded actuarial accrued liability of the STRS Defined Benefit Program and PERS Schools Pool, which, in turn, could result in material changes to the District's required contribution rates in future fiscal years. "HARTNELL COMMUNITY COLLEGE DISTRICT – Retirement Programs" herein.

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic and other of actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the District's operations and finances is unknown. Additional information with respect to events surrounding the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to the Governor's office (<http://www.gov.ca.gov>), the California Department of Public Health (<http://covid19.ca.gov/>), the County (<https://www.co.monterey.ca.us/government/departments-a-h/health/>), and the Chancellor's Office (<https://www.cccco.edu/About-Us/Chancellors-Office/Divisions/Communications-and-Marketing/Novel-Coronavirus>). *The District has not incorporated by reference the information on such websites, and the District does not assume any responsibility for the accuracy of the information on such websites.*

There can be no assurances that the spread of COVID-19, or the responses thereto by local, State, or the federal government, will not materially adversely impact the local, state and national economies or the assessed valuation of property within the District, or adversely impact enrollment or FTES within the District and, notwithstanding Executive Order N-26-20 and the Stay Home Order, materially adversely impact the financial condition or operations of the District. See also "TAX BASE FOR REPAYMENT OF THE BONDS –Assessed Valuations" herein.

Budget Procedures

On or before September 15, the Board of Trustees of a community college district is required under Section 58305 of the California Code of Regulations, Title V, to adopt a balanced budget. Each September, every State agency, including the Chancellor's Office of the California Community Colleges

(the “Chancellor’s Office”), submits to the Department of Finance (“DOF”) proposals for changes in the State budget. These proposals are submitted in the form of Budget Change Proposals (“BCPs”), involving analyses of needs, proposed solutions and expected outcomes. Thereafter, the DOF makes recommendations to the Governor, and by January 10 a proposed State budget is presented by the Governor to the State Legislature. The Governor’s State budget is then analyzed and discussed in committees and hearings begin in the State Assembly and Senate. In May, based on the debate, analysis and changes in the economic forecasts, the Governor issues a revised budget with changes he or she can support. The law requires the State Legislature to submit its approved budget by June 15, and by June 30 the Governor should announce his or her line item reductions and sign the State budget. In response to growing concern for accountability and with enabling legislation (AB 2910, Chapter 1486, Statutes of 1986), the Board of Governors and the Chancellor’s Office have established expectations for sound district fiscal management and a process for monitoring and evaluating the financial condition to ensure the financial health of the State’s community college districts. In accordance with statutory and regulatory provisions, the Chancellor has been given the responsibility to identify districts at risk and, when necessary, the authority to intervene to bring about improvement in their financial condition. To stabilize a district’s financial condition, the Chancellor may, as a last resort, seek an appropriation for an emergency apportionment.

The monitoring and evaluation process is designed to provide early detection and amelioration that will stabilize the financial condition of a district before an emergency apportionment is necessary. This is accomplished by (1) assessing the financial condition of districts through the use of various information sources and (2) taking appropriate and timely follow-up action to bring about improvement in a district’s financial condition, as needed. A variety of instruments and sources of information are used to provide a composite of each district’s financial condition, including quarterly financial status reports, annual financial and budget reports, attendance reports, annual district audit reports, district input and other financial records. In assessing each district’s financial condition, the Chancellor will pay special attention to each district’s general fund balance, spending pattern, and full-time equivalent student patterns. Those districts with greater financial difficulty will receive follow-up visits from the Chancellor’s Office where financial solutions to the district’s problems will be addressed and implemented.

See “HARTNELL COMMUNITY COLLEGE DISTRICT – General Fund Budgeting” herein for more information regarding the District’s recent budgets.

Minimum Funding Guarantees for California Community College Districts Under Propositions 98 and 111

General. In 1988, State voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual K-14 funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, changed some earlier school funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding “test” to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual COLA for the minimum guarantee for annual K-14 funding would be the change in the State’s per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIII B).

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Under implementing legislation for Proposition 98 (AB 198 and SB 98

of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is the 1989-90 fiscal year. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount under Proposition 98 guarantee (K-14 education aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40%. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth and per-capita personal income COLA.

Test 3 provides an alternative calculation of the funding base in years in which State per-capita General Fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of 1% of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 98, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

Dissolution of Redevelopment Agencies

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. The Court in *Matosantos* also found that ABx1 27, a companion bill to ABx1 26, violated the State Constitution, as amended by Proposition 22. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 1A and Proposition 22” herein. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to K-14 school districts and county offices of education, totaling \$1.7 billion statewide.

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.

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, equal to at least \$250,000 in any year, unless the oversight board reduces such amount for any fiscal year or a lesser amount is agreed to by the Successor Agency; then, fourth tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the Controller and the Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor-controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the Controller. If the Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Section 33401 of the Health and Safety Code for payments from a redevelopment agency under which the payments were to be subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

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 revenue limit 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 pursuant to the operation of [ABx1 26] 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 or any other surplus property tax revenues pursuant to the Dissolution Act.

State Assistance

State community college districts' principal funding formulas and revenue sources are derived from the State budget. The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, neither the District, nor the Underwriters guarantee the accuracy or completeness of this information and neither the District, nor the Underwriters have independently verified such information. Furthermore, it should not be inferred from the inclusion of this information herein that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable solely from the proceeds of an ad valorem property tax required to be levied by the Counties in an amount sufficient for the payment thereof.

2020-21 State Budget. On June 29, 2020, the Governor signed into law the State budget for fiscal year 2020-21 (the "2020-21 Budget"). The following information is drawn from the DOF's summary of the 2020-21 Budget.

As with the Governor's May revision (the "May Revision") to the proposed State budget, the 2020-21 Budget acknowledges that the rapid onset of COVID-19 has had an immediate and severe impact on the State's economy. The ensuing recession has caused significant job losses and precipitous drops in family and business income, and has exacerbated inequality. The May Revision forecast included a peak unemployment rate of 24.5% in the second quarter of 2020 and a decline in personal income of nearly 9%. The 2020-21 Budget reports that the official unemployment rate exceeded 16% in both April and May of 2020.

The 2020-21 Budget includes a number of measures intended to address a projected deficit of \$54.3 billion identified by the May Revision, and occasioned principally by declines in the State's three main tax revenues (personal income, sales and use, and corporate). The measures included in the 2020-21 Budget, and described below, are intended to close this deficit and set aside \$2.6 billion in the State's traditional general fund reserve, including \$716 million for the State to respond to the changing conditions of the COVID-19 pandemic:

- *Draw Down of Reserves* – The 2020-21 Budget draws down \$8.8 billion in total State reserves, including \$7.8 billion from the BSA, \$450 million from the Safety Net Reserve and all funds in the PSSSA.
- *Triggers* – The 2020-21 Budget includes \$11.1 billion in reductions and deferrals that would be restored if at least \$14 billion in federal funds are received by October 15, 2020. If the State receives less than this amount, reductions and deferrals would be partially restored. The triggers includes \$6.6 billion in deferred spending on education, \$970 million in funding for the California State University and University of California systems, \$2.8 billion in State employee compensation and \$150 million for courts, as well as funding for various other

State programs. The triggers would also fund an additional \$250 million for county programs to backfill revenue losses.

- *Federal Funds* – The 2020-21 Budget relies on \$10.1 billion in federal funds, including \$8.1 billion of which has already been received. This relief includes recent congressional approval for a temporary increase in the federal government’s share of Medicaid costs, a portion of the State’s Coronavirus Relief Fund allocation pursuant to the CARES Act and federal funds provided for childcare programs.
- *Borrowing/Transfers/Deferrals* – The 2020-21 Budget relies on \$9.3 billion in special fund borrowing and transfers, as well as deferrals to K-14 education discussed further herein. Approximately \$900 million of special fund borrowing is associated with reductions to State employee compensation and is subject to the triggers discussed above.
- *Increased Revenues* – The 2020-21 Budget temporarily suspends for three years net operating loss tax deductions for medium and large businesses and limits business tax credits, with an estimated increase in tax revenues of \$4.3 billion in fiscal year 2020-21.
- *Cancelled Expansions, Updated Assumptions and Other Measures* – The 2020-21 Budget includes an additional \$10.6 billion of measures, including cancelling multiple programmatic expansions, anticipated governmental efficiencies, higher ongoing revenues above the forecast included in the May Revision, and lower health and human services caseload costs than assumed by the May Revision.

For fiscal year 2019-20, the 2020-21 Budget projects total general fund revenues and transfers of \$137.6 billion and authorizes expenditures of \$146.9 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$17 billion, including \$16.1 billion in the BSA and \$900 million in the Safety Net Reserve Fund. For fiscal year 2020-21, the 2020-21 Budget projects total general fund revenues and transfers of \$137.7 billion and authorizes expenditures of \$133.9 billion. The State is projected to end the 2020-21 fiscal year with total available general fund reserves of \$11.4 billion, including \$2.6 billion in the traditional general fund reserve (of which \$716 million is earmarked for COVID-related responses), \$8.3 billion in the BSA and \$450 million in the Safety Net Reserve Fund.

As a result of the projected reduction of State revenues occasioned by the COVID-19 pandemic, the 2020-21 Budget estimates that the Proposition 98 minimum funding guarantee for fiscal year 2020-21 is \$70.1 billion, approximately \$10 billion below the revised prior-year funding level.

The 2020-21 Budget proposes several measures intended to ameliorate the immediate impact of State revenue declines, and avoid a permanent decline in education funding:

- *Apportionment Deferrals* – The 2020-21 Budget provides for \$330.1 million in SCFF apportionment deferrals for fiscal year 2019-20. The deferrals increase to \$662.1 million in fiscal year 2020-21. The 2020-21 Budget also provides a hardship exemption from the deferrals for districts that would be unable to meet their financial obligations.
- *Supplemental Appropriations* – The 2020-21 Budget provides for a new, multi-year payment obligation to supplement K-14 education funding. The total obligation would equal approximately \$12.4 billion, and reflects the administration’s estimate of the additional funding K-14 school districts would have received in the absence of COVID-19-related reductions. Under this proposal the State will make annual payments toward this obligation beginning in fiscal year 2021-22. These payments would equal 1.5% of State general fund

revenue. The 2020-21 Budget also increases the share of State general fund revenue required to be spent on K-14 school districts from 38% to 40% by fiscal year 2023-24.

- *CalSTRS/CalPERS* – The 2020-21 Budget redirects \$2.3 billion in funds previously appropriated for prefunding CalSTRS and CalPERS liabilities, and instead applies them to further reduce local educational agency contribution rates for such programs in fiscal years 2020-21 and 2021-22. This reduces CalSTRS employer rates to 16.15% in fiscal year 2020-21 and 16.02% in fiscal year 2021-22. CalPERS employer rates would be reduced to 20.7% in fiscal year 2020-21 and 22.84% in fiscal year 2021-22. See also “HARTNELL COMMUNITY COLLEGE DISTRICT – Retirement Programs” herein.
- *Temporary Revenue Increases* – As discussed above, as part of closing the State’s projected deficit, the 2020-21 Budget provides for a temporary revenue increase of approximately \$4.3 billion in fiscal year 2020-21, of which approximately \$1.6 billion counts towards the Proposition 98 funding guarantee.

Other significant features of community college funding in the 2020-21 Budget include the following:

- *Student Centered Funding Formula* – The 2020-21 Budget suspends the COLA for community college apportionments under the SCFF, and does not provide any funding for enrollment growth. The 2020-21 Budget extends the hold-harmless provisions of the SCFF for an additional two years, and authorizes the use of past-year data sources that have not been impacted by the COVID-19 pandemic for purposes of calculating SCFF apportionments in 2020-21.
- *COVID-19 Response Block Grant* – A one-time increase of approximately \$120 million (comprised of \$54 million in CARES Act funds and \$66 million in Proposition 98 funding) for a block grant to support student learning and mitigate learning loss related to the COVID-19 pandemic.
- *Immigrant Resources* – An increase of \$5.8 million in Proposition 98 funding for resource liaisons and student support services for immigrant students, including undocumented students. The 2020-21 Budget also provides \$10 million in ongoing Proposition 98 funding for legal services to immigrant students, faculty and staff.
- *Proposition 51* – a total allocation of \$223.1 million in Proposition 51 bond funds for community college facility projects.

For additional information regarding the 2020-21 Budget, see the DOF website at www.dof.ca.gov. However, the information presented on such website is not incorporated herein by reference.

Future Actions and Events. The District cannot predict what actions will be taken in the future by the State legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State’s ability to fund schools. The COVID-19 pandemic has already resulted in significant negative economic effects at State and federal levels, and additional negative economic effects are possible, each of which could negatively

impact anticipated State revenue levels. In addition, the pandemic could also result in higher State expenditures, of both a direct nature (such as those related to managing the outbreak) and an indirect nature (such as higher public usage of need-based programs resulting from unemployment or disability). See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Considerations Regarding COVID-19” herein. The District also cannot predict whether the federal government will provide additional funding in amounts sufficient to offset any of the fiscal impacts of the COVID-19 pandemic described above. State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District. However, the obligation to levy *ad valorem* property taxes upon all taxable property within the District for the payment of principal of and interest on the Bonds would not be impaired.

HARTNELL COMMUNITY COLLEGE DISTRICT

The information in this section concerning the operations of the District and the District’s finances 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 Bonds is payable from the general fund of the District. The Bonds are payable only from the proceeds of an ad valorem property tax levied by the Counties for the payment thereof. See “THE BONDS – Security and Sources of Payment” herein.

Introduction

Hartnell College (the “College”) is one of the oldest educational institutions in California. Founded in 1920 as Salinas Junior College, the school was renamed Hartnell College in 1948. The District was formed the following year. The District draws most of its students from Salinas and the surrounding communities of Bradley, Castroville, Chualar, Gonzales, Greenfield, Jolon, King City, Lockwood, Moss Landing, San Ardo, San Lucas, Soledad and adjacent rural areas.

The District offers the first and second years of a college program, basic skills in English and math, and workplace and career training. It awards the associate of arts degree, associate of science degree and certificates of proficiency. The College has a strong and successful nursing and allied health program, allowing its graduates to become LVNs, RNs, EMTs and respiratory therapists.

The District has transfer agreements with many California State University and University of California campuses which guarantee admission for the College’s students who have completed the two-year requirements. For fiscal year 2020-21, the District has budgeted a FTES count of 7,557, and taxable property within the District for fiscal year 2019-20 has an assessed valuation of \$29,999,153,753.

Accreditation

General. The ACCJC is authorized by the federal Department of Education as one of the seven regional associations that accredit public and private schools, colleges and universities in the United States. The ACCJC is the recognized accrediting association for the western region, which includes the States of California and Hawaii, as well as the territories of Guam, American Samoa and Northern Marianas Islands. The ACCJC reviews community colleges on rolling, six year cycles.

Accreditation by the ACCJC is voluntary and designed to evaluate and enforce standards of educational quality and institutional effectiveness. Accreditation is also a form of peer review. ACCJC standards and criteria are developed and implemented by representatives from the member institutions. Although the ACCJC is not a governmental agency, and has no direct authority over the operations of the District, it is responsible for determining whether the College receives or retains accreditation. For public

colleges, the loss of accreditation would result in the loss of federal funding and most state funding, including student financial aid.

To obtain accreditation, institutions must first satisfy minimum ACCJC eligibility requirements (the “Eligibility Requirements”), of which there are 21 covering a wide range of areas. Accredited institutions must continually meet these Eligibility Requirements. As part of the institutional self-study prepared during each accreditation cycle, compliance with certain of the Eligibility Requirements must be specifically demonstrated, while the balance may be addressed as part of the institution’s response to related Accreditation Standards (defined herein).

As part of each accrediting cycle, the ACCJC requires member institutions to demonstrate compliance with its accreditation standards (the “Accreditation Standards”). There are four main standards: (i) Mission, Academic Quality and Institutional Effectiveness, and Integrity, (ii) Student Learning Programs and Support Services, (iii) Institutional Resources, and (iv) Leadership and Governance. Each Accreditation Standard is subdivided in several components, for a total of 127 separate standards.

In addition, to maintain accreditation, institutions must also be in compliance with the ACCJC’s policies at all times during the six-year review cycle. In support of its Policy on Monitoring Institutional Performance, the ACCJC applies a set of annual monitoring and evaluation approaches that assess an institution’s continued compliance with the ACCJC Standards, and that take into account institutional strength and stability. Such annual monitoring includes, but is not limited to headcount enrollment data and the collection and analysis of key data and indicators of fiscal stewardship and stability. In furtherance of this policy, institutions are required to submit an Annual Financial Report (“AFR”) including their annual audited financial statements to the ACCJC. The purpose of the AFR is to monitor the fiscal condition of the institutions in accordance with federal requirements and to enable the ACCJC to identify institutions that are at potential financial risk. The ACCJC has developed a Composite Financial Index (“CFI”) to assess institutional finances. Based on their analysis, institutions are assigned one of three levels of financial risk. Institutions in Category N (Normal Monitoring) are not subject to additional monitoring. Institutions in Category M (Enhanced Monitoring) will have enhanced monitoring of their financial condition in the current and subsequent reporting years to assess whether financial conditions improve or deteriorate. Institutions assigned as Category R (Referred) undergo a more comprehensive analysis of their financial condition by the ACCJC’s financial reviewers.

If the ACCJC determines that a community college is out of compliance with Accreditation Standards, Eligibility Requirements or Policies, it may issue several levels of sanctions, including a “Warning,” indicating the ACCJC’s concern regarding identified deficiencies. If a college significantly deviates from Accreditation Standards, Eligibility Requirements or Policies, it may also be placed on “Probation” status. Finally, if a college continues to be significantly out of compliance with Accreditation Standards, Eligibility Requirements or Policies, or fails to properly respond to ACCJC recommendations with respect to identified deficiencies, the ACCJC may place the affected college on a “Show Cause” status, requiring the affected institution to show cause why its accreditation should not be withdrawn at the end of the stated period. For a community college district issued such show cause status, ACCJC policies require the development of a closure plan for the affected college, to become operative in the event such district is unable to remedy the identified deficiencies. The requirement to develop a closure plan ensures that all those affected by the potential loss of accreditation are informed as early as possible, and that the affected district has a contingency plan for the completion of programs by students, the securing of confidential student and employee records, and the disposition of assets of the affected college. The ACCJC’s policy, however, does not address State or federal laws that could bear on the ability of a community college district to close a college. Therefore, the development of a closure plan, as required by the ACCJC, should not be seen as an affirmative election to close an affected college.

Recent Accreditation History of the College. By letter dated July 3, 2013, the ACCJC acted to impose Probation, with the requirement that the College correct a number of deficiencies (the “2013 Recommendations”) and submit two follow-up reports by March 15, 2014 and March 15, 2015, both to be followed by visits from ACCJC representatives. The ACCJC noted that the District’s accreditation status would continue during the probation period. The District submitted its first Follow-Up Report and the ACCJC representatives visited the College on April 25, 2014. By letter dated July 3, 2014, the ACCJC informed the District that based on the Follow-Up Report, evidence submitted and the report of the ACCJC evaluation team, the ACCJC found that the College had addressed some of the 2013 Recommendations. Based on the District’s 2014 Follow-Up Report, the ACCJC removed the College from Probation and issued Warning. The District submitted its second Follow-Up Report and the ACCJC representative visited the College on April 15, 2015. By letter dated June 29, 2015, the ACCJC informed the District that the College had addressed the remaining 2013 Recommendations and, accordingly, the ACCJC reaffirmed the College’s accreditation. The District submitted its Midterm Report on March 11, 2016. By letter dated July 8, 2016, the ACCJC informed the District that the College had sustained the work accomplished since the last comprehensive evaluation and had maintained the standards previously identified in the 2013 Recommendations. By a letter dated June 28, 2019, the ACCJC notified the District that it reaffirmed the accreditation of the College. The ACCJC based its actions on a visit to the College in March 2019 and the District’s self-evaluation report, as well as a written response to the ACCJC evaluation team. The next report from the College will be the Midterm Report due on March 15, 2023. The College’s next comprehensive review will occur in the spring term of 2026.

Administration

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

<u>Board Member</u>	<u>Office</u>	<u>Term Expires</u>
Aurelio Salazar, Jr.	President	December 2020
Patricia Donohue	Vice-President	December 2020
Candi DePauw	Member	December 2022
Irma C. Lopez	Member	December 2020
Ray Montemayor	Member	December 2022
Manuel M. Osorio	Member	December 2020
Erica Padilla-Chavez	Member	December 2022

The management and policies of the District are administered by a Superintendent/President appointed by the Board who is responsible for day-to-day District operations, as well as, the supervision of the District’s other key personnel. Brief biographies of the Superintendent/President and Vice President of Administrative Service follow:

Dr. Raúl Rodríguez, Interim Superintendent/President. Dr. Rodríguez was appointed was appointed by the Board as the Interim Superintendent/President on July 7, 2020 and will begin his tenure with the District on July 13, 2020. Prior to joining the District, Dr. Rodríguez served as the Interim President at East Los Angeles College from July 2019 through June 2020 and the Chancellor of the Rancho Santiago Community College District from August of 2010 to June of 2019. Prior thereto, Dr. Rodríguez held a number of positions in both single college and multi-college community college districts in California, including over 16 years of experience as a community college CEO. Dr. Rodríguez earned a Ph.D. in Psychology from the University of California, Santa Cruz, a Master’s Degree from

Fairfield University in School and Applied Psychology and a Bachelor of Arts Degree in Liberal Studies from Bowling Green State University in Ohio. As an educator who previously taught psychology at Cabrillo College and the University of California, Santa Cruz, he is also a graduate of the Harvard Institute for Educational Management.

Linda Wilczewski, Vice President of Administrative Services. Ms. Wilczewski joined the District as Vice President of Administrative Services in January 2020. Prior thereto served as Interim Executive Director of Fiscal Services and Controller for San Jose-Evergreen Community College District. She also served as Interim Vice President, Administrative Services of Evergreen Valley College. Ms. Wilczewski received her Master’s degree in Business Administration and her Bachelor of Science degree in Business Administration from the University of Phoenix

Labor Relations

The District employs 126 full-time faculty, 248 part-time faculty, 181 classified and confidential employees, and 53 management employees. District employees, except management and some part-time employees, are represented by three bargaining units as noted below:

**HARTNELL COMMUNITY COLLEGE DISTRICT
Labor Relations**

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Hartnell College Faculty Association	374	June 30, 2020 ⁽¹⁾
California State Employees Association, Chapter 470	136	June 30, 2020 ⁽¹⁾
Stationary Operating Engineers, Local 39	33	June 30, 2020 ⁽¹⁾

⁽¹⁾ Bargaining units currently working under terms of expired contracts while new agreements under negotiation. The Stationary Engineers, Local 39 has entered into a Memorandum of Understanding extending the prior contract through July 31, 2020.

Source: Hartnell Community College District.

Retirement Programs

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 none of the District, the Municipal Advisor or the Underwriters.

STRS. All full-time certificated employees, as well as certain classified employees, are members of the State Teachers’ Retirement System (“STRS”). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program (the “STRS Defined Benefit Program”). The STRS Defined Benefit Program is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers, and the State. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended from time to time.

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer nor State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer,

employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State passed the legislation described below to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by such statutes to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed AB 1469 (“AB 1469”) into law as a part of the State’s fiscal year 2014-15 budget. AB 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the “2014 Liability”), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing July 1, 2014, the employee contribution rate increased over a three-year phase-in period in accordance with the following schedule:

**MEMBER CONTRIBUTION RATES
STRS (Defined Benefit Program)**

<u>Effective Date</u>	<u>STRS Members Hired Prior to January 1, 2013</u>	<u>STRS Members Hired After January 1, 2013</u>
July 1, 2014	8.150%	8.150%
July 1, 2015	9.200	8.560
July 1, 2016	10.250	9.205

Source: AB 1469.

Pursuant to the Reform Act (defined below), the contribution rates for members hired after the Implementation Date (defined below) will be adjusted if the normal cost increases by more than 1% since the last time the member contribution was set. The contribution rate for employees hired after the Implementation Date (defined below) increased from 9.205% of creditable compensation for fiscal year commencing July 1, 2017 to 10.205% of creditable compensation effective July 1, 2018. For fiscal year commencing July 1, 2019, the contribution rate was 10.250% for employees hired before the Implementation Date and 10.205% for employees hired after the Implementation Date. For fiscal year commencing July 1, 2020, the contribution rate will be 10.250% for employees hired before the Implementation Date and 10.205% employees hired after the Implementation Date.

Pursuant to AB 1469, K-14 school districts' contribution rate will increase over a seven-year phase-in period in accordance with the following schedule:

**K-14 SCHOOL DISTRICT CONTRIBUTION RATES
STRS (Defined Benefit Program)**

<u>Effective Date</u>	<u>K-14 school districts</u>
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	18.13
July 1, 2020	19.10

Source: AB 1469.

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter the STRS Teachers' Retirement Board (the "STRS Board"), is required to increase or decrease the K-14 school districts' contribution rate to reflect the contribution required to eliminate the remaining 2014 Liability by June 30, 2046; provided that the rate cannot change in any fiscal year by more than 1% of creditable compensation upon which members' contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. In addition to the increased contribution rates discussed above, AB 1469 also requires the STRS Board to report to the State Legislature every five years (commencing with a report due on or before July 1, 2019) on the fiscal health of the STRS Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability.

On June 27, 2019, the Governor signed SB 90 ("SB 90") into law as a part of the 2019-20 Budget. Pursuant to SB 90, the State Legislature appropriated \$2.246 billion to be transferred to the Teacher's Retirement Fund for the STRS Defined Benefit Program to pay in advance, on behalf of employers, part of the contributions required for fiscal years 2019-20 and 2020-21, resulting in K-14 school districts having to contribute 1.03% less in fiscal year 2019-20 and 0.70% less in fiscal year 2020-21, resulting in employer contribution rates of 17.1% in fiscal year 2019-20 and 18.4% in fiscal year 2020-21. In addition, the State made a contribution of \$1.117 billion to be allocated to reduce the employer's share of the unfunded actuarial obligation determined by the STRS Board upon recommendation from its actuary. This additional payment will be reflected in the June 30, 2020 actuarial valuation. Subsequently, the State's 2020-21 Budget redirected \$2.3 billion previously appropriated to STRS and PERS pursuant to SB 90 for long-term unfunded liabilities to further reduce the employer contribution rates in fiscal year 2020-21 and 2021-22. As a result, the effective employer contribution rate is 16.15% in fiscal year 2020-21 and is projected to be 16.02% in fiscal year 2021-22. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – State Assistance" herein.

The District's contributions to STRS were \$1,184,612 in fiscal year 2013-14, \$1,400,416 in fiscal year 2014-15, \$1,833,975 in fiscal year 2015-16, \$2,220,709 in fiscal year 2016-17, \$2,786,015 for fiscal year 2017-18, and \$3,200,709 in fiscal year 2018-19. The District has currently estimates \$2,993,259 for its contribution to STRS for fiscal year 2019-20 and has budgeted a contribution of \$3,280,000 for fiscal year 2020-21. The contributions for fiscal years 2019-20 and 2020-21 do not reflect the on-behalf payments by the State.

The State also contributes to STRS, currently in an amount equal to 7.828% for fiscal year 2019-20 and 8.328% for fiscal year 2020-21. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. The STRS Board approved State supplemental contribution rate for fiscal year 2020-21 reflects an increase of 0.5% of payroll, the maximum allowed under current law.

In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

The State also contributes to STRS, currently in an amount equal to 7.828% for fiscal year 2019-20 and 8.328% for fiscal year 2020-21. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. The STRS Board approved State supplemental contribution rate for fiscal year 2020-21 reflects an increase of 0.5% of payroll, the maximum allowed under current law.

In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

PERS. Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement Fund ("PERF"). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2019 included 1,612 public agencies and 1,319 K-14 school districts and charter schools. PERS acts as the common investment and administrative agent for the member agencies. The State and K-14 school districts (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for K-14 school districts throughout the State (the "Schools Pool").

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The employer contribution rate for fiscal year 2020-21 is 20.7%, which reflects an initial actuarially determined rate of 23.35% that was reduced by pursuant to SB 90 (discussed below) and further reduced by the State's 2020-21 Budget as a result of the redirection of funds previously appropriated pursuant to SB 90 for long-term unfunded liabilities (discussed above). The State's 2020-21 State Budget projects an employer contribution rate of 22.84% in fiscal year 2021-22. "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – State Assistance" herein. Participants enrolled in PERS prior to

January 1, 2013 contribute at a rate established by statute, which is 7% of their respective salaries in fiscal year 2019-20 and will be 7% of such salaries in fiscal year 2020-21, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 7% in fiscal year 2019-20 and will be 7% in fiscal year 2020-21. See “—California Public Employees’ Pension Reform Act of 2013” herein.

Pursuant to SB 90, the State Legislature appropriated \$144 million for fiscal year 2019-20 and \$100 million for fiscal year 2020-21 to be transferred to the Public Employees’ Retirement Fund, to pay in advance, on behalf of K-14 school district employers, part of the contributions required for K-14 school district employers for such fiscal years. In addition, the State Legislature appropriated \$660 million to be applied toward certain unfunded liabilities for K-14 school district employers. As a result of the payments made by the State pursuant to SB 90, the employer contribution rate for fiscal year 2019-20 was 19.721%. See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – State Assistance” herein.

The District’s contributions to PERS were \$1,503,880 in fiscal year 2013-14, \$1,172,101 in fiscal year 2014-15, \$1,314,115 in fiscal year 2015-16, \$1,677,948 in fiscal year 2016-17, \$2,066,489 for fiscal year 2017-18 and \$2,642,786 in fiscal year 2018-19. The District currently estimates \$2,145,230 for its contribution to PERS for fiscal year 2019-20 and has budgeted a contribution of \$2,306,000 for fiscal year 2020-21. The contributions for fiscal years 2019-20 and 2020-21 do not reflect the on-behalf payments by the State.

State Pension Trusts. Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: www.calstrs.com; (ii) PERS: www.calpers.ca.gov. However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS. Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

FUNDED STATUS
STRS (Defined Benefit Program) and PERS (Schools Pool)
(Dollar Amounts in Millions)⁽¹⁾
Fiscal Years 2010-11 through 2018-19

<u>STRS</u>					
<u>Fiscal Year</u>	<u>Accrued Liability</u>	<u>Value of Trust Assets (MVA)⁽²⁾</u>	<u>Unfunded Liability (MVA)⁽²⁾</u>	<u>Value of Trust Assets (AVA)⁽³⁾</u>	<u>Unfunded Liability (AVA)⁽³⁾</u>
2010-11	\$208,405	\$147,140	\$68,365	\$143,930	\$64,475
2011-12	215,189	143,118	80,354	144,232	70,957
2012-13	222,281	157,176	74,374	148,614	73,667
2013-14	231,213	179,749	61,807	158,495	72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261
2017-18	297,603	211,367	101,992	190,451	107,152
2018-19	310,719	225,466	102,636	205,016	105,703

<u>PERS</u>					
<u>Fiscal Year</u>	<u>Accrued Liability</u>	<u>Value of Trust Assets (MVA)</u>	<u>Unfunded Liability (MVA)</u>	<u>Value of Trust Assets (AVA)⁽³⁾</u>	<u>Unfunded Liability (AVA)⁽³⁾</u>
2010-11	\$58,358	\$45,901	\$12,457	\$51,547	\$6,811
2011-12	59,439	44,854	14,585	53,791	5,648
2012-13	61,487	49,482	12,005	56,250	5,237
2013-14	65,600	56,838	8,761	-- ⁽⁴⁾	-- ⁽⁴⁾
2014-15	73,325	56,814	16,511	-- ⁽⁴⁾	-- ⁽⁴⁾
2015-16	77,544	55,785	21,759	-- ⁽⁴⁾	-- ⁽⁴⁾
2016-17	84,416	60,865	23,551	-- ⁽⁴⁾	-- ⁽⁴⁾
2017-18	92,071	64,846	27,225	-- ⁽⁴⁾	-- ⁽⁴⁾
2018-19 ⁽⁵⁾	99,528	68,177	31,351	-- ⁽⁴⁾	-- ⁽⁴⁾

⁽¹⁾ Amounts may not add due to rounding.

⁽²⁾ Reflects market value of assets, including the assets allocated to the SBPA reserve. Since the benefits provided through the SBPA are not a part of the projected benefits included in the actuarial valuations summarized above, the SBPA reserve is subtracted from the STRS Defined Benefit Program assets to arrive at the value of assets available to support benefits included in the respective actuarial valuations.

⁽³⁾ Reflects actuarial value of assets.

⁽⁴⁾ Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets.

⁽⁵⁾ On April 21, 2020, the PERS Board (defined below) approved the K-14 school district contribution rate for fiscal year 2020-21 and released certain actuarial information to be incorporated into the June 30, 2019 actuarial valuation to be released in the latter half of 2020.

Source: PERS Schools Pool Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2010, through June 30, 2015) (the “2017 Experience Analysis”), on February 1, 2017, the STRS Board adopted a new set of actuarial assumptions that reflect member’s increasing life expectancies and current economic trends. These new assumptions were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2016 (the “2016 STRS Actuarial Valuation”). The new actuarial assumptions include, but are not limited to: (i) adopting a generational mortality methodology to reflect past improvements in life expectancies and provide a more dynamic assessment of future life spans, (ii) decreasing the investment rate of return (net of investment and administrative expenses) to 7.25% for the 2016 STRS Actuarial Valuation and 7.00% for the June 30,

2017 actuarial evaluation (the “2017 STRS Actuarial Valuation”), and (iii) decreasing the projected wage growth to 3.50% and the projected inflation rate to 2.75%.

Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2015, through June 30, 2018) (the “2020 Experience Analysis”), on January 31, 2020, the STRS Board adopted a new set of actuarial assumptions that were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2019 (the “2019 STRS Actuarial Valuation”). While no changes were made to the actuarial assumptions discussed above, which were established as a result of the 2017 Experience Analysis, certain demographic changes were made, including: (i) lowering the termination rates to reflect a continued trend of lower than expected teachers leaving their employment prior to retirement, and (ii) adopting changes to the retirement rates for both employees hire before the Implementation Date and after the Implementation Date to better reflect the anticipated impact of years of service on retirements. The 2019 STRS Actuarial Valuation continues using the Entry Age Normal Actuarial Cost Method.

Based on salary increases less than assumed, additional State contributions, and actuarial asset gains recognized from the current and prior years, the 2019 STRS Actuarial Valuation reports that the unfunded actuarial obligation decreased by \$1.5 billion since the 2018 STRS Actuarial Valuation and the funded ratio increased by 2.0% to 66.0% over such time period.

According to the 2019 STRS Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with a projected ending funded ratio in fiscal year ending June 30, 2046 of 99.9%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990, for which AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption and includes the \$1.117 billion State contribution made in July 2019 pursuant to SB 90.

The actuary for the STRS Defined Benefit Program notes in the 2019 STRS Actuarial Report that, since such report is dated as of June 30, 2019, the significant declines in the investment markets that have occurred in the first half the 2020 calendar year are not directly reflected in the 2019 STRS Actuarial Report. The actuary notes that such declines will almost certainly impact the future of the STRS Defined Benefit Program funding, and that, all things being equal, it is expected that the actuarial valuation for the fiscal year ending June 30, 2020 will show a greater increase in the projected State contribution rate (and possibly the employer rate) and a possible decline in the funded ratio. See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Considerations Regarding COVID-19” herein.

In recent years, the PERS Board of Administration (the “PERS Board”) has taken several steps, as described below, intended to reduce the amount of the unfunded accrued actuarial liability of its plans, including the Schools Pool.

On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “PERS Discount Rate”) from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board

voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% for the June 30, 2017 actuarial valuation, 7.25% for the June 30, 2018 actuarial valuation and 7.00% for the June 30, 2019 actuarial valuation. The new discount rate went into effect July 1, 2017 for the State and July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Reform Act (defined below) will also see their contribution rates rise.

On April 17, 2013, the PERS Board approved new actuarial policies aimed at returning PERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year fixed amortization period for gains and losses, a five-year increase of public agency contribution rates, including the contribution rate at the onset of such amortization period, and a five year reduction of public agency contribution rates at the end of such amortization period. The new actuarial policies were first included in the June 30, 2014 actuarial valuation and were implemented with respect the State, K-14 school districts and all other public agencies in fiscal year 2015-16.

Also, on February 20, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the PERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The new actuarial assumptions were first reflected in the Schools Pool in the June 30, 2015 actuarial valuation. The increase in liability due to the new assumptions will be amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year 2016-17. The new demographic assumptions affect the State, K-14 school districts and all other public agencies.

The PERS Board is required to undertake an experience study every four years under its Actuarial Assumptions Policy and State law. As a result of the most recent experience study, on December 20, 2017, the PERS Board approved new actuarial assumptions, including (i) lowering the inflation rate to 2.625% for the June 30, 2018 actuarial valuation and to 2.50% for the June 30, 2019 actuarial valuation, (ii) lowering the payroll growth rate to 2.875% for the June 30, 2018 actuarial valuation and 2.75% for the June 30, 2019 actuarial valuation, and (iii) certain changes to demographic assumptions relating to the salary scale for most constituent groups, and modifications to the morality, retirement, and disability retirement rates.

On February 14, 2018, the PERS Board approved a new actuarial amortization policy with an effective date for actuarial valuations beginning on or after June 30, 2019, which includes (i) shortening the period over which actuarial gains and losses are amortized from 30 years to 20 years, (ii) requiring that amortization payments for all unfunded accrued liability bases established after the effective date be computed to remain a level dollar amount throughout the amortization period, (iii) removing the 5-year ramp-up and ramp-down on unfunded accrued liability bases attributable to assumptions changes and non-investment gains/losses established on or after the effective date and (iv) removing the 5-year ramp-down on investment gains/losses established after the effective date. While PERS expects that reducing the amortization period for certain sources of unfunded liability will increase future average funding ratios, provide faster recovery of funded status following market downturns, decrease expected cumulative contributions, and mitigate concerns over intergenerational equity, such changes may result in increases in future employer contribution rates.

On April 21, 2020, the PERS Board established the employer contribution rates for 2020-21 and released certain information from the Schools Pool Actuarial Valuation as of June 30, 2019, ahead of its release date in the latter half of 2020. From June 30, 2018 to June 30, 2019 the funded status for the Schools Pool decreased by 1.9% (from 70.4% to 68.5%); mainly due to the reduction in the discount rate

from 7.25% to 7.00% and investment return in 2018-19 being lower than expected. The funded status as of June 30, 2019 does not reflect the State's additional payment of \$660 million that was made pursuant to SB 90, since PERS received the payment in July 2019. PERS attributes the decline in the funded status over the last five years to recent investment losses in excess of investment gains, adoption of new assumptions, both demographic and economic, lowering of the discount rate, and negative amortization. Assuming all actuarial assumptions are realized, including investment return of 7% in fiscal year 2019-20, that no changes to assumptions, methods of benefits will occur during the projection period, along with the expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the contribution rate was projected to increase annually, resulting in a projected 26.2% employer contribution rate for fiscal year 2026-27. As of the April 21, 2020, PERS reported that the year to date return for the 2019-20 fiscal year was well below the 7% assumed return.

The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make additional contributions to STRS in the future above those amounts required under AB 1469. The District can also provide no assurances that the District's required contributions to PERS will not increase in the future.

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 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

GASB Statement Nos. 67 and 68. On June 25, 2012, GASB approved Statements Nos. 67 and 68 ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the

financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

The District’s share of the net pension liabilities, pension expense and deferred inflow and outflow of resources for STRS and PERS follows:

Pension Plan	Net Pension Liability	Deferred Outflow of Resources	Deferred Inflow of Resources	Pension Expense
STRS	\$31,299,106	\$9,928,834	\$2,340,139	\$3,971,135
PERS	<u>26,817,225</u>	<u>8,573,503</u>	<u>--</u>	<u>5,465,997</u>
Total	<u>\$58,116,331</u>	<u>\$18,502,337</u>	<u>\$2,340,139</u>	<u>\$9,437,132</u>

For more information, see “APPENDIX A – 2018-19 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 9” attached hereto.

Pension Rate Stabilization Program. The District is a member of the PARS Pension Rate Stabilization Program (the “PRSP”). Through the PRSP, community college districts can manage their pension costs through an IRS Section 115 irrevocable trust designed to pre-fund pension costs and offset net pension liabilities. Districts are allowed to set aside funds, separate and apart from STRS and PERS contributions, in a tax-exempt prefunding vehicle to mitigate long-term contribution rate volatility. Such funds are protected from diversion to other uses and may be used to offset contribution rate increases or as an emergency source of funds for pension related costs in the event district revenues are impaired by economic or other conditions. In fiscal year 2016-17, the District made an initial contribution of \$1,000,000 into a PRSP Trust. As of May 31, 2020, the value of assets in the PRSP Trust was \$2,162,978.

Post-Employment Health Care Benefits

Benefits Plan. The District administers one single-employer defined benefit healthcare plan. The Other Post-Employment Benefits Plan (the “Plan”) provides medical, dental and vision insurance coverage to retirees (and under certain circumstances, their dependents) meeting plan eligibility requirements. As of June 30, 2019, membership of the Plan consisted of 13 retirees and beneficiaries currently receiving benefits and 335 active plan members.

Employees who are members of the International Union of Operating Engineers Stationary Local Number 39 must be at least 60 years old and have a minimum of 10 years of continuous service with the District to receive benefits under the Plan. These employees receive one year of benefits for each two years with the District, with benefits not to exceed five years. Employees who are members of the California School Employees Association or the Hartnell College Faculty Association must be at least 58 years old and have at least 10 years of service with the District to receive benefits under the Plan. These

employees receive one year of benefits for each two years with the District, with benefits not to exceed seven years. Managers, supervisors, and confidential employees must be of eligible age to retire from STRS or PERS (whichever is applicable) and have a minimum of five years of full-time employment with the District. Benefits for these employees will be granted for a maximum of 10 years. All District-paid health benefits terminate at age 65.

For more information regarding the Plan and the Benefits, see “APPENDIX A – 2018-19 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 10” attached hereto.

Funding Policy. During fiscal year 2015-16, the District joined the California Employer’s Retirement Health Benefit Trust Program (“CERHBT”) to pre-fund Other Post-Employment Benefits (“OPEB”) liabilities. CERHBT serves as an irrevocable trust (the “Trust”) that ensures that funds contributed into the trust are dedicated to service the needs of member districts and their employees and retirees. In fiscal year 2015-16, the District made a discretionary contribution of \$4,375,948 into the CERHBT to establish participation in the Trust. The District did not contribute to the Trust in fiscal year 2016-17 because it is fully funded. As of March 31, 2020, the value of assets in the Trust was \$4,818,908.

For fiscal year 2016-17, the District contributed \$219,700 to the Plan, all of which was used for current premiums. For fiscal year 2017-18, the District contributed \$237,474 to the Plan, all of which was used for current premiums. For fiscal year 2018-19, the District contributed \$227,456 to the Plan, all of which was used for current premiums.

For fiscal year 2019-20, the District has projected a contribution of \$226,861 to the Plan, all of which is expected to be used for current premiums. For fiscal year 2020-21, the District has budgeted a contribution of \$235,000 to the Plan, all of which is expected to be used for current premiums.

GASB Statement Nos. 74 and 75. On June 2, 2015, GASB approved Statements Nos. 74 and 75 (each, “GASB 74” and “GASB 75”) with respect to pension accounting and financial reporting standards for public sector post-retirement benefit programs and the employers that sponsor them. GASB 74 replaces GASB Statements No. 43 and 57 and GASB 75 replaces GASB 45.

Most of GASB 74 applies to plans administered through trusts, contributions in which contributions are irrevocable, trust assets are dedicated to providing other post –employment benefits to plan members and trust assets are legally protected from creditors. GASB Statements No. 74 and No. 75 will require a liability for OPEB obligations, known as the Net OPEB Liability, to be recognized on the balance sheet of the plan and the participating employer’s financial statements. In addition, an OPEB expense (service cost plus interest on total OPEB liability plus current-period benefit changes minus member contributions minus assumed earning on plan investments plus administrative expenses plus recognition of deferred outflows minus recognition of deferred inflows) will be recognized in the income statement of the participating employers. In the notes to its financial statements, employers providing other post-employment benefits will also have to include information regarding the year-to-year change in the Net OPEB Liability and a sensitivity analysis of the Net OPEB Liability to changes in the discount rate and healthcare trend rate. The required supplementary information will also be required to show a 10-year schedule of the plan’s net OPEB liability reconciliation and related ratios, and any actuarially determined contributions and investment returns.

Under GASB 74, the measurement date must be the same as the plan’s fiscal year end, but the actuarial valuation date may be any date up to 24 months prior to the measurement date. For the Total OPEB Liability, if the valuation date is before the measurement date, the results must be projected forward from the valuation date to the measurement date using standard actuarial roll-forward techniques.

For plans that are unfunded or have assets insufficient to cover the projected benefit payments, a discount rate reflecting a 20-year tax-exempt municipal bond yield or index rate must be used. For plans with assets that meet the GASB 74 requirements, a projection of the benefit payments and future Fiduciary Net Position is performed based on the funding policy and assumptions of the plan, along with the methodology specified in GASB. The Fiduciary Net Position measures the value of trust assets, adjusted for payees and receivables.

GASB No. 74 has an effective date for plan fiscal years beginning after June 15, 2016, and was first recognized in the District's financial statements for fiscal year 2016-17. GASB Statement No. 75 has an effective date for employer fiscal years beginning after June 15, 2017, and the District first recognized GASB No. 75 in their financial statements for fiscal year 2017-18. The District's audited financial statements for fiscal year 2018-19, reported, as of June 30, 2018, the District had a Total OPEB Liability of \$10,103,101, a Fiduciary Net Position of \$8,450,288 and a Net OPEB Liability of \$1,652,713. See also "APPENDIX A – 2018-19 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 10" attached hereto.

Actuarial Valuation. The District has implemented *Governmental Accounting Standards Board Statement #74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions 74*) and *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, pursuant to which the District has commissioned and received an actuarial study of its liability with respect to the Benefits. The new GASB statements No. 74 and No. 75 (discussed above) require biennial actuarial valuations for all plans. The actuarial study, dated as of March 9, 2020, (the "Study"), concluded that, as of June 30, 2019, the Total OPEB Liability (the "TOL") with respect to such benefits, was \$6,313,540, the Net OPEB Liability (the "NOL") was \$5,295,850, and the preliminary Total OPEB Expense for fiscal year ending June 30, 2019 (the "TOE") to be \$548,647. The District has a Fiduciary Net Position (the "FNP") of \$1,017,690. The TOL is the amount of the actuarial present value of projected benefits payments attributable to employees' past service based on the actuarial cost method used. The FNP are the net assets (liability) of the qualifying irrevocable trust or equivalent arrangement. The NOL is TOL minus the FNP. The TOE is the annual change in the District's NOL, with deferred recognition provided for certain items. For more information regarding the District's other post-employment benefit liability, see also "APPENDIX A – 2018-19 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 10" attached hereto.

Risk Management

The District participates in six joint powers agreements with the following entities (each a "JPA"): the Monterey County Schools Insurance Group ("MCSIG"); the Bay Area Community College Districts ("BACCD"); Schools Association for Excess Risk ("SAFER"); the Statewide Association of Community Colleges ("SWACC"); the Protected Insurance Program for Schools ("PIPS"); the South Bay Regional Public Safety Training Consortium ("SBRPSTC"), and Monterey County Educational Delinquent Tax Finance Authority ("MCEDTFA"). MCSIG administers medical, dental and vision benefits for its member districts; BACCD administers a cooperative liability and property insurance program for member districts; SAFER provides excess property and liability program protection for ten member agencies; SWACC provides liability and property insurance for approximately 46 community college district members; PIPS provides workers' compensation insurance protection to public school districts and community college district members; SBRPSTC provides education and training to public safety students of participating community college districts and MCEDTFA purchases delinquent *ad valorem* property taxes of its members. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

See also “APPENDIX A – 2018-19 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 12” attached hereto.

Hartnell Community College District Foundation

The Hartnell College Foundation (the “Foundation”) is a not-for-profit public benefit corporation organized under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Foundation provides funding for program salaries and benefits, scholarships and campus projects. The District provides administrative services to the Foundation, paying the salaries and benefits of the executive director and executive assistant of the Foundation. Under GASB rules, the Foundation is a component unit of the District for financial reporting purposes. See “APPENDIX A – 2018-19 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 1 Summary of Significant Accounting Policies” attached hereto. During fiscal year 2018-19, the Foundation distributed approximately \$4.040 million, net of scholarships, to the District. During fiscal year 2019-20, the Foundation distributed approximately \$2.581 million net of scholarships to the District. The following table lists the annual Foundation contributions to the District for fiscal years 2010-11 through 2019-20, and a budgeted amount for fiscal year 2020-21:

**HARTNELL COLLEGE FOUNDATION
Fiscal Years 2010-11 through 2019-20
Hartnell Community College District**

<u>Fiscal Year</u>	<u>Foundation Contributions</u>
2010-11	\$1,415,961
2011-12	1,660,433
2012-13	2,161,632
2013-14	1,819,308
2014-15	1,661,945
2015-16	1,771,511
2016-17	2,561,354
2017-18	3,224,210
2018-19	4,039,553
2019-20 ⁽¹⁾	2,283,989
2020-21 ⁽²⁾	2,760,000

⁽¹⁾ As of March 31, 2020.

⁽²⁾ Budgeted.

Source: Hartnell Community College District.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California Community College Budget and Accounting Manual. This manual, according to Education Code Section 84030, is to be followed by all State community college districts. The GASB has released (i) Statement No. 34, which is effective for the District and makes changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted, and (ii) Statement No. 35, which is effective for the District and makes changes in the required content and format of annual financial statements for public colleges and universities. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

General Fund Budgeting

The following table shows the District's general fund budgets for fiscal years 2016-17 through 2020-21, ending results for fiscal years 2016-17 through 2018-19, and estimated actuals for fiscal year 2019-20.

GENERAL FUND BUDGETING Fiscal Years 2015-16 through 2020-21 Hartnell Community College District

	Fiscal Year 2016-17		Fiscal Year 2017-18		Fiscal Year 2018-19		Fiscal Year 2019-20		Fiscal Year 2020-21
	<u>Budgeted⁽¹⁾</u>	<u>Actual⁽¹⁾</u>	<u>Budgeted⁽¹⁾</u>	<u>Actual⁽¹⁾</u>	<u>Budgeted⁽¹⁾</u>	<u>Estimated⁽²⁾</u>	<u>Budgeted⁽¹⁾</u>	<u>Estimated</u>	<u>Tentative Budget</u>
REVENUES:									
Federal	\$4,170,150	\$4,018,976	\$4,065,014	\$4,455,834	\$4,050,766	\$4,645,073	\$7,049,536	\$5,898,723	\$7,127,435
State	32,115,305	30,959,832	34,682,791	30,235,052	38,472,967	36,396,600	36,573,413	36,564,886	39,048,350
Local	<u>27,814,126</u>	<u>26,379,435</u>	<u>28,399,044</u>	<u>28,002,047</u>	<u>28,738,626</u>	<u>30,029,884</u>	<u>33,216,986</u>	<u>29,768,013</u>	<u>31,988,746</u>
TOTAL REVENUES	64,099,581	61,358,243	67,146,849	62,692,933	71,262,359	71,071,557	76,839,935	72,231,622	78,164,531
EXPENDITURES:									
Academic Salaries	19,555,779	19,808,229	21,362,174	21,762,941	22,377,457	22,136,012	23,108,118	23,116,441	23,325,860
Classified Salaries	14,508,099	14,141,245	15,636,591	14,971,429	15,568,393	15,616,345	16,603,731	16,058,670	16,609,772
Employee Benefits	12,153,249	12,091,425	13,256,929	12,901,179	15,052,978	18,945,604	16,311,117	16,371,127	17,677,849
Supplies and Materials	1,377,229	1,170,440	1,470,230	1,119,334	1,596,891	1,398,922	1,572,431	1,483,675	1,433,016
Other Operating Expenses and Services	13,690,120	10,837,504	9,132,675	7,927,446	10,113,287	8,530,977	13,790,202	9,116,112	13,441,673
Capital Outlay	<u>938,260</u>	<u>1,843,112</u>	<u>1,933,354</u>	<u>2,132,010</u>	<u>1,667,669</u>	<u>2,273,274</u>	<u>1,832,280</u>	<u>1,714,185</u>	<u>2,231,089</u>
TOTAL EXPENDITURES	62,222,736	59,891,955	62,791,953	60,814,339	66,376,675	68,901,134	73,217,879	67,860,210	74,719,259
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,876,845	1,466,288	4,354,896	1,878,594	4,885,684	2,170,423	3,622,056	4,371,412	3,445,272
OTHER FINANCING SOURCES (USES)	402,000	156,448	425,000	2,927,197	637,802	3,256,017	1,200,000	100,000	100,000
OTHER OUTGO	(2,020,375)	(1,711,890)	(4,454,896)	(4,478,859)	(5,376,720)	(5,341,069)	(4,784,692)	(4,131,275)	(-3,545,272)
NET INCREASE (DECREASE) IN FUND BALANCES	258,470	(89,154)	325,000	326,932	146,766	85,371	37,364	340,137	--
BEGINNING FUND BALANCE	<u>10,850,579</u>	<u>10,850,579</u>	<u>10,761,425</u>	<u>10,761,425</u>	<u>11,088,357</u>	<u>11,088,357</u>	<u>11,173,726</u>	<u>11,173,726</u>	<u>11,513,863</u>
Prior Year Adjustments	--	--	--	--	--	(2)	--	--	--
ADJUSTED BEGINNING FUND BALANCE	<u>10,850,579</u>	<u>10,850,579</u>	<u>10,761,425</u>	<u>10,761,425</u>	<u>11,088,357</u>	<u>11,088,355</u>	<u>11,173,726</u>	<u>11,173,726</u>	<u>11,513,863</u>
ENDING FUND BALANCE	<u>\$11,109,049</u>	<u>\$10,761,425</u>	<u>\$11,086,425</u>	<u>\$11,088,357</u>	<u>\$11,235,123</u>	<u>\$11,173,726</u>	<u>\$11,211,090</u>	<u>\$11,513,863</u>	<u>\$11,513,863</u>

Note: Totals may not equal sums due to rounding.

⁽¹⁾ Budgeted figures and actual figures are drawn from the District's CCFS-311 Reports filed with the Chancellor's Office. Unaudited results for fiscal years 2015-16 through 2018-19 in object-oriented format provided for comparison. For audited statements of revenues, expenditures and changes in fund balances for the District's governmental funds for fiscal years 2014-15 through 2018-19, see "-- Comparative Financial Statements" herein.

⁽²⁾ From the District's Tentative Budget approved by the Board on July 7, 2020.

Source: Hartnell Community College District.

Comparative Financial Statements

The following table reflects the District's audited revenues, expenditures and changes in net assets in the District's primary government funds from fiscal years 2014-15 through 2018-19.

SUMMARY OF AUDITED REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS Fiscal Years 2014-15 through 2018-19 Hartnell Community College District

	Fiscal Year <u>2014-15</u>	Fiscal Year <u>2015-16</u>	Fiscal Year <u>2016-17</u>	Fiscal Year <u>2017-18</u>	Fiscal Year <u>2018-19</u>
OPERATING REVENUES					
Tuition and Fees	\$5,564,767	\$5,241,880	\$5,041,116	\$4,493,003	\$8,156,470
Less: Scholarship discount and allowance	<u>(3,281,547)</u>	<u>(2,787,828)</u>	<u>(2,385,013)</u>	<u>(2,118,422)</u>	<u>(5,381,440)</u>
Net tuition and fees	2,283,220	2,454,052	2,656,103	2,374,581	2,775,030
Grants and Contracts, non-capital:					
Federal	5,586,139	4,774,893	4,215,603	4,631,603	4,852,553
State	8,530,192	16,280,484	19,397,429	15,414,129	20,130,096
Local	--	--	--	--	--
Auxiliary enterprise sales and charges	<u>755,827</u>	<u>761,152</u>	<u>791,353</u>	<u>785,501</u>	<u>728,989</u>
TOTAL OPERATING REVENUES	17,155,378	24,270,581	27,060,488	23,205,814	28,486,668
OPERATING EXPENSES					
Salaries	30,794,754	32,844,026	34,561,120	36,945,704	38,804,998
Employee benefits	10,820,825	14,435,777	13,941,696	15,407,820	24,453,009
Supplies, materials and other operating expenses and services	12,168,571	16,122,179	16,486,188	13,637,837	13,671,982
Student aid/ Financial aid	13,133,686	13,225,627	13,116,242	14,162,817	14,452,758
Utilities	--	--	--	--	--
Depreciation and Amortization	<u>7,053,285</u>	<u>6,919,508</u>	<u>7,749,925</u>	<u>7,813,808</u>	<u>7,949,873</u>
TOTAL OPERATING EXPENSES	73,971,121	83,547,117	85,855,171	87,967,986	99,332,620
OPERATING LOSS	(56,815,743)	(59,276,536)	(58,794,683)	(64,762,172)	(70,845,952)
NONOPERATING REVENUES (EXPENSES)					
State apportionments, non-capital	15,561,885	17,413,364	17,105,909	18,405,253	20,474,509
Local property taxes	20,698,496	21,725,952	22,133,482	23,462,622	24,986,702
State taxes and other revenues	947,000	1,293,432	309,000	324,000	106,755
Pell grants	11,291,642	10,961,989	10,811,118	11,358,275	10,676,226
Interest and investment income, non-capital	106,415	210,414	346,100	1,058,801	523,392
Interest and investment income, capital	156,970	138,516	97,804	64,476	1,653,633
Interest expense on capital asset-related debt	<u>(7,420,216)</u>	<u>(7,055,713)</u>	<u>(7,970,311)</u>	<u>(10,177,671)</u>	<u>(13,858,133)</u>
Other non-operating revenues, net	2,060,082	3,051,246	2,351,658	2,638,938	3,502,256
Transfer to agency fund	--	--	--	--	--
Loss on disposal of capital assets	--	<u>(816,451)</u>	--	--	--
TOTAL NONOPERATING REVENUES (EXPENSES)	43,402,274	46,922,749	45,184,760	47,134,694	48,065,340
INCOME (LOSS) BEFORE OTHER REVENUES (EXPENSES)	(13,413,469)	(12,353,787)	(13,609,923)	(17,627,478)	(22,780,612)
Local property taxes, capital	5,020,489	5,424,868	4,715,178	9,591,251	11,150,418
Other capital revenues	--	--	--	--	--
TOTAL OTHER REVENUES (EXPENSES)	5,020,489	5,424,868	4,715,178	9,591,251	11,150,418
CHANGE IN NET POSITION	(8,392,980)	(6,928,919)	(8,894,745)	(8,036,227)	(11,630,194)
NET POSITION, BEGINNING OF YEAR	<u>15,274,253⁽¹⁾</u>	<u>6,881,273</u>	<u>(47,646)</u>	<u>(12,149,115)⁽²⁾</u>	<u>(20,143,821)⁽³⁾</u>
NET POSITION, END OF YEAR	<u>\$6,881,273</u>	<u>\$(47,646)</u>	<u>\$(8,942,391)</u>	<u>\$(20,185,342)</u>	<u>\$(31,774,015)</u>

⁽¹⁾ The impacts of GASB Statement No. 68 on the accounting treatment of the District's pension plans include the inclusion of unfunded pension liabilities on the District's balance sheet. As a result, the District's Net Assets – Beginning of Year for fiscal year 2014-15 is restated to be \$15,274,253. See also “– Retirement Programs – GASB Statement Nos. 67 and 68” herein.

⁽²⁾ Based on the implementation of GASB Statement NO. 75, the District's July 1, 2017 business type activities net position was restated by \$3,206,724 because of the recognition of the net OPEB liability and related deferred outflows of resources. See also “–Post-Employment Health Care Benefits – GASB Statements Nos. 74 and 75” herein.

⁽³⁾ The beginning net position increased by \$41,521 to reflect certain identified adjustments. See “APPENDIX A – 2018-19 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 13 Prior Period Adjustments” attached hereto.

Source: Hartnell Community College District.

District Debt Structure

Long-Term Debt. General long-term debt as of June 30, 2019 consisted of the following:

	Beginning Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	Ending Balance <u>June 30, 2019</u>
Bonds and Notes Payable				
General Obligation Bonds	\$212,336,666		\$8,715,000	\$203,621,666
Premium on General Obligation Bonds	6,470,283		149,545	6,320,738
Accreted interest	<u>25,571,912</u>	<u>\$25,571,912</u>	--	<u>34,195,182</u>
Total Bonds	244,378,861	\$25,571,912	8,864,545	244,137,586
Other Long-Term Liabilities				
Compensated Absences	<u>780,653</u>	<u>69,194</u>	--	<u>849,847</u>
Total long-term liabilities	<u>\$245,159,514</u>	<u>\$8,692,464</u>	<u>\$8,864,545</u>	<u>\$244,987,433</u>

Source: Hartnell Community College District.

General Obligation Bonds. The District received authorization at an election held on November 5, 2002 (the "Authorization") to issue not-to-exceed \$131,000,000 of general obligation bonds. On April 30, 2003, the District's Election of 2002 General Obligation Bonds, Series A (the "Series 2002A Bonds") were issued in the aggregate principal amount of \$35,000,000. On June 28, 2006, the District's Election of 2002 General Obligation Bonds, Series B (the "Series 2002B Bonds") were issued in the aggregate principal amount of \$34,995,517.60. On June 11, 2009, the District's Election of 2002 General Obligation Bonds, Series C (the "Series 2002C Bonds") were issued in the aggregate principal amount of \$12,597,887.55. On September 16, 2009, the District's Election of 2002 General Obligation Bonds, Series D (the "Series 2002D Bonds") were issued in the aggregate principal amount of \$48,405,079.30.

On April 7, 2005, the District issued its 2005 General Obligation Refunding Bonds (the "2005 Refunding Bonds") in the aggregate principal amount of \$29,062,042.25, the proceeds of which were utilized to refund portions of the District's then-outstanding Series 2002A Bonds.

On January 30, 2014, the District issued its 2014 General Obligation Refunding Bonds, Series A (the "2014A Refunding Bonds"), in the aggregate principal amount of \$24,265,000, and its 2014 General Obligation Refunding Bonds, Series B (Federally Taxable) (the "2014B Refunding Bonds" and, together with the 2014A Refunding Bonds, the "2014 Refunding Bonds"), in the aggregate principal amount of \$10,220,000. The 2014 Refunding Bonds were issued for the purpose of partially refunding the District's outstanding 2005 Refunding Bonds, Series 2002B Bonds and Series 2002D Bonds.

On December 22, 2015, the District issued its 2015 General Obligation Refunding Bonds, Series A (the "2015A Refunding Bonds"), in the aggregate principal amount of \$87,565,295.90, and its 2015 General Obligation Refunding Bonds, Series B (Federally Taxable) (the "2015B Refunding Bonds" and, together with the 2015A Refunding Bonds, the "2015 Refunding Bonds"), in the aggregate principal amount of \$2,680,000.00. The 2015 Refunding Bonds were issued for the purpose of fully refunding the District's 2005 Refunding Bonds and partially refunding the District's outstanding Series 2002B Bonds and Series 2002D Bonds.

Pursuant to the 2016 Authorization, the requisite vote of fifty-five percent of the persons voting on the proposition voted to authorize the issuance of \$167,000,000 principal amount of general obligation bonds of the District. On September 7, 2017, the District's Election of 2016 General Obligation Bonds, Series A (the "2016 Series A Bonds") were issued in the aggregate principal amount of \$70,000,000. The Bonds are the second series of bonds issued pursuant to the 2016 Authorization.

Following the issuance of the Bonds, \$27,000,000* of the 2016 Authorization will remain authorized, but unissued.

The table below provides the combined debt service schedule with respect to the District's total outstanding general obligation bonded debt, assuming no optional redemption.

**GENERAL OBLIGATION BONDED DEBT SERVICE
Hartnell Community College District⁽¹⁾**

Period Ending (August 1)	Series 2002C Bonds	Series 2002D Bonds	2014 Refunding Bonds	2015 Refunding Bonds	2016 Series A Bonds	The Bonds	Total Debt Service
2020	--	--	\$2,032,356.80	\$3,579,687.50	\$5,602,618.76		
2021	--	--	2,135,636.40	3,691,387.50	2,237,368.76		
2022	--	--	2,238,571.60	3,816,387.50	2,237,368.76		
2023	\$1,994,193.76	\$2,257,500.00	3,327,714.80	598,137.50	2,497,368.76		
2024	2,389,193.76	2,257,500.00	3,435,136.40	598,137.50	2,586,968.76		
2025	2,714,193.76	2,257,500.00	3,649,541.40	598,137.50	2,677,568.76		
2026	3,054,193.76	2,257,500.00	3,877,597.53	598,137.50	2,773,968.76		
2027	3,414,193.76	2,257,500.00	638,093.20	3,573,137.50	2,870,768.76		
2028	3,794,193.76	2,257,500.00	898,094.80	3,573,950.00	2,967,768.76		
2029	4,189,193.76	2,257,500.00	1,178,183.40	3,568,950.00	3,071,518.76		
2030	4,604,118.76	2,257,500.00	1,477,410.80	3,575,200.00	3,178,018.76		
2031	5,037,600.00	4,532,500.00	--	3,574,100.00	3,291,768.76		
2032	9,391,268.76	4,878,250.00	--	--	3,407,918.76		
2033	997,575.00	14,123,650.00	--	--	3,524,418.76		
2034	--	16,023,250.00	--	--	3,650,018.76		
2035	--	--	--	9,435,000.00	3,778,018.76		
2036	--	--	--	10,000,000.00	3,908,018.76		
2037	--	--	--	10,600,000.00	4,046,718.76		
2038	--	--	--	11,230,000.00	4,186,250.00		
2039	--	--	--	11,900,000.00	4,336,050.00		
2040	--	--	--	12,615,000.00	4,485,650.00		
2041	--	--	--	13,370,000.00	4,644,650.00		
2042	--	--	--	14,170,000.00	4,807,250.00		
2043	--	--	--	15,015,000.00	4,972,850.00		
2044	--	--	--	15,915,000.00	5,145,462.50		
2045	--	--	--	16,865,000.00	5,330,325.00		
2046	--	--	--	17,875,000.00	5,516,437.50		
2047	--	--	--	18,940,000.00	5,708,237.50		
2048	--	--	--	20,075,000.00	--		
2049	--	14,250,000.00	--	13,360,000.00	--		
Total	<u>\$41,579,918.84</u>	<u>\$71,867,650.00</u>	<u>\$24,888,337.13</u>	<u>\$242,710,350.00</u>	<u>\$107,441,350.18</u>		

Source: Hartnell Community College District.

State of California Energy Loan. On September 22, 2014, the District received a 20-year \$3,000,000 no interest loan from the State for the solar project. The proceeds to pay the loan are to be derived from the energy cost savings from the solar use. The District will make biannual payments of \$75,000, commencing in the fiscal year 2016-17.

* Preliminary, subject to change.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax.

The excess of the stated redemption price at maturity over the issue price of a Bond (the first price at which a substantial amount of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of the Bonds is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

The amount by which a Bond Owner’s original basis for determining gain or loss on sale or exchange of the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) on the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel for the Bonds is attached hereto as APPENDIX B.

LIMITATION ON REMEDIES; BANKRUPTCY

General. State law contains certain safeguards to protect the financial solvency of community college districts. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA" herein. If the safeguards are not successful in preventing a community college district from becoming insolvent, the State Chancellor and the Board of Governors, operating through a special trustee appointed by the State Chancellor, may be authorized under State law to file a petition under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") on behalf of the community college district for the adjustment of its debts. In addition, an insolvent community college district may be able to file a petition under Chapter 9 before a special trustee is appointed. Prior to such petition, if any, the community college district is required to participate in a neutral evaluation process with interested parties as provided in the Government Code or declare a fiscal emergency and adopt a resolution by a majority vote of the governing board that includes findings that the financial state of the community college district jeopardizes the health, safety, or well-being of the residents of its jurisdiction or service area absent the protections of Chapter 9.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the District were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the automatic stay provisions of Sections 362 and 922 of the Bankruptcy Code generally would prohibit creditors from taking any action to collect amounts due from the District or to enforce any obligation of the District related to such amounts due, without consent of the District or authorization of the bankruptcy court (although such stays would not operate to block creditor application of pledged special revenues to payment of indebtedness secured by such revenues). In addition, as part of its plan of adjustment in a chapter 9 bankruptcy case, the District may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable. There also may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

Statutory Lien. Pursuant to Government Code Section 53515, the Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax, and such lien automatically arises, without the need for any action or authorization by the District or its Board, and is valid and binding from the time the Bonds are executed and delivered. See “THE BONDS – Security and Sources of Payment” herein. Although a statutory lien would not be automatically terminated by the filing of a Chapter 9 bankruptcy petition by the District, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed, unless the Bonds are determined to be secured by a pledge of “special revenues” within the meaning of the Bankruptcy Code and the pledged *ad valorem* taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code.

Special Revenues. If the *ad valorem* tax revenues that are pledged to the payment of the Bonds are determined to be “special revenues” within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged *ad valorem* revenues should not be subject to the automatic stay. “Special revenues” are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. State law prohibits the use of the tax proceeds for any purpose other than payment of the Bonds and the Bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition, so such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of *ad valorem* tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.

Possession of Tax Revenues; Remedies. The Counties on behalf of the District are expected to be in possession of the annual *ad valorem* property taxes and certain funds to repay the Bonds and may invest these funds in the Monterey County Treasury Pool, as described in “THE BONDS – Application and Investment of Bond Proceeds” and “THE BONDS – Application and Investment of Bond Proceeds” herein and “APPENDIX E – MONTEREY COUNTY TREASURY POOL” attached hereto. If the County goes into bankruptcy and has possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County does not voluntarily pay such tax revenues to the owners of the Bonds, it is not entirely clear what procedures the owners of the Bonds would have to follow to attempt to obtain possession of such tax revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Further, should those investments suffer any losses, there may be delays or reductions in payments on the Bonds.

Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor's Rights. The proposed form of the approving opinion of Bond Counsel attached hereto as APPENDIX B is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights. Bankruptcy proceedings, if initiated, could subject the owners of the Bonds 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.

LEGAL MATTERS

Continuing Disclosure

Current Undertaking. The District has covenanted for the benefit of Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (the District's fiscal year ends on June 30), commencing with the report for the 2019-20 fiscal year, and to provide notices of the occurrence of certain listed events. The Annual Report and the notices of listed events will be filed in accordance with the requirements of the Rule. The specific nature of the information to be made available and to be contained in the notices of listed events is described in the form of Continuing Disclosure Certificate attached hereto as APPENDIX C. These covenants have been made in order to assist the Underwriters in complying with the Rule.

Prior Undertakings. Within the past five years, the District has failed to file a notice of redemption, as required by one of its then-existing continuing disclosure obligations.

Legality for Investment in California

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

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* property taxes, to collect other revenues or contesting the District's ability to issue and retire the Bonds.

Information Reporting Requirements

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"). Under Section 6049 of the Code, as amended by TIPRA, interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, as Bond Counsel. A copy of the proposed form of such legal opinion is attached to this Official Statement as APPENDIX B.

Financial Statements

Portions of the financial statements with supplemental information for the year ended June 30, 2019, the independent auditor's report of the District, and the related statements of activities and of cash flows for the year then ended, and the report dated November 28, 2019 of CWDL, Certified Public Accountants (the "Auditor"), are included in this Official Statement as APPENDIX A. In connection with the inclusion of portions of the financial statements and the report of the Auditor thereon in APPENDIX A to this Official Statement, the District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

RATINGS

Fitch Ratings ("Fitch") and Moody's Investors Service, Inc. ("Moody's") have assigned ratings of "AAA" and "Aa2", respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same.

Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies. In the published release regarding its rating on the Bonds, Fitch noted that it "provided legal opinions by [D]istrict [Bond] [C]ounsel that provide a reasonable basis for concluding that the tax revenues levied to repay the [B]onds would be considered 'pledged special revenues' in the event of a district bankruptcy." See also "LIMITATION ON REMEDIES; BANKRUPTCY" herein. Such legal opinion speaks only as of its date, does not reflect subsequent events or legal developments, cannot be relied upon by the Underwriters or any Owner or Beneficial Owners of any of the Bonds, and is an expression of professional judgment regarding the legal matters addressed and thus is not a guaranty that a court will reach any particular result. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Bonds.

The District has covenanted in a Continuing Disclosure Certificate to file on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website ("EMMA") notices of any ratings changes on the Bonds. See "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. Notwithstanding such covenant, information relating to ratings changes on the Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the Bonds after the initial issuance of the Bonds.

UNDERWRITING

Purchase of Bonds

The Bonds are being purchased by Piper Sandler & Co. as representative on behalf of itself and Morgan Stanley & Co. LLC (collectively the “Underwriters”) pursuant to a Purchase Contract with the District (the “Purchase Contract”). The Underwriters have agreed to purchase all of the Bonds for a purchase price of \$_____ (consisting of the principal amount of the Bonds of \$_____, plus net original issue premium of \$_____, and less an Underwriters’ discount of \$_____).

The purchase contract for the Bonds provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

The Underwriters have provided the following for inclusion in this Official Statement. The District does not guarantee the accuracy or completeness of the following information, and the inclusion thereof should be construed as a representation of the District.

Piper Sandler has entered into a distribution agreement with Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to that agreement, CS&Co. will purchase Bonds from Piper Sandler at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Paying Agent Disclosures

The Paying Agent’s ultimate parent company, Mitsubishi UFJ Financial Group, Inc. (“MUFG”) beneficially owns up to 24.9%, of the voting shares of Morgan Stanley and is also represented on the Morgan Stanley board of directors. Morgan Stanley is the parent company of Morgan Stanley LLC, a registered broker-dealer that is an underwriter for this transaction.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Resolution providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the Board.

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

This Official Statement and the delivery thereof have been duly approved and authorized by the District.

HARTNELL COMMUNITY COLLEGE DISTRICT

By _____
Linda Wilczewski
Vice President of Administrative Services

APPENDIX A
2018-19 AUDITED FINANCIAL STATEMENTS
OF THE DISTRICT

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HARTNELL COMMUNITY COLLEGE DISTRICT
FINANCIAL STATEMENTS
June 30, 2019 and 2018



HARTNELL COMMUNITY COLLEGE DISTRICT
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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Hartnell Community College District
Salinas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Hartnell Community College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Hartnell College Foundation, a discretely presented component unit, were not audited in accordance with Government Auditing Standards.

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 business-type activities, the discretely presented component unit and fiduciary activities of Hartnell Community College District, as of June 30, 2019 and 2018, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis, the Schedule of Changes in Net OPEB Liability and Related Ratios, the Schedule of Contributions – OPEB, the Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of Contributions – Pensions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hartnell Community College District's basic financial statements. The accompanying schedule of expenditure of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents have 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 schedule of expenditures of federal awards and other supplementary information as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2019 on our consideration of Hartnell Community College 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 Hartnell Community College District's internal control over financial reporting and compliance.

CWDL, Certified Public Accountants

Sacramento, California
November 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

USING THIS ANNUAL REPORT

In accordance with generally accepted accounting principles, the annual report consists of three basic financial statements that provide information on Hartnell Community College District's (the District) activities as a whole: the Statement of Net Position; the Statement of Revenues, Expenses, and Change in Net Position; and the Statement of Cash Flows.

The focus of the Statement of Net Position is designed to show the financial position of the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Change in Net Position focuses on the costs of the District's operational activities, which are supported mainly by property taxes and State revenues. This approach is intended to summarize and simplify the user's analysis of the costs of various District services to students and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

Responsibility for the completeness and accuracy of this information rests with the District management.

FINANCIAL HIGHLIGHTS

- The District's primary funding source is based upon apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the 2018-19 fiscal year, second principal apportionment (P2) at June 2019 was 7,338 as compared to 2017-18 at 7,359 and 2016-17 at 7,345.
- During the 2018-19 fiscal year, the District provided over \$13.7 million in financial aid to students. This aid was provided in the form of grants, scholarships, and tuition discounts funded through the Federal government, State Chancellor's Office, and local funding.

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

This schedule has been prepared from the District's Statement of Net Position in the audited financial statements, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Cash and short-term investments consist primarily of funds held in the Monterey County Treasury. The changes in the cash position are explained in the Statement of Cash Flows.

Unrestricted net position is composed of reserves for self-insurance, retiree health benefits, bookstore and cafeteria reserves, and general reserves for the ongoing financial health of the District.

	2019	2018	Change
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 100,686,100	\$ 107,698,954	\$ (7,012,854)
Noncurrent assets	159,836,641	159,101,467	735,174
Deferred outflow of resources	27,452,708	27,351,946	100,762
Total Assets and Deferred Outflows of Resources	287,975,449	294,152,367	(6,176,918)
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	19,827,675	21,774,713	(1,947,038)
Noncurrent liabilities	297,214,236	290,051,996	7,162,240
Deferred inflows of resources	2,707,553	2,511,000	196,553
Total Liabilities and Deferred Inflows of Resources	319,749,464	314,337,709	5,411,755
NET POSITION			
Invested in capital assets, net of related debt	21,049,346	17,272,928	3,776,418
Restricted	12,647,968	15,967,601	(3,319,633)
Unrestricted	(65,471,329)	(53,425,871)	(12,045,458)
Total Net Position	\$ (31,774,015)	\$ (20,185,342)	\$ (11,588,673)

This schedule has been prepared from the Statement of Revenues, Expenses, and Change in Net Position presented in the audited financial statements. Sales and charges consist of cafeteria revenues. The operations are self-supporting.

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE, continued

	2019	2018	Change
OPERATING REVENUES			
Tuition and fees	\$ 2,775,030	\$ 2,374,581	\$ 400,449
Grants and contracts, non-capital	24,982,649	20,045,732	4,936,917
Auxiliary enterprises	728,989	785,501	(56,512)
Total Operating Revenues	28,486,668	23,205,814	5,280,854
OPERATING EXPENSES			
Salaries and benefits	63,258,007	52,353,524	10,904,483
Supplies, materials, and other operating expenses	13,671,982	13,637,837	34,145
Student financial aid	14,452,758	14,162,817	289,941
Depreciation	7,949,873	7,813,808	136,065
Total Operating Expenses	99,332,620	87,967,986	11,364,634
Operating Loss	(70,845,952)	(64,762,172)	(6,083,780)
NON-OPERATING REVENUES (EXPENSES)			
State apportionments, non-capital	20,474,509	18,405,253	2,069,256
Local property taxes	24,986,702	23,462,622	1,524,080
State taxes and other revenues	106,755	324,000	(217,245)
Pell Grants	10,676,226	11,358,275	(682,049)
Investment income, non-capital	523,392	1,058,801	(535,409)
Investment income, capital	1,653,633	64,476	1,589,157
Interest expense on capital asset-related debt	(13,858,133)	(10,177,671)	(3,680,462)
Other non-operating income	3,502,256	2,638,938	863,318
Total Non-Operating Revenues (Expenses)	48,065,340	47,134,694	930,646
OTHER REVENUES (EXPENSES)			
State and local capital income	11,150,418	9,591,251	1,559,167
Change in Net Position	(11,630,194)	(8,036,227)	(3,593,967)
NET POSITION, BEGINNING OF YEAR	(20,185,342)	(12,149,115)	(8,036,227)
PRIOR PERIOD ADJUSTMENT (SEE NOTE 13)	41,521	-	41,521
NET POSITION, END OF YEAR	\$ (31,774,015)	\$ (20,185,342)	\$ (11,588,673)

Grant and contract revenues relate to student financial aid, as well as specific Federal and State grants received for programs serving the students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs.

Net tuition and fees had an increase of \$400.5 thousand in 2018-19. As noted in the Statement of Activities on page 11, scholarship discounts and allowances increased by \$3.3 million due to revised closing procedures implemented during 2018-19 to recognize all promise grant fee waivers.

Non-operating Revenues had a net increase in 2018-19 of approximately \$930.6 thousand resulting from a combination of increases in state apportionment, local property taxes, Pell grants, and non-capital investment and investment income, offset by a reduction in interest expense on capital asset-related debt.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE, continued

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

Operating expenses increased in 2018-19 by approximately \$11.4 million resulting from increases in salaries and benefits. The mandated increases in state pension costs for STRS and PERS along with standard step and column increases in salaries and salary increases represent the changes. In addition, with the passage of Senate Bill 90, Public Employee’s Retirement, the State contributed funds to both the STRS and PERS pension system. The District’s share of these contributions was \$1,202,802 for STRS and \$909,243 for PERS.

Non-operating interest expense relates directly to debt service requirements of the general obligation bonds.

The District is recording the depreciation expense related to capital assets. The detail of the changes in capital assets for the year is included in the notes to the financial statements as Note 5.

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

Cash Provided by (Used in)	2019	2018	Change
Operating activities	\$ (60,743,907)	\$ (56,105,860)	\$ (4,638,047)
Noncapital financing activities	59,656,701	55,309,482	4,347,219
Capital financing activities	(7,589,763)	72,881,907	(80,471,670)
Investing activities	523,392	1,058,801	(535,409)
Net Increase (Decrease) in Cash	<u>\$ (8,153,577)</u>	<u>\$ 73,144,330</u>	<u>\$ (81,297,907)</u>

The primary operating receipts are student tuition and fees and Federal, State, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to faculty and staff.

While State apportionment, Education Protection Act funding and property taxes are the primary sources of noncapital related revenue, GASB accounting standards require that this source of revenue is shown as non-operating revenue because it comes from the general resources of the State and not from the primary users of the District’s programs and services. The District depends upon this funding as the primary source of funds to continue the current level of operations.

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had \$159.8 million in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation. At June 30, 2018, net capital assets were \$159.1 million. At June 30, 2017, net capital assets were \$163.0 million. This slight increase in capital assets resulted from the increase in construction in progress related to Measure T.

The majority of our West campus property was purchased in 1936 and 1954 from the U.S. Government. The Alisal campus property was purchased for \$1 from the U.S. Government in 1948. The King City Center was purchased in 2001 for \$1.2 million. Capital assets reported within these financial statements reflect the cost at the time of purchase. Current market values of our property are not reflected in the financial statements.

	2019	2018	Change
Capital Assets not being depreciated	\$ 11,420,250	\$ 3,633,352	\$ 7,786,898
Capital Assets being depreciated	235,667,314	234,759,984	907,330
Accumulated depreciation	(87,250,923)	(79,291,869)	(7,959,054)
Total Capital Assets	\$ 159,836,641	\$ 159,101,467	\$ 735,174

Long-Term Obligations

At the end of the 2018-19 fiscal year, the District had \$244.1 million in bonds outstanding from the voter approved general obligation bonds and other long-term obligations. These bonds will be repaid annually through property taxes on assessed property within the Hartnell Community College District boundaries.

	2019	2018	Change
General Obligation bonds	\$ 203,621,666	\$ 212,336,666	\$ (8,715,000)
Premiums on obligations	6,320,738	6,470,283	(149,545)
Accreted interest	34,195,182	25,571,912	8,623,270
Net pension liability	58,116,331	52,774,000	5,342,331
Net OPEB liability	935,472	956,562	(21,090)
Compensated absences	849,847	780,653	69,194
Total	304,039,236	298,890,076	5,149,160
Less: short-term portion	6,825,000	8,838,080	(2,013,080)
Total Long-term Liabilities	\$ 297,214,236	\$ 290,051,996	\$ 7,162,240

District bond ratings have improved as a result of the District's cash balances and increases to property values in recent years. Standard and Poor's Rating Services raised their rating from AA- to AA with a stable outlook.

**HARTNELL COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

ECONOMIC FACTORS AFFECTING THE FUTURE OF HARTNELL COMMUNITY COLLEGE DISTRICT

The economic position of Hartnell Community College District (HCCD) is closely tied to the State of California, as State apportionment funding and property taxes allocated to the District represent approximately 90 percent of the total sources of revenues received by the District for its unrestricted general operating fund.

As identified in the 2018/19 Adopted Budget, the District started the year a fund balance of \$11,067,373. This reflects a 2.9% increase in fund balance from the start of the 2017/18 fiscal year. Overall, this represents 21.6% of the Unrestricted General Fund. These funds represent one-time funds that are not intended for recurring operating expenses, but instead would serve for one-time expenditures and to cover emergencies in the event of an emergency, unexpected events or continued economic downturn. The state is forecasting a downturn in the next couple of years and continues to increase its "rainy day" reserves in anticipation of the next recession. As the District looks to the future, it makes fiscal sense to maintain and grow the level of reserves. The reserves will assist to sustain critical delivery of student instruction and support services. While the 2018/19 is a balanced budget, the use of reserves may be required to balance the budget, if needed after the three-year transition to the new Student Centered Funding Formula (SCFF), or to help sustain at unpredictable events or downturns.

At the 2018/19 year end close, HCCD continues to be affected by the changes to the state funding formula, its modification and uncertainties, which resulted in a funding shortfall for 2018/19.

The new SCFF calculates apportionment using three metrics,

- 1- Full Time Equivalent Student or enrollment,
- 2- A new supplemental allocation based on the number of low-income students, and
- 3- A new allocation based on student success metrics.

Based on the actual received Total Computational Revenue (TCR) or Apportionment for 2018/19, HCCD funding was \$47,093,074, which is in between the "available" TCR of \$46,352,947 and the original P1 advanced number of \$49,436,770. This discrepancy in funding left the District with a shortfall of \$2,343,696 at year end close 2019. With the uncertainties in funding at the State Chancellor's Office, this shortfall may increase to \$3,083,823 depending on whether the 2018/19 Recalc is based on the "available" TCR or the current funding. Either way means that Hartnell is working with a significantly reduced budget number.

The 2018-19 State budget for community colleges contains a cost-of-living adjustment (COLA) increase of \$1,168,994 for Hartnell College and assist us in maintaining a balanced budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions may be directed to the Vice President of Administrative Services, Hartnell Community College District, 411 Central Avenue, Salinas, CA 93901.

BASIC FINANCIAL STATEMENTS

HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 17,591,756	\$ 18,306,539
Restricted cash and investments	75,109,673	82,548,467
Investments	2,104,552	1,973,284
Accounts receivable, net	5,251,691	4,196,625
Inventory	10,648	13,487
Prepaid expenses	617,780	660,552
Total Current Assets	<u>100,686,100</u>	<u>107,698,954</u>
Noncurrent Assets:		
Capital assets, net	159,836,641	159,101,467
Total Noncurrent Assets	<u>159,836,641</u>	<u>159,101,467</u>
TOTAL ASSETS	<u>260,522,741</u>	<u>266,800,421</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to bond refundings	8,950,371	10,210,064
Deferred outflows related to OPEB	-	217,378
Deferred outflows related to pensions	18,502,337	16,924,504
TOAL DEFERRED OUTFLOWS OF RESOURCES	<u>27,452,708</u>	<u>27,351,946</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 287,975,449</u>	<u>\$ 294,152,367</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 6,453,770	\$ 7,605,842
Unearned revenue	6,548,905	5,330,791
Long-term debt, current portion	6,825,000	8,838,080
Total Current Liabilities	<u>19,827,675</u>	<u>21,774,713</u>
Noncurrent Liabilities:		
Net OPEB liability	935,472	956,562
Net pension liability	58,116,331	52,774,000
Long-term debt, non-current portion	238,162,433	236,321,434
Total Noncurrent Liabilities	<u>297,214,236</u>	<u>290,051,996</u>
TOTAL LIABILITIES	<u>317,041,911</u>	<u>311,826,709</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to OPEB	367,414	-
Deferred inflows related to pensions	2,340,139	2,511,000
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,707,553</u>	<u>2,511,000</u>
NET POSITION		
Net investment in capital assets	21,049,346	17,272,928
Restricted for:		
Debt service	9,162,382	11,062,441
Capital projects	3,361,452	4,715,743
Other special purposes	124,134	189,417
Unrestricted	(65,471,329)	(53,425,871)
TOTAL NET POSITION	<u>(31,774,015)</u>	<u>(20,185,342)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 287,975,449</u>	<u>\$ 294,152,367</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
OPERATING REVENUES		
Tuition and fees	\$ 8,156,470	\$ 4,493,003
Less: Scholarship discounts and allowances	(5,381,440)	(2,118,422)
Net tuition and fees	<u>2,775,030</u>	<u>2,374,581</u>
Grants and contracts, non-capital		
Federal	4,852,553	4,631,603
State	20,130,096	15,414,129
Auxiliary enterprise sales and charges	728,989	785,501
TOTAL OPERATING REVENUES	<u>28,486,668</u>	<u>23,205,814</u>
OPERATING EXPENSES		
Salaries	38,804,998	36,945,704
Employee benefits	24,453,009	15,407,820
Supplies, materials, and other operating expenses and services	13,671,982	13,637,837
Student aid	14,452,758	14,162,817
Depreciation	7,949,873	7,813,808
TOTAL OPERATING EXPENSES	<u>99,332,620</u>	<u>87,967,986</u>
OPERATING INCOME (LOSS)	<u>(70,845,952)</u>	<u>(64,762,172)</u>
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	20,474,509	18,405,253
Local property taxes	24,986,702	23,462,622
State taxes and other revenues	106,755	324,000
Pell Grants	10,676,226	11,358,275
Investment income, non-capital	523,392	1,058,801
Investment income, capital	1,653,633	64,476
Interest expense on capital asset-related debt	(13,858,133)	(10,177,671)
Other non-operating income	3,502,256	2,638,938
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>48,065,340</u>	<u>47,134,694</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>(22,780,612)</u>	<u>(17,627,478)</u>
Local property taxes, restricted for bonded debt repayment	11,150,418	9,591,251
CHANGE IN NET POSITION	<u>(11,630,194)</u>	<u>(8,036,227)</u>
NET POSITION, BEGINNING OF YEAR	<u>(20,185,342)</u>	<u>(12,149,115)</u>
PRIOR YEAR ADJUSTMENT (SEE NOTE 13)	41,521	-
NET POSITION, END OF YEAR	<u>\$ (31,774,015)</u>	<u>\$ (20,185,342)</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 2,698,772	\$ 2,086,070
Grants and contracts	25,618,435	20,081,713
Payments to students	(14,849,238)	(14,162,817)
Payments to vendors	(15,909,391)	(13,785,209)
Payments to employees	(59,031,474)	(51,111,118)
Auxiliary enterprise sales and charges	728,989	785,501
Net Cash Used by Operating Activities	<u>(60,743,907)</u>	<u>(56,105,860)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State apportionments	20,474,509	18,405,253
Pell grants	10,676,226	11,358,275
Local property taxes	24,986,702	23,462,622
State taxes and other apportionments	106,755	324,000
Other receipts	3,412,509	1,759,332
Net Cash Provided by Non-capital Financing Activities	<u>59,656,701</u>	<u>55,309,482</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(8,685,047)	(3,901,240)
Local property taxes for capital purposes	11,150,418	9,591,251
Proceeds from issuance of GO Bonds	-	73,941,880
Principal paid on capital debt	(8,715,000)	(3,855,000)
Interest received on capital debt	1,653,633	64,476
Interest paid on capital debt	(2,993,767)	(2,959,460)
Net Cash Provided (Used) by Capital Financing Activities	<u>(7,589,763)</u>	<u>72,881,907</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	523,392	1,058,801
Net Cash Provided by Investing Activities	<u>523,392</u>	<u>1,058,801</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(8,153,577)	73,144,330
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	100,855,006	27,710,676
CASH & CASH EQUIVALENTS, END OF YEAR	\$ <u>92,701,429</u>	\$ <u>100,855,006</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (70,845,952)	\$ (64,762,172)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation expense	7,949,873	7,813,808
Changes in Assets and Liabilities:		
Accounts receivables, net	(1,055,066)	216,397
Inventory and prepaid expenses	45,611	92,538
Accounts payable and accrued liabilities	(2,283,020)	(239,910)
Unearned revenue	1,218,114	(468,927)
Compensated absences	69,194	-
Deferred outflows of resources	(1,360,455)	(6,870,226)
Net pension liability	5,342,331	6,774,000
Net OPEB liability	(21,090)	53,632
Deferred inflows of resources	196,553	1,285,000
Total Adjustments	<u>10,102,045</u>	<u>8,656,312</u>
Net Cash Flows From Operating Activities	<u>\$ (60,743,907)</u>	<u>\$ (56,105,860)</u>
 SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS		
Amortization of premiums on debt	\$ 149,545	\$ 42,885
Accretion of interest	\$ 8,623,270	\$ 5,904,975

**HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	Agency Funds	Trust Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 239,755	\$ 239,494
Accounts receivable, net	830	1,041
Total Assets	<u>\$ 240,585</u>	<u>\$ 240,535</u>
LIABILITIES		
Accounts payable	\$ 2,781	\$ 3,448
Due to student groups	237,804	-
Total Liabilities	<u>\$ 240,585</u>	<u>3,448</u>
NET POSITION		
Unreserved		<u>237,087</u>
Total Net Position and Liabilities		<u>\$ 240,535</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2018**

	Agency Funds	Trust Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 276,141	\$ 239,755
Accounts receivable, net	616	28,255
Total Assets	<u>\$ 276,757</u>	<u>\$ 240,585</u>
LIABILITIES		
Accounts payable	\$ 5,664	\$ 5,829
Due to student groups	271,093	-
Total Liabilities	<u>\$ 276,757</u>	<u>5,829</u>
NET POSITION		
Unreserved		<u>242,624</u>
Total Net Position and Liabilities		<u>\$ 248,453</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2019**

	Trust Funds
OPERATING REVENUES:	
Student fees	\$ 111,664
Interest and investment income	4,247
Total Operating Revenues	<u>115,911</u>
OPERATING EXPENSES:	
Salaries	13,150
Employee benefits	1,603
Supplies and materials	4,885
Other operating expenses	101,810
Total Operating Expenses	<u>121,448</u>
Net Change in Net Position	<u>(5,537)</u>
Net Position - Beginning of Year	<u>242,624</u>
Net Position - End of Year	<u>\$ 237,087</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018**

	Trust Funds
OPERATING REVENUES:	
Student fees	\$ 131,504
Interest and investment income	2,143
Total Operating Revenues	<u>133,647</u>
OPERATING EXPENSES:	
Salaries	12,833
Employee benefits	1,498
Supplies and materials	5,099
Other operating expenses	69,517
Total Operating Expenses	<u>88,947</u>
Net Change in Net Position	<u>44,700</u>
Net Position - Beginning of Year	<u>197,924</u>
Net Position - End of Year	<u>\$ 242,624</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
HARTNELL COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,552,049	\$ 4,588,220
Grants/Pledges receivable, current	1,810,160	1,512,996
Prepaid expenses	46,858	22,535
Total current assets	6,409,067	6,123,751
Noncurrent assets:		
Pledges receivable, net of current portion	2,561,666	505,000
Investments	10,877,736	10,401,126
Land held for investment	20,500,000	20,500,000
Art and collections	256,581	256,579
Total Noncurrent assets	34,195,983	31,662,705
Total Assets	\$ 40,605,050	\$ 37,786,456
LIABILITIES		
Current assets:		
Accounts payable and accrued liabilities	\$ 706,826	\$ 645,445
Scholarships payable	305,307	322,066
Deferred revenue	53,541	44,802
Total current assets	1,065,674	1,012,313
NET ASSETS		
Net assets without donor restrictions	1,248,903	1,182,363
Net assets with donor restrictions	38,290,473	35,591,780
Total Net Assets	39,539,376	36,774,143
Total Liabilities and Net Assets	\$ 40,605,050	\$ 37,786,456

**HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
HARTNELL COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restricted	Total
SUPPORT AND REVENUE			
Donations	\$ 129,898	\$ 6,583,788	\$ 6,713,686
Special events	260,693	347,916	608,609
In-kind donations	229,485	43,332	272,817
Interest and dividends	10,861	257,963	268,824
Realized gain on investments	23,528	272,776	296,304
Unrealized gain on investments	9,118	152,034	161,152
Rental income	-	302,909	302,909
Other revenue	164,242	-	164,242
Net assets released from restriction	5,262,025	(5,262,025)	-
Total Support and Revenue	6,089,850	2,698,693	8,788,543
EXPENSES			
Program	5,634,059	-	5,634,059
General and administrative	166,915	-	166,915
Fundraising	222,336	-	222,336
Total Expenses	6,023,310	-	6,023,310
Change in Net Assets	66,540	2,698,693	2,765,233
Net Assets - Beginning of Year	1,182,363	35,591,780	36,774,143
Net Assets - End of Year	\$ 1,248,903	\$ 38,290,473	\$ 39,539,376

**HARTNELL COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
HARTNELL COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restricted	Total
SUPPORT AND REVENUE			
Donations	\$ 136,850	\$ 23,784,238	\$ 23,921,088
Special events	269,626	121,005	390,631
In-kind donations	212,193	143,915	356,108
Interest and dividends	16,679	235,929	252,608
Realized gain on investments	14,595	284,015	298,610
Unrealized gain on investments	33,082	524,338	557,420
Other revenue	160,573	303,022	463,595
Interfund transfers	(19,466)	19,466	-
Net assets released from restriction	4,585,442	(4,585,442)	-
Total Support and Revenue	5,409,574	20,830,486	26,240,060
EXPENSES			
Program	4,823,797	-	4,823,797
General and administrative	196,928	-	196,928
Fundraising	237,402	-	237,402
Total Expenses	5,258,127	-	5,258,127
Change in Net Assets	151,447	20,830,486	20,981,933
Net Assets - Beginning of Year	1,030,916	14,761,294	15,792,210
Net Assets - End of Year	\$ 1,182,363	\$ 35,591,780	\$ 36,774,143

HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Hartnell Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Codification Section (Cod. Sec.) 2100.101. The District is classified as a state instrumentality under Internal Revenue Code Section 115.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District identified the Hartnell College Foundation (the "Foundation") as its potential component unit.

The Foundation is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investment earnings to the District. The funds contributed by the Foundation to the benefit of the District are significant to the District's financial statements. The District applied the criteria for identifying component units in accordance with GASB Cod. Sec. 2100 and therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's financial statements. Copies of the Foundation's annual financial report may be obtained from the District Office, 411 Central Avenue, Salinas, California 93901.

Basis of Presentation and Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB. Under this model, the District's financial statements provide a comprehensive entity-wide perspective of the District's financial position and activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when the obligation has been incurred. All significant intra-agency transactions have been eliminated.

Fiduciary funds for which the District acts only as an agent are not included in the business-type activities of the District. These funds are reported in the Statements of Fiduciary Net Position and the Statements of Change in Fiduciary Net Position at the fund financial statement level.

The Foundation's financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred in accordance with accounting principles generally accepted in the United States of America. Classification of contributions is dependent upon whether the contribution is restricted or unrestricted. Net assets are classified on the Statements of Financial Position as unrestricted, temporarily restricted or permanently restricted net position based on the absence or existence of donor-imposed restrictions.

Basis of Accounting

The District records revenues when earned and expenses when a liability is incurred regardless of the timing of the related cash flow. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's Budget and Accounting Manual.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the County Treasury are considered cash equivalents and are stated at fair value.

Restricted Cash and Cash Equivalents

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as noncurrent assets in the Statements of Net Position.

Fair Value of Investments - Foundation

The Foundation's investments are valued at fair value based upon quoted market prices, when available, or estimates of fair value in the Statements of Financial Position and unrealized and realized gains and losses are included in the Statements of Activities.

Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at \$413,283 and \$345,760 as of June 30, 2019 and 2018, respectively.

Pledges Receivable - Foundation

Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible pledges receivable is established based upon estimated losses related to specific amounts and is recorded through a provision for bad debt which is charged to expense. Management has determined that an allowance for uncollectible pledges is not necessary. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates commensurate with risks applicable in the years in which those promises are received. As of June 30, 2019, and 2018, the Foundation has not applied a present value discount as the amount was not significant and all pledges are receivable in one to five years.

Inventory: Inventory consists of cafeteria food and educational supplies. Inventories are stated at the lower of cost (first-in, first-out method) or market.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, if donated, at acquisition value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 – 50 years depending on asset type.

The District capitalizes interest paid on obligations related to the acquisition, construction or rehabilitation of District capital assets. With the adoption of GASB Statement No. 89, these costs are no longer capitalized. Interest of \$13,858,133 was expensed in 2018-19. For fiscal year 2017-18, Interest incurred and capitalized totaled \$7,930,543 and \$68,035, respectively.

Compensated Absences

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

Accumulated Sick Leave

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

Unearned Revenue

Revenues from Federal, State and local special projects and programs is recognized when qualified expenditures have been incurred. Tuition, fees and other support received but not earned are recorded as unearned revenue until earned.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position includes 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(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding reported in the Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the pension liability and OPEB liability reported in the Statement of Net Position.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In addition to liabilities, the Statement of Net Position reports 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(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Certain investments are reported at fair value.

Net Position

The District's net position is classified as follows:

Net investment in capital assets: This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Nonspendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal. At June 30, 2019 and 2018, there is no balance of nonexpendable restricted net position.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District typically applies the expense toward restricted resources, then to unrestricted resources.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Assets - Foundation

The Foundation's net assets are classified as follows:

Unrestricted: Unrestricted net assets consist of all resources of the Foundation, which have not been specifically restricted by a donor.

Temporarily restricted: Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the Statements of Activities as net assets released from restriction.

Permanently restricted: Permanently restricted net assets are nonexpendable net assets consisting of endowment and similar type funds in which the donor has stipulated as condition of the gift, that the principal be maintained in perpetuity

The Foundation's endowment assets consist of individual funds established for the purpose to provide financial support to the Foundation in perpetuity. The endowment assets include donor-restricted endowment funds. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard prudence prescribed by UPMIFA.

The Foundation has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes investment grade mutual bond funds and equity securities, that is intended to result in a consistent inflation-protected rate of return. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Foundation uses a method based upon the total return on assets to determine the amounts appropriated for expenditures for endowments under which the organization is the income beneficiary in conformity with UPMIFA. To satisfy its long-term rate-of-return objectives, the Foundation seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes equity and debt investments to achieve its long-term return objectives within prudent risk constraints.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

State Apportionments

Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to a recalculation will be recorded in the year completed by the state. When known and measurable, these recalculations and corrections are accrued in the year in which FTES are generated.

Classification of Revenue and Expenses

The District has classified its revenues and expenses as either operating or nonoperating revenues and expenses. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Cod. Sec. Co5.101 including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

Operating revenues and expenses: Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most Federal, State and local grants and contracts and Federal appropriations. All expenses are considered operating expenses except for interest expense on capital related debt.

Nonoperating revenues and expenses: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Pell grants, gifts and contributions, and other revenue sources described in GASB Cod. Sec. Co5.101, such as State appropriations and investment income.

Contributions

All contributions received by the Foundation are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net position classes. Unconditional promises to give that are silent as to the due date are presumed to be time restricted by the donor until received and are reported as temporarily restricted net assets.

Scholarship Discounts and Allowances

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Change in Net Position. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Estimates

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

Tax Status - Foundation

The Foundation is a nonprofit public benefit corporation exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation has been classified as an organization that is not a private foundation and has been designated as a "publicly supported" organization. Contributions to the Foundation are deductible under Section 170(c)(2). The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Interest and penalties on tax assessments are classified as an expense when incurred. For the years ended June 30, 2019 and 2018, the Foundation did not incur any interest or penalties.

Income tax returns for the Foundation are filed in U.S. federal and state of California jurisdictions. Tax returns remain subject to examination by the U.S. federal jurisdiction for three years after the return is filed and for four years by the California jurisdiction. There are currently no tax years under examination.

New Accounting Pronouncement

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, Fiduciary Activities. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, Leases. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 - CASH AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2019, consisted of the following:

	District	Fiduciary
Pooled Funds:		
Cash in County Treasury	\$ 92,361,727	\$ 451,351
Deposits:		
Cash on hand and in banks	339,702	27,898
Total cash and cash equivalents	<u>92,701,429</u>	<u>479,249</u>
Less: restricted cash and cash equivalents		
Cash in County Treasury	75,109,673	-
Net cash and cash equivalents equivalents	<u>\$ 17,591,756</u>	<u>\$ 479,249</u>
Investments	<u>\$ 2,104,552</u>	<u>\$ -</u>

Foundation cash and cash equivalents at June 30, 2019, totaled \$4,552,049.

Cash, cash equivalents and investments at June 30, 2018, consisted of the following:

	District	Fiduciary
Pooled Funds:		
Cash in County Treasury	\$ 98,736,112	\$ 380,750
Deposits:		
Cash on hand and in banks	2,118,894	115,799
Total cash and cash equivalents	<u>100,855,006</u>	<u>496,549</u>
Less: restricted cash and cash equivalents		
Cash in County Treasury	82,548,467	-
Net cash and cash equivalents equivalents	<u>\$ 18,306,539</u>	<u>\$ 496,549</u>
Investments	<u>\$ 1,973,284</u>	<u>\$ -</u>

Foundation cash and cash equivalents at June 30, 2018, totaled \$4,588,220.

Cash in County Treasury

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. Those pooled funds are carried at fair value, which approximates cost.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 - CASH AND INVESTMENTS, continued

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 risk classifications is required.

The District's deposits in the fund are considered to be highly liquid. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The County Treasurer has indicated that there are no derivatives in the pool as of June 30, 2019 and 2018.

Custodial Credit Risk

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2019, the carrying amount of the District's accounts, including fiduciary accounts, were \$367,600, and the bank balances were \$360,900. The total uninsured bank balances at June 30, 2019 were \$75,393. At June 30, 2018, the carrying amount of the District's accounts, including fiduciary accounts, were \$2,234,693, and the bank balances were \$1,379,730. The total uninsured bank balances at June 30, 2018 were \$1,000,839.

At June 30, 2019 and 2018, the Foundation had deposits at financial institutions eligible for insurance coverage with carrying amounts of \$4,552,049 and \$4,588,220 and bank balances of \$5,248,001 and \$4,770,176, respectively. The total uninsured bank balances at June 30, 2019 and 2018 were \$2,574,053 and \$2,529,283, respectively.

Interest Rate Risk

The District and Foundation's investment policies do not limit cash and investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. At June 30, 2018 and 2017, the District and Foundation had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk

The District and Foundation do not place limits on the amount they may invest in any one issuer. At June 30, 2019 and 2018, the District and Foundation had no concentration of credit risk.

District investments at June 30, 2019 and 2018 consisted mutual funds in the amount of \$2,104,552 and \$1,973,284, respectively.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 - CASH AND INVESTMENTS, continued

Foundation Investments

Foundation investments at June 30, consisted of the following:

	2019	2018
Fixed income	\$ 1,814,343	\$ 1,610,823
Equity securities	8,583,758	8,329,524
Mutual Funds	125,792	126,606
Investment in Foundation for California Community Colleges Scholarship Endowment (FCCC/Osher)	353,843	334,173
Total	<u>\$ 10,877,736</u>	<u>\$ 10,401,126</u>

Foundation investment income consisted of the following:

	2019	2018
Interest and dividend income	\$ 268,824	\$ 252,608
Realized gain on investments	296,304	298,610
Unrealized gain (loss) on investments	161,152	557,420
Total	<u>\$ 726,280</u>	<u>\$ 1,108,638</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The District's investments consist of mutual funds classified as Level 1 of the fair value hierarchy because they are valued at closing prices from securities exchanges.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 3 - FAIR VALUE MEASUREMENTS, continued

The Foundation is required or permitted to record the following assets at fair value on a recurring basis:

	June 30, 2019			
	Fair Value	Level 1	Level 2	Level 3
Investment securities;				
Fixed Income	\$ 1,814,343	\$ 1,814,343	\$ -	\$ -
Equity securities	8,583,758	8,583,758	-	-
Mutual funds	125,792	125,792	-	-
Investment in FCCC/Osher	353,843	-	-	-
Total investment securities	\$ 10,877,736	\$ 10,523,893	\$ -	\$ -

	June 30, 2018			
	Fair Value	Level 1	Level 2	Level 3
Investment securities;				
Fixed Income	\$ 1,610,823	\$ 1,610,823	\$ -	\$ -
Equity securities	8,329,524	8,329,524	-	-
Mutual funds	126,606	126,606	-	-
Investment in FCCC/Osher	334,173	-	-	-
Total investment securities	\$ 10,401,126	\$ 10,066,953	\$ -	\$ -

*Investments measured at fair value using net asset value ("NAVs") per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the hierarchy tables for such investments are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The Foundation used the following methods and significant assumptions to estimate fair value:

The fair value of the investments held by FCCC was based upon the net asset values ("NAVs") of the assets at June 30, 2019 and 2018. The fair value of the funds held by FCCC is based upon the Foundation's proportionate share of the FCCC/Osher pooled investment portfolio. Foundation management reviews the valuations and returns in comparison to industry benchmarks and other information provided by FCCC, but there is currently no visibility provided by FCCC to the specific listing of underlying investment holdings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 – RECEIVABLES

District receivables at June 30, are summarized as follows:

	2019	2018
Federal	\$ 1,422,249	\$ 1,190,244
State	1,409,020	982,439
Local and other	2,833,705	2,369,702
Subtotal	<u>5,664,974</u>	<u>4,542,385</u>
Less: Allowance for doubtful accounts	<u>(413,283)</u>	<u>(345,760)</u>
Total	<u>\$ 5,251,691</u>	<u>\$ 4,196,625</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the District consists of the following at June 30, 2019:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Capital Assets not being Depreciated				
Land	\$ 590,992	\$ 855,482	\$ -	\$ 1,446,474
Construction in progress	3,042,360	7,895,094	963,678	9,973,776
Total Capital Assets Not Being Depreciated	<u>3,633,352</u>	<u>8,750,576</u>	<u>963,678</u>	<u>11,420,250</u>
Capital Assets Being Depreciated				
Buildings and improvements	213,561,083	19,725	-	213,580,808
Furniture and equipment	21,198,901	887,605	-	22,086,506
Total Capital Assets Being Depreciated	<u>234,759,984</u>	<u>907,330</u>	<u>-</u>	<u>235,667,314</u>
Total Capital Assets	<u>238,393,336</u>	<u>9,657,906</u>	<u>963,678</u>	<u>247,087,564</u>
Less Accumulated Depreciation				
Buildings and improvements	66,354,742	6,012,438	-	72,367,180
Furniture and equipment	12,937,127	1,946,616	-	14,883,743
Total Accumulated Depreciation	<u>79,291,869</u>	<u>7,959,054</u>	<u>-</u>	<u>87,250,923</u>
Net Capital Assets	<u>\$ 159,101,467</u>	<u>\$ 1,698,852</u>	<u>\$ 963,678</u>	<u>\$ 159,836,641</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 – CAPITAL ASSETS, continued

Capital asset activity of the District consists of the following at June 30, 2018:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets not being Depreciated				
Land	\$ 590,992	\$ -	\$ -	\$ 590,992
Construction in progress	181,752	2,860,608	-	3,042,360
Total Capital Assets Not Being Depreciated	772,744	2,860,608	-	3,633,352
Capital Assets Being Depreciated				
Buildings and improvements	213,288,460	272,623	-	213,561,083
Furniture and equipment	20,430,892	768,009	-	21,198,901
Total Capital Assets Being Depreciated	233,719,352	1,040,632	-	234,759,984
Total Capital Assets	234,492,096	3,901,240	-	238,393,336
Less Accumulated Depreciation				
Buildings and improvements	60,456,086	5,898,656	-	66,354,742
Furniture and equipment	11,021,975	1,915,152	-	12,937,127
Total Accumulated Depreciation	71,478,061	7,813,808	-	79,291,869
Net Capital Assets	\$ 163,014,035	\$ (3,912,568)	\$ -	\$ 159,101,467

NOTE 6 – UNEARNED REVENUES

Unearned revenue for the District at June 30, consisted of the following:

	2019	2018
Unearned tuition and student fees	\$ 885,025	\$ 961,283
Unearned grant revenue and other	5,663,880	4,369,508
Total unearned revenue	\$ 6,548,905	\$ 5,330,791

NOTE 7 – LONG-TERM LIABILITIES

A schedule of changes in long-term debt for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
Bonds and Notes Payable					
General obligation bonds	\$ 212,336,666	\$ -	\$ 8,715,000	\$ 203,621,666	\$ 6,825,000
Premiums, net	6,470,283	-	149,545	6,320,738	-
Accreted interest	25,571,912	8,623,270	-	34,195,182	-
Total Bonds	244,378,861	8,623,270	8,864,545	244,137,586	6,825,000
Other Long-Term Liabilities					
Compensated absences*	780,653	69,194	-	849,847	-
Total Long-Term Obligations	\$ 245,159,514	\$ 8,692,464	\$ 8,864,545	\$ 244,987,433	\$ 6,825,000

*Compensated absences was not presented in the prior year financials as a long-term liability, it was presented as a current liability. As a result of this change in classification, beginning balance as of July 1, 2018 will not match ending balance of long-term debt as of June 30, 2018.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 – LONG-TERM LIABILITIES, continued

A schedule of the changes in long-term debt for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Bonds and Notes Payable					
General obligation bonds	\$ 146,191,666	\$ 70,000,000	\$ 3,855,000	\$ 212,336,666	\$ 8,715,000
Premiums, net	2,571,288	3,941,880	42,885	6,470,283	123,080
Accreted interest	19,666,937	5,904,975	-	25,571,912	-
Total Bonds	168,429,891	79,846,855	3,897,885	244,378,861	8,838,080
Other Long-Term Liabilities					
Early retirement incentive	173,529	-	173,529	-	-
Total Other Long-Term Liabilities	173,529	-	173,529	-	-
Total Long-Term Obligations	\$ 168,603,420	\$ 79,846,855	\$ 4,071,414	\$ 244,378,861	\$ 8,838,080

General Obligation Bonds

2005 General Obligation Refunding Bonds

During March 2005, the District issued 2005 General Obligation Refunding Bonds in the amount of \$23,500,000 in current interest bonds and \$5,562,042 in capital appreciation bonds. The current interest bonds were partially refunded in 2014 and the remaining amount of current interest bonds were refunded in 2016. The capital appreciation bonds matured on August 1, 2014.

2002 General Obligation Bonds, Series B

During June 2006, the District issued the 2002 General Obligation Bonds, Series B in the amount of \$32,815,000 of current interest bonds and \$2,180,518 of capital appreciation bonds. The current interest bonds were partially refunded in 2014 and the remaining current interest bonds were refunded in 2016. The capital appreciation bonds matured on June 1, 2016.

2002 General Obligation Bonds, Series C

During June 2009, the District issued the 2002 General Obligation Bonds, Series C in the amount of \$12,597,888 of capital appreciation bonds. The bonds mature beginning on August 1, 2023 through August 1, 2033, with interest yields ranging from 6.13 to 11.50 percent. Interest is compounded semiannually each year and is payable only at maturity.

The annual payments required to amortize the Capital Appreciation 2002 General Obligation Bonds, Series C outstanding as of June 30, 2019, are as follows:

Fiscal Year	Principal	Interest	Accreted Interest	Total
2020	\$ -	\$ -	\$ -	\$ -
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	153,306	1,873,791	591,694	2,618,791
2025-2029	3,213,193	6,245,970	5,906,807	15,365,970
2030-2034	9,231,389	3,200,159	11,163,611	23,595,159
	\$ 12,597,888	\$ 11,319,920	\$ 17,662,112	\$ 41,579,920

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 - LONG-TERM LIABILITIES, continued

2002 General Obligation Bonds, Series D

During September 2009, the District issued the 2002 General Obligation Bonds, Series D in the amount of \$35,106,469 of capital appreciation bonds and \$13,298,610 of convertible capital appreciation bonds. The capital appreciation bonds were partially refunded in 2014 and in 2016 and the remaining bonds mature August 1, 2049, with an interest accretion rate of 11.50 percent. Interest is compounded semiannually and payable only at maturity. The convertible capital appreciation bonds mature through August 1, 2034 and convert to current interest bonds on August 1, 2022. Prior to the date of conversion, the convertible capital appreciation bonds accrete interest, compounded semiannually. Upon conversion, interest is payable semiannually and based upon the conversion value at an interest rate of 7.00 percent.

The annual payments required to amortize the 2002 General Obligation Bonds, Series D outstanding as of June 30, 2019, are as follows:

Fiscal Year	Principal	Interest	Accreted Interest	Total
2020	\$ -	\$ -	\$ -	-
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
2025-2029	-	12,416,250	-	12,416,250
2030-2034	7,123,519	10,951,325	2,970,520	21,045,364
2035-2039	6,175,090	2,000,075	15,980,870	24,156,035
2040-2044	-	-	-	-
2045-2049	-	-	-	-
2050	164,873	-	14,085,128	14,250,001
	<u>\$ 13,463,482</u>	<u>\$ 25,367,650</u>	<u>\$ 33,036,518</u>	<u>\$ 71,867,650</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 - LONG-TERM LIABILITIES, continued

2014 General Obligation Bonds, Series A

During January 2014, the District issued \$24,265,000 of federally tax-exempt 2014 General Obligation Refunding Bonds, Series A, with an effective interest rate of 3.45%. Proceeds were used to advance refund a portion of the outstanding 2005 General Obligation Refunding Bonds and portions of the 2002 General Obligation Bonds Series B and Series D and to pay the costs of issuing the 2014 General Obligation Refunding Bonds, Series A. The bonds mature August 1, 2014 through August 1, 2030. At June 30, 2018, \$4,579,500 of bonds outstanding are considered defeased.

The following is a schedule of the future payments for the 2014 General Obligation Refunding Bonds, Series A as of June 30, 2019:

Fiscal Year	Principal	Interest	Total
2020	\$ 1,290,000	\$ 734,596	\$ 2,024,596
2021	1,390,000	689,600	2,079,600
2022	1,550,000	640,294	2,190,294
2023	2,195,000	585,557	2,780,557
2024	2,880,000	499,788	3,379,788
2025-2029	9,780,000	1,010,725	10,790,725
2030-2031	2,540,000	115,591	2,655,591
	\$ 21,625,000	\$ 4,276,151	\$ 25,901,151

2014 General Obligation Bonds, Series B

During January 2014, the District issued \$10,220,000 of 2014 General Obligation Refunding Bonds, Series B, with an effective interest rate of 2.55%. Proceeds were used to advance refund a portion of the outstanding 2005 General Obligation Refunding Bonds and to pay the costs of issuing the 2014 General Obligation Refunding Bonds, Series B. The bonds mature August 1, 2014 through August 1, 2019. The final payment of \$1,350,000 for the 2014 General Obligation Refunding Bonds, Series B is due on August 1, 2019.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 - LONG-TERM LIABILITIES, continued

2015 General Obligation Bonds, Series A

During December 2015, the District issued federally tax-exempt 2015 General Obligation Refunding Bonds, Series A, in the amount of \$22,675,000 in current interest bonds and \$64,890,295 in capital appreciation bonds. Proceeds were used to currently refund all of the outstanding 2005 General Obligation Refunding Bonds and advance refund portions of the 2002 General Obligation Bonds Series B and Series D and to pay the costs of issuing the 2015 General Obligation Refunding Bonds, Series A. The current interest bonds mature from August 1, 2020 through August 1, 2031 with interest rates ranging from 3.00 to 5.00 percent. The capital appreciation bonds mature from August 1, 2035 through August 1, 2049 with interest accretion rates ranging from 4.12 to 4.52 percent Interest on capital appreciation bonds is compounded semiannually each year and is payable only at maturity.

The annual payments required to repay the 2015 General Obligation Refunding Bonds, Series A as of June 30, 2019, are as follows:

Fiscal Year	Principal	Interest	Accreted Interest	Total
2020	\$ -	\$ 896,000	\$ -	\$ 896,000
2021	2,610,000	856,850	-	3,466,850
2022	2,800,000	747,700	-	3,547,700
2023	3,065,000	601,075	-	3,666,075
2024	-	524,450	-	524,450
2025-2029	4,110,000	2,469,000	-	6,579,000
2030-2034	10,090,000	468,775	-	10,558,775
2035-2039	17,049,488	-	24,215,512	41,265,000
2040-2044	21,885,058	-	45,184,942	67,070,000
2045-2049	22,981,280	-	66,688,720	89,670,000
2050	2,974,470	-	10,385,530	13,360,000
	<u>\$ 87,565,296</u>	<u>\$ 6,563,850</u>	<u>\$ 146,474,704</u>	<u>\$ 240,603,850</u>

2015 General Obligation Bonds, Series B

During December 2015, the District issued taxable 2015 General Obligation Refunding Bonds, Series B, in the amount of \$2,680,000 in current interest bonds. Proceeds were used to advance refund portions of the 2002 General Obligation Bonds Series B and to pay the costs of issuing the 2015 General Obligation Refunding Bonds, Series B. The bonds mature from August 1, 2017 through August 1, 2027 with interest rates ranging from 1.35 to 3.75 percent.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 - LONG-TERM LIABILITIES, continued

The annual payments required to repay the 2015 General Obligation Refunding Bonds, Series B as of June 30, 2019, are as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ -	\$ 73,688	\$ 73,688
2021	-	73,688	73,688
2022	-	73,688	73,688
2023	-	73,688	73,688
2024	-	73,688	73,688
2025-2028	1,965,000	1,128,827	3,093,827
	<u>\$ 1,965,000</u>	<u>\$ 1,497,267</u>	<u>\$ 3,462,267</u>

2016 General Obligation Bonds, Series A

During September 2017, the District issued taxable 2016 General Obligation Refunding Bonds, Series A, in the amount of \$70,000,000 in current interest bonds. The bonds mature from August 1, 2018 through August 1, 2047 with interest rates ranging from 2.0 to 5.0 percent.

The annual payments required to repay the 2016 General Obligation Bonds, Series A as of June 30, 2019, are as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 4,185,000	\$ 2,565,019	\$ 6,750,019
2021	3,205,000	2,397,619	5,602,619
2022	-	2,237,369	2,237,369
2023	-	2,237,369	2,237,369
2024	260,000	2,237,369	2,497,369
2025-2029	2,930,000	10,947,045	13,877,045
2030-2034	6,450,000	10,023,645	16,473,645
2035-2039	11,055,000	8,514,026	19,569,026
2040-2044	17,255,000	5,991,450	23,246,450
2045-2048	19,715,000	1,985,464	21,700,464
	<u>\$ 65,055,000</u>	<u>\$ 49,136,375</u>	<u>\$ 114,191,375</u>

NOTE 8 - PROPERTY TAXES

All property taxes are levied and collected by the Tax Assessors of the Counties of Monterey and San Benito and paid upon collection to the various taxing entities including the District. Secured taxes are levied on July 1 and are due in two installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is March 1 of the preceding fiscal year.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

For the fiscal year ended June 30, 2019, the District reported its proportionate share of the net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 31,299,106	\$ 9,928,834	\$ 2,340,139	\$ 3,971,135
CalPERS	26,817,225	8,573,503	-	5,465,997
Total	\$ 58,116,331	\$ 18,502,337	\$ 2,340,139	\$ 9,437,132

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP. The District contributes exclusively to the STRP Defined Benefit Program; thus disclosures are not included for the other plans.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

Benefits Provided, continued

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	STRP Defined Benefit Plan	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%*
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.328%	9.328%

*The rate imposed on CalSTRS 2% at 62 members assuming no change in the normal cost of benefits.

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above, and the District's total contributions were \$3,200,709.

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

At June 30, 2019, 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:

District's proportionate share of the net pension liability	\$ 31,299,106
State's proportionate share of the net pension liability associated with the District	17,921,063
Total	<u>\$ 49,220,169</u>

The net pension liability was measured as of June 30, 2018. 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 college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2018 and June 30, 2017, was 0.0341 percent and 0.0330 percent, respectively, resulting in a net increase in the proportionate share of 0.0011 percent.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

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

For the year ended June 30, 2019, the District recognized pension expense of \$3,971,135. In addition, the District recognized pension expense and revenue of \$960,793 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on plan investments	\$ -	\$ 1,204,942
Differences between expected and actual experience	97,055	454,197
Changes in assumptions	4,862,110	-
Net changes in proportionate share of net pension liability	1,768,960	681,000
District contributions subsequent to the measurement date	3,200,709	-
Total	<u>\$ 9,928,834</u>	<u>\$ 2,340,139</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 pensions will be recognized as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 1,413,794
2021	962,222
2022	140,879
2023	888,404
2024	987,260
Thereafter	(4,573)
	<u>\$ 4,387,986</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010, through June 30, 2015
Actuarial cost method	Entry Age Normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary investment practice, a best estimate range was determined assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentile for the long-term distribution of annualized returns.

The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return 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%
Cash/Liquidity	2%	-1.00%
Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
	100%	

*20-year geometric average

**HARTNELL COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

Discount Rate

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Plan's net pension liability	\$ 45,849,527	\$ 31,299,106	\$ 19,235,394

California Public Employees' Retirement

System (CalPERS) Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool under 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 plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These report(s) and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

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 age 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, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
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	7.000%	6.500%
Required employer contribution rate	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above, and the total District contributions were \$2,642,786.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$26,817,225. The net pension liability was measured as of June 30, 2018. 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 college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2018 and June 30, 2017, was 0.1006 percent and 0.0900 percent, respectively, resulting in a net increase in the proportionate share of 0.0106 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$5,465,997. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on plan investments	\$ 219,962	\$ -
Differences between expected and actual experience	1,758,039	-
Changes in assumptions	2,677,582	-
Net changes in proportionate share of net pension liability	1,275,134	-
District contributions subsequent to the measurement date	2,642,786	-
Total	<u>\$ 8,573,503</u>	<u>\$ -</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 pensions will be recognized as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 3,114,103
2021	2,412,515
2022	305,290
2023	98,809
	<u>\$ 5,930,717</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997, through June 30, 2011
Actuarial cost method	Entry Age Normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
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 five years of projected ongoing mortality improvement using Scale AA 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 (11-60 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.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS, continued

The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class*	Assumed Asset Allocation	Real Return Years 1 - 10**	Real Return Years 11+***
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%
	100%		

*In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

**An expected inflation of 2.0% used for this period

***An expected inflation of 2.92% used for this period

Discount Rate

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

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

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Plan's net pension liability	\$ 39,044,597	\$ 26,817,225	\$ 16,672,869

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for community college education. These payments consist of state general fund contributions of approximately \$2,856,977 to CalSTRS and \$909,243 to CalPERS.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description: In addition to the pension benefits described in Note 9, the District established an Other Postemployment Benefits Plan which is a single-employer defined benefit healthcare plan. The plan does not issue separate financial statements.

The District established an irrevocable trust under the California Employer’s Retiree Benefit Trust Program (CERBT) to prefund the costs of other postemployment benefits. The funds in the CERBT are held in trust and will be administered by the California Public Employees’ Retirement System (CalPERS) as an agent multiple-employer plan. Benefit provisions are established and may be amended by District labor agreements which are approved by the Board of Education. The District’s contributions to the irrevocable trust is included in the CERBT, which is included in the CalPERS CAFR. Copies of the CalPERS’ CAFR may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

The Plan provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements through a single-employer, pay-as-you-go plan, which does not issue separate financial statements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. The eligibility requirements for employees who are members of the California School Employees Association or International Union of Operating Engineers Stationary Local Number 39 are a minimum age of 60 and have a minimum of ten years of continuous service with the District. These employees receive one year of benefits for each two years with the District not to exceed five years. Additional age and service criteria may be required.

The eligibility requirement for members of the Hartnell College Faculty Association is a minimum age of 58 with ten years of full-time service. These employees receive one year of benefits for each two years with the District not to exceed seven years. Additional age and service criteria may be required.

The eligibility requirements for managers, supervisors, and confidential employees are: to be of eligible age to retire from STRS or PERS, whichever is appropriate and have five years of full-time employment with the District. Benefits will be granted for a maximum of ten years. The District paid health benefits for all retirees, except medical coverage for members of the Hartnell College Faculty Association terminates at age 65. Retiree members of the Hartnell College Faculty Association receive lifetime District paid medical coverage for themselves and their dependents.

Employees Covered by Benefit Terms

The following is a table of plan participants at June 30, 2019:

	Number of Participants
Inactive Employees Receiving Benefits	11
Active Employees	292
	<u>303</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS, continued

Contributions

California Government Code specifies that the District’s contribution requirements for covered employees are established and may be amended by the Governing Board.

There were no contributions to the Plan by the District for the year ended June 30, 2019. Employees are not required to contribute to the OPEB plan.

OPEB Plan Investments

The plan discount rate of 5.3% was determined using the following asset allocation and assumed rate of return:

<u>Asset Class</u>	<u>Percentage of Portfolio</u>	<u>Rate of Return</u>
U.S. Large Cap	43%	7.8%
U.S. Mid Cap	23%	7.8%
Long-Term Corporate Bonds	12%	5.3%
Long-Term Government Bonds	6%	4.5%
Treasury Inflation Protected Securities (TIPS)	5%	7.8%
U.S. Real Estate	8%	7.8%
All Commodities	3%	7.8%

Rolling periods of time for all asset classes in combination we used to appropriately reflect correlation between asset classes. This means that the average returns for any asset class do not necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. Historical 19-year real rates of return for each class along with assumed long-term inflation assumption was used to calculate the discount rate. The expected investment return was offset by investment expenses of 25 basis points.

Money-weighted rate of return on OPEB plan investments as of June 30, 2019 was 6.70%.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS, continued

Actuarial Assumptions

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

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost methods	Entry age actuarial cost method
Inflation rate	2.75%
Investment rate of return	5.30%
Discount rate	5.30%
Health care cost trend rate	4.00%
Payroll increase	2.75%
Mortality	For certificated employees the 2009 CalSTRS mortality tables were used. For classified employees the 2014 CalPERS active mortality for miscellaneous employees were used.

Changes in the Net OPEB Liability

	Increase/(Decrease)		
	Total OPEB Liability (a)	Total Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance July 1, 2017	\$ 5,667,546	\$ 4,710,984	\$ 956,562
Changes for the year:			
Service cost	537,398	-	537,398
Interest on TOL	308,724	-	308,724
Employer contributions	-	222,528	(222,528)
Assumption changes	(366,854)	-	(366,854)
Expected investment income	-	249,451	(249,451)
Investment gains/losses	-	37,095	(37,095)
Administrative expense	-	(8,716)	8,716
Expected benefit payments	(222,528)	(222,528)	-
Net change	256,740	277,830	(21,090)
Balance June 30, 2018	\$ 5,924,286	\$ 4,988,814	\$ 935,472

Fiduciary Net Position as a % of the Total OPEB Liability, at June 30, 2019 was 84%.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS, continued

Sensitivity of the net pension liability to assumptions

The following presents the net OPEB liability calculated using the discount rate of 5.3 percent. The schedule also shows what the net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (4.3 percent) and 1 percent higher (6.3 percent):

	Discount Rate 1% Lower (4.3%)	Discount Rate (5.3%)	Discount Rate 1% Higher (6.3%)
Net OPEB liability	\$ 1,344,724	\$ 935,472	\$ 533,755

The following table presents the net OPEB liability calculated using the health care cost trend rate of 4.0 percent. The schedule also shows what the net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percent lower (3.0 percent) and 1 percent higher (5.0 percent):

	Health Care Trend Rate 1% Lower (3.0%)	Health Care Trend Rate Rate (4.0%)	Health Care Trend Rate 1% Higher (5.0%)
Net OPEB liability	\$ 492,796	\$ 935,472	\$ 1,400,633

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District's deferred outflows of resources and deferred inflows of resources to OPEB from the following sources are:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 337,738
Investment gains and losses		29,676
	<u>\$ -</u>	<u>\$ 367,414</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ (36,535)
2021	(36,535)
2022	(36,535)
2023	(36,535)
2024	(29,116)
Thereafter	(192,158)
	<u>\$ (367,414)</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,829,756.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Contingent Liabilities: The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received Federal and State funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect.

Construction Commitments: As of June 30, 2019 and 2018, there were no outstanding commitments on construction contracts.

NOTE 12 – JOINT POWERS AGREEMENTS

Hartnell Community College District participates in public entity risk pool joint power agreements (JPAs), with Monterey County Schools Insurance Group (MCSIG), Bay Area Community College Districts (BACCD), School Association for Excess Risk (SAFER), the Statewide Association of Community Colleges (SWACC), Protected Insurance Program for Schools (PIPS), and the South Bay Regional Public Safety Training Consortium (SBRPSTC). Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There have been no significant reductions in insurance coverage from coverage in the prior year. The relationship between Hartnell Community College District and the JPAs is such that the JPAs are not component units of Hartnell Community College District for financial reporting purposes.

The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including the selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the governing board. MCSIG provides employee medical, dental and vision benefits, BACCD provides property and liability insurance, SAFER provides excess property and liability insurance, SWACC provides property and liability insurance, PIPS provides workers' compensation insurance and SBRPSTC provides education and training to public safety students. Hartnell Community College District pays a premium commensurate with the level of coverage requested.

Member districts share surpluses and deficits proportionate to their participation in the JPAs. The JPAs are independently accountable for their fiscal matters and maintain their own accounting records. Budgets are not subject to any approval other than that of the governing

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 12 – JOINT POWERS AGREEMENTS, continued

Condensed financial information of the JPAs for the most recent year available is as follows:

	MCSIG		BACCD	
	June 30, 2018		June 30, 2018	
Total assets and deferred outflows of resources	\$	18,652,824	\$	7,378,875
Total liabilities and deferred inflows of resources	\$	21,788,727	\$	2,191,049
Net position	\$	(3,135,903)	\$	5,196,826
Total revenues	\$	114,541,523	\$	3,738,333
Total expenses	\$	121,315,312	\$	3,555,558
Change in net position	\$	(6,773,789)	\$	182,775
Prior period restatement	\$	(603,523)	\$	-

	SWACC		PIPS	
	June 30, 2018		June 30, 2018	
Total assets	\$	52,332,118	\$	128,632,982
Total liabilities	\$	34,316,883	\$	104,498,678
Net position	\$	18,015,235	\$	24,134,304
Total revenues	\$	22,350,363	\$	312,356,097
Total expenses	\$	29,435,155	\$	305,666,257
Change in net position	\$	(7,084,792)	\$	6,689,840

	SAFER		SBRPSTC	
	June 30, 2018		June 30, 2018	
Total assets	\$	39,841,694	\$	7,679,314
Total liabilities	\$	38,695,867	\$	2,363,998
Net position	\$	1,145,827	\$	5,315,316
Total revenues	\$	59,869,098	\$	11,826,013
Total expenses	\$	59,413,248	\$	13,350,487
Change in net position	\$	455,850	\$	(1,524,474)

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

The beginning net position increased by \$41,521. This was due to District identified adjustments.

REQUIRED SUPPLEMENTARY INFORMATION

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
Total OPEB liability		
Service cost	\$ 537,398	\$ 523,015
Interest	308,724	237,167
Assumption Changes	(366,854)	-
Benefit payments	(222,528)	(217,378)
Net change in total OPEB liability	256,740	542,804
Total OPEB liability, beginning of year	5,667,546	5,124,742
Total OPEB liability, end of year (a)	\$ 5,924,286	\$ 5,667,546
Plan fiduciary net position		
Employer contributions	\$ 222,528	\$ 217,378
Expected investment income	249,451	317,961
Investment gains/losses	37,095	-
Administrative expense	(8,716)	(2,318)
Expected benefit payments	(222,528)	(217,378)
Change in plan fiduciary net position	277,830	315,643
Fiduciary trust net position, beginning of year	4,710,984	4,395,341
Fiduciary trust net position, end of year (b)	\$ 4,988,814	\$ 4,710,984
Net OPEB liability (asset), ending (a) - (b)	\$ 935,472	\$ 956,562
Covered payroll	\$ 32,000,252	\$ 30,467,000
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	84%	83%
Net OPEB asset as a percentage of covered payroll	3%	3%

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

**HARTNELL COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF CONTRIBUTIONS – OPEB
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
Actuarially determined contribution	\$ 222,528	\$ 217,378
Contributions in relations to the actuarially determined contribution	-	217,378
Contribution deficiency (excess)	<u>\$ 222,528</u>	<u>\$ -</u>
Covered-employee payroll	\$ 32,000,252	\$ 30,467,000
Contribution as a percentage of covered-employee payroll	0.70%	0.71%

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

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

CalSTRS	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.0341%	0.0330%	0.0340%	0.0340%	0.0310%
District's proportionate share of the net pension liability	\$ 31,299,106	\$ 30,372,000	\$ 27,739,000	\$ 22,875,000	\$ 18,385,000
State's proportionate share of the net pension liability associated with the District	17,921,063	17,968,000	15,793,000	12,098,000	11,102,000
Total	\$ 49,220,169	\$ 48,340,000	\$ 43,532,000	\$ 34,973,000	\$ 29,487,000
District's covered - employee payroll	\$ 19,660,375	\$ 19,307,103	\$ 17,403,676	\$ 17,092,032	\$ 15,913,818
District's proportionate Share of the net pension liability as percentage of covered-employee payroll	159.20%	156.07%	167.14%	143.5%	136.8%
Plan fiduciary net position as a percentage of the total pension liability	71.0%	69.0%	70.0%	74.0%	76.5%
CalPERS	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.1006%	0.0900%	0.0920%	0.0900%	0.0890%
District's proportionate share of the net pension liability	\$ 26,817,225	\$ 22,402,000	\$ 18,261,000	\$ 13,258,000	\$ 10,148,000
District's covered - employee payroll	\$ 14,631,746	\$ 13,306,433	\$ 12,080,259	\$ 11,089,578	\$ 9,958,377
District's proportionate Share of the net pension liability as percentage of covered-employee payroll	183.28%	168.35%	151.16%	119.55%	101.90%
Plan fiduciary net position as a percentage of the total pension liability	70.8%	71.9%	73.9%	79.4%	83.4%

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

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF CONTRIBUTIONS – PENSIONS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

CaSTRS	Reporting Fiscal Year				
	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 3,200,709	\$ 2,786,015	\$ 2,220,709	\$ 1,833,975	\$ 1,400,416
District's contributions in relation to the statutorily required contribution	3,200,709	2,786,015	2,220,709	1,833,975	1,400,416
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 19,660,375	\$ 19,307,103	\$ 17,403,676	\$ 17,092,032	\$ 15,913,818
District's contributions as a percentage of covered-employee payroll	16.28%	14.43%	12.76%	10.73%	8.88%

CaPERS	Reporting Fiscal Year				
	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 2,642,786	\$ 2,066,489	\$ 1,677,948	\$ 1,314,115	\$ 1,172,101
District's contributions in relation to the statutorily required contribution	2,642,786	2,066,489	1,677,948	1,314,115	1,172,101
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 14,631,746	\$ 13,306,433	\$ 12,080,259	\$ 11,089,578	\$ 9,958,377
District's contributions as a percentage of covered-employee payroll	18.06%	15.53%	13.89%	11.85%	11.77%

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

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Changes in the Net OPEB Liability and Related Ratios

The Schedule of Changes in Net OPEB Liability is presented to illustrate the elements of the District's Net OPEB Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of Contributions – OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

Schedule of the Proportionate Share of the Net Pension Liability

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of Contributions – Pensions

The Schedule of District Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Changes of Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Changes of Assumptions

There were no change in discount rates from the previous valuation for either CalSTRS or CalPERS.

SUPPLEMENTARY INFORMATION

**HARTNELL COMMUNITY COLLEGE DISTRICT
DISTRICT ORGANIZATION
JUNE 30, 2019**

Hartnell Community College District was established in 1949 and serves communities both in Monterey and San Benito counties. The District currently operates one college.

The Governing Board and District Administration for the fiscal year ended June 30, 2019 were composed of the following members:

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Aurelio Salazar	President	2020
Patricia Donohue	Vice President	2020
Manuel Osorio	Member	2020
Irma Lopez	Member	2020
Ray Montemayor	Member	2022
Erica Padilla-Chavez	Member	2022
Candi DePauw	Member	2022
Rafael Mendoza	Student Trustee, Hartnell College	2022

DISTRICT ADMINISTRATION

Dr. Willard Clark Lewallen
Superintendent/President

David Phillips
Vice President of Information and Technology Resources

Jackie Cruz
Vice President of Advancement and Development

Dr. Romero Jalomo
Vice President for Student Affairs

Dr. Sonja Lolland
Vice President for Academic Affairs

Alfred Munoz
Interim Vice President for Administrative Services

Terri Pyer
Associate Vice President for Human Resources

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Total Program Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>		
<i>Direct Programs:</i>		
<i>Student Financial Aid Programs:</i>		
Federal Supplemental Educational Opportunity Grant (FSEOG) Program	84.007	\$ 207,480
Federal Work Study (FWS)	84.033	208,850
Federal Pell Grants (PELL)	84.063	10,676,226
Financial Aid Admin Allowance	84.000	1,500
Subtotal Financial Aid Programs		11,094,056
 <i>TRIO Cluster:</i>		
TRIO - Student Support Services Program	84.042A	235,099
Upward Bound - Serving Alisal and Alvarez High Schools	84.047A	292,692
Upward Bound - Serving North Salinas High School	84.047A	284,837
Subtotal TRIO Cluster		812,628
 High School Equivalency Program	 84.141A	 459,996
Title III - HSI STEM Guided Pathways	84.031C	1,219,084
 <i>Passed through the University Corporation at CSU Monterey Bay:</i>		
Monterey County Consortium for Mathematics Readiness	84.637B	7,210
 <i>Title V Programs:</i>		
Title V - HSI Cultivamos Project: high school dual enrollment	84.031S	375,688
Title V - The Making Accessible and Effective Systems for Teacher Readiness Outcomes (MAESTROS) Project	84.031S	44,818
Subtotal Title V Programs		420,506
 <i>Passed through the California Community Colleges Chancellor's Office:</i>		
<i>Perkins IV Programs:</i>		
Carl D. Perkins Career and Technical Education (CTE) Act CTE - Title I, Part C (Perkins IV)	84.048A	267,863
Career Technical Education Transitions (CTE Transitions)	84.048A	41,377
Subtotal Perkins Program		309,240
Total U.S. Department of Education		14,322,720
 <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
<i>Foster Care Programs:</i>		
<i>Passed through the California Community Colleges Chancellor's Office:</i>		
Foster and Kinship Care Education (FKCE) Program - Title IV-E	93.658	94,049
<i>Passed through the County of Monterey, Department of Social and Employment Services:</i>		
Foster Care - Title IV-E (DSES)	93.658	718,886
Subtotal Foster Care Programs		812,935
 <i>Passed through the University of California, Santa Cruz:</i>		
National Institute of Health	93.859	15,185
<i>Passed through the California Community Colleges Chancellor's Office:</i>		
Temporary Assistance for Needy Families (TANF)	93.558	45,953
<i>Passed through the Yosemite Community College District:</i>		
Child Development Training Consortium	93.575	10,000
Total U.S. Department of Health and Human Services		884,073

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

U.S. DEPARTMENT OF AGRICULTURE

Passed through the University Corporation at CSU Monterey Bay:

Agricultural Sciences Pathways 2+2 HEC Project (NIFA/USDA)	10.217	10,266
Capacity Building for Ag Sustainability (USDA-CSUMB)	10.326	3,956
Total U.S. Department of Agriculture		<u>14,222</u>

DEPARTMENT OF NATIONAL AERONAUTICS AND AEROSPACE ACADEMY

Direct Programs:

Minority University Research and Education Project Aerospace Academy (NASA MAA)	43.008	24,118
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U.S. NATIONAL SCIENCE FOUNDATION

Passed through the University Corporation at CSU Monterey Bay:

Academic Integrity Management (CSIT-in-3)	47.076	26,767
Building Capacity: Engaging STEM Transformative Experiences for Early Momentum	47.076	155,038

Direct Programs:

NSF ATE AgScience	47.076	95,411
Total U.S. National Science Foundation		<u>277,216</u>

U.S. DEPARTMENT OF VETERAN AFFAIRS

Direct Programs:

Veterans Educational Assistance	64.027	1,545
Total Federal Programs		<u>\$ 15,523,894</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Revenues				Total	Total Program Expenditures
	Accounts			Total		
	Cash Received	Receivable	Deferred Income			
Adult Education Block Grant	\$ 3,998,851	\$ -	\$ 250,872	\$ 3,747,979	\$ 3,747,979	
Basic Skills	743,435	-	341,381	402,054	402,054	
Basic Skills and Student Outcomes Transformation	-	849,178	-	849,178	849,178	
Block Grant/Physical Plant & Inst'l Support	186,162	-	20,487	165,675	165,675	
California College Promise/Salinas Valley Promise	210,583	-	107,359	103,224	103,224	
CalWORKs	243,775	-	-	243,775	243,775	
Campus Safety	18,547	-	18,547	-	-	
CARE Program	168,353	-	-	168,353	168,353	
CCC Makerspace	75,197	147,500	-	222,697	222,697	
Classified Professional Development	32,630	-	32,630	-	-	
DSP&S	667,508	-	-	667,508	667,508	
Econ Dev for Distressed Areas	1,000,000	-	662,953	337,047	337,047	
Education Futures Initiative	121,899	-	34,283	87,616	87,616	
EOPS	799,932	-	-	799,932	799,932	
Equal Employment Opportunity	50,000	-	-	50,000	50,000	
Financial Aid Technology	187,965	-	165,500	22,465	22,465	
First 5 Monterey Co ECE Counselors	55,872	39,233	-	95,105	95,105	
First 5 Monterey Co Tech Assistance	424	582	-	1,006	1,006	
Foster & Kinship Care Education (FKCE)	116,101	-	-	116,101	116,101	
Guided Pathways	467,781	-	223,596	244,185	244,185	
Hunger Free Support	81,110	-	65,934	15,176	15,176	
Improving Online Pathways	-	8,428	-	8,428	8,428	
Innovation Award	2,037,021	-	1,650,036	386,985	386,985	
Mental Health Support	65,323	-	60,823	4,500	4,500	
MESA	29,806	44,709	-	74,515	74,515	
Nursing Education	201,201	961	15,000	187,162	187,162	
OSHDP - Song Brown	12,013	-	-	12,013	12,013	
Rancho Santiago - IE into Makerspaces project	5,000	-	-	5,000	5,000	
Strong Workforce	2,268,279	181,721	992,406	1,457,594	1,457,594	
Student Equity Plan (SEP)	923,174	-	543,176	379,998	379,998	
Student Fin. Aid Administration	361,651	-	-	361,651	361,651	
Student Success and Support Program (SSSP)	2,285,931	-	190,230	2,095,701	2,095,701	
Veteran Resource Center	42,646	-	28,530	14,116	14,116	
YESS - ILP	11,644	9,900	-	21,544	21,544	
Lottery - Proposition 20	509,202	-	-	509,202	509,202	
Child Care and Development - California State Preschool						
California State Preschool Contract	441,490	70,155	-	511,645	511,645	
Childcare Tax Bailout	39,030	-	-	39,030	39,030	
Cal Grants	1,387,970	-	4,178	1,383,792	1,383,792	
Community College Completion Grant	48,750	-	-	48,750	48,750	
Full-Time Student Success Grant (FTSSG)	96,200	-	-	96,200	96,200	
Nonresident Dreamer Emergency Aid Program	6,000	-	-	6,000	6,000	
Student Success Completion Grant (FA)	1,177,500	-	530	1,176,970	1,176,970	
Total State Programs	\$ 21,175,956	\$ 1,352,367	\$ 5,408,451	\$ 17,119,872	\$ 17,119,872	

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
FOR THE YEAR ENDED JUNE 30, 2019**

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2018 only)			
1. Noncredit	-	-	-
2. Credit	666.78	-	666.78
B. Summer Intersession (Summer 2019 - Prior to July 1, 2019)			
1. Noncredit	-	-	-
2. Credit	1.14	-	1.14
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	4,722.86	-	4,722.86
(b) Daily Census Contact Hours	334.44	-	334.44
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	22.19	-	22.19
(b) Credit	574.30	-	574.30
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	727.61	-	727.61
(b) Daily Census Contact Hours	288.37	-	288.37
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>7,337.69</u>	-	<u>7,337.69</u>
Supplemental Information (subset of above information)			
E. In-service Training Courses	320.10	-	320.10
F. Basic Skills Courses and Immigrant Education			
1. Credit	237.76	-	237.76
2. Noncredit	14.65	-	14.65
Total Basic Skills FTES	<u>252.41</u>	-	<u>252.41</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2019**

	Object/ TOP Codes	Activity (ESCA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6100			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	14,617,420	-	14,617,420	14,617,420	-	14,617,420
Other	1300	-	-	-	-	-	-
Total Instructional Salaries		14,617,420	-	14,617,420	14,617,420	-	14,617,420
Non-Instructional Salaries							
Contract or Regular	1200	-	-	-	2,697,849	-	2,697,849
Other	1400	-	-	-	840,256	-	840,256
Total Non-Instructional Salaries		-	-	-	3,538,105	-	3,538,105
Total Academic Salaries		14,617,420	-	14,617,420	18,155,525	-	18,155,525
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100	-	-	-	7,500,416	-	7,500,416
Other	2300	-	-	-	614,600	-	614,600
Total Non-Instructional Salaries		-	-	-	8,115,016	-	8,115,016
Instructional Aides							
Regular Status	2200	537,935	-	537,935	537,935	-	537,935
Other	2400	126,844	-	126,844	126,844	-	126,844
Total Instructional Aides		664,779	-	664,779	664,779	-	664,779
Total Classified Salaries		664,779	-	664,779	8,779,795	-	8,779,795
Employee Benefits	3000	7,241,480	-	7,241,480	13,869,354	-	13,869,354
Supplies and Materials	4000	-	-	-	506,369	-	506,369
Other Operating Expenses	5000	653,673	-	653,673	5,845,196	-	5,845,196
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		23,177,352	-	23,177,352	47,156,239	-	47,156,239
<u>Exclusions</u>							
Activities to Exclude							
Inst. Staff-Retirees' Benefits and Incentives	5900	99,922	-	99,922	-	-	-
Std. Health Svcs. Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Non-inst.Staff-Retirees' Benefits and Incentives	6740	-	-	-	125,338	-	125,338
Object to Exclude							
Rents and Leases	5060	-	-	-	7,564	-	7,564
Lottery Expenditures		-	-	-	-	-	-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines & Periodicals	4200	-	-	-	-	-	-
Instructional Supplies & Materials	4300	-	-	-	-	-	-
Non-inst. Supplies & Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-
Other Operating Expenses and Services	5000	-	-	-	1,223,771	-	1,223,771
Capital Outlay	6000	-	-	-	-	-	-
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	926,415	-	926,415
Total Exclusions		\$ 99,922	\$ -	\$ 99,922	\$ 2,283,088	\$ -	\$ 2,283,088
Total for ECS 84362, 50% Law		\$ 23,077,430	\$ -	\$ 23,077,430	\$ 44,873,151	\$ -	\$ 44,873,151
Percent of CEE (Instructional Salary Cost/Total CEE)		51.43%	0.00%	51.43%	100.00%	0.00%	100.00%
50% of Current Expense of Education		\$ -	\$ -	\$ -	\$ 22,436,576	\$ -	\$ 22,436,576

**HARTNELL COMMUNITY COLLEGE DISTRICT
 PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
 FOR THE YEAR ENDED JUNE 30, 2019**

EPA Revenue	6,885,691
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Activity Classification	Activity Code	Salaries and Benefits	Operating Expenses	Capital Outlay	Total
		(Obj 1000-3000)	(Obj 4000-5000)	(Obj 6000)	
Instructional Activities	0100-5900	6,885,691	-	-	6,885,691
Total		6,885,691	-	-	6,885,691

**HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no adjustments proposed to any funds of the District.

**HARTNELL COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF FUND EQUITY TO NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

Total Fund Equity - District Funds Included in the Reporting Entity

General fund	\$	11,173,728	
Debt service fund		9,162,382	
Special revenue funds		750,228	
Capital project funds		65,713,765	
Enterprise funds		387,918	
Internal service funds		<u>2,546,039</u>	\$ 89,734,060
Assets recorded within the statements of net position not included in the fund financial statements:			
Capital assets	\$	246,878,398	
Accumulated depreciation		<u>(87,075,664)</u>	159,802,734
Unmatured Interest			(2,866,575)
Deferred outflows recorded within the statement of net position not included in the District fund financial statements:			
Deferred outflows related to bond refundings			8,950,371
Deferred outflows related to pensions			18,502,337
Liabilities recorded within the statements of net position not recorded in the District fund financial statements:			
General obligation bonds	\$	203,621,666	
Bond premiums		6,320,738	
Accreted Interest		34,195,182	
Net OPEB liability		935,472	
Net pension liability		<u>58,116,331</u>	(303,189,389)
Deferred inflows recorded within the statement of net position not included in the District fund financial statements:			
Deferred inflows related to OPEB			(367,414)
Deferred inflows related to pensions			<u>(2,340,139)</u>
Net Assets Reported Within the Statements of Net Position			\$ (31,774,015)

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Hartnell Community College District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, Cost Principles for Educational Institutions or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Schedule of Expenditures of State Awards

The accompanying Schedule of State Financial Awards includes State grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented to comply with reporting requirements of the California Community College State Chancellor's Office.

Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students 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 community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

Reconciliation of Education Code Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

**HARTNELL COMMUNITY COLLEGE DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

NOTE 1 - PURPOSE OF SCHEDULES, continued

Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's audited financial statements.

Reconciliation of Fund Equity to Net Position

The schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35. business-type activities reporting model.

OTHER INDEPENDENT AUDITORS' REPORT



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

The Board of Trustees
Hartnell Community College District
Salinas, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of Hartnell Community College District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 28, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

Purpose of This Report

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

CWDL, Certified Public Accountants

San Diego, California
November 28, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Trustees
Hartnell Community College District
Salinas, California

Report on Compliance for Each Major Federal Program

We have audited Hartnell Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2019. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the 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, 2019.

Report on Internal Control Over Compliance

Management of the 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 the 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 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.

CWDL, Certified Public Accountants

San Diego, California
November 28, 2019



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

The Board of Trustees
Hartnell Community College District
Salinas, California

Report on State Compliance

We have audited Hartnell Community College District's (the District) compliance with the types of compliance requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2018-19*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Hartnell Community College District's compliance with the 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 *California Community Colleges Contracted District Audit Manual (CDAM) 2018-19*, issued by the California Community Colleges Chancellor's Office. 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 above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Opinion of State Compliance

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *California Community Colleges Contracted District Audit Manual (CDAM) 2018-19*, and which are described in the accompanying schedule of findings and questioned costs as item Finding #2019-001. Our opinion is not modified with respect to these matters.

Procedures Performed

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

- Section 421 – Salaries of Classroom Instructors (50 Percent Law)
- Section 423 – Apportionment for Activities Funded From Other Sources
- Section 424 – State General Apportionment Funding System
- Section 425 – Residency Determination for Credit Courses
- Section 426 – Students Actively Enrolled
- Section 427 – Dual Enrollment (CCAP and Non-CCAP)
- Section 430 – Scheduled Maintenance Program
- Section 431 – Gann Limit Calculation
- Section 435 – Open Enrollment
- Section 439 – Proposition 39 Clean Energy Fund
- Section 444 – Apprenticeship Related and Supplemental Instruction (RSI) Funds
- Section 475 – Disabled Student Programs and Services (DSPS)
- Section 479 – To Be Arranged Hours (TBA)
- Section 490 – Proposition 1D and 51 State Bond Funded Projects
- Section 491 – Education Protection Account Funds

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *California Community Colleges Contracted District Audit Manual (CDAM) 2018-19*. Accordingly, this report is not suitable for any other purpose.

CWDL, Certified Public Accountants

San Diego, California
November 28, 2019

FINDINGS AND RECOMMENDATIONS

**HARTNELL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section I – Schedule of Audit Findings and Questioned Costs

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
<u>84.007, 84.033, 84.063, 84.000</u>	<u>Student Financial Aid Cluster</u>
<u>93.658</u>	<u>Title IV-E</u>
<u>84.042A, 84.047A</u>	<u>TRIO Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Unmodified</u>

**HARTNELL COMMUNITY COLLEGE DISTRICT
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

There were no financial statement findings or questioned costs identified during 2018-19.

**HARTNELL COMMUNITY COLLEGE DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by the Uniform Guidance (e.g., deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs identified during 2018-19.

**HARTNELL COMMUNITY COLLEGE DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section IV – State Award Findings and Questioned Costs

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

FINDING #2019-001 – SECTION 475 - DISABLED STUDENT PROGRAMS AND SERVICES (DSPS) PAYROLL EXPENSE

Criteria or Specific Requirement

California Code of Regulations (CCR) Title 5, Section 56064 states, "Allowable expenses are those actual fixed, variable, and one-time costs (not including nonallowable expenses, as defined in Section 56068) for providing academic adjustments, auxiliary aids, services and/or instruction, as defined in Sections 56026 and 56028."

Condition

During testing we noted exceptions over DSPS payroll controls. For each exception, we determined that DSPS employees' start date proceeded their executed date of their respective adjunct faculty assignment.

Below is a summary of each exception

- Non-Instruction DSPS Counseling, Start date of 1/14/19, Agreement form temporary, part-time hourly, adjunct faculty assignment executed on 1/18/19
- Non-Instruction DSPS Counseling, Start date of 1/14/19, Agreement form temporary, part-time hourly, adjunct faculty assignments executed on 1/16/19

Questioned Costs

None. Although controls over hiring of adjunct DSPS employees were deficient, charges appear to be otherwise allowable.

Context

Two exceptions out of four DSPS payroll expense transactions sampled.

Effect

The special funding for the DSPS program could be affected if program guidelines are not adhered to.

Cause

Clerical, related to agreement form processing delays.

Recommendation

The District should implement a control procedure for monitoring compliance issues related to this program to ensure that compliance requirements are met and proper documentation is maintained in advance of all adjunct hires.

**HARTNELL COMMUNITY COLLEGE DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section IV – State Award Findings and Questioned Costs, continued

FINDING #2019-001 – SECTION 475 - DISABLED STUDENT PROGRAMS AND SERVICES (DSPS) PAYROLL EXPENSE, continued

Management's Response and Corrective Action Plan

With the on-boarding of a full-time Director of Student Affairs for the DSPS program on January 28, 2019 procedures have been established and documented within the department, with staff training to reinforce procedures that directly address the payroll control matter at hand. The response includes a designated DSPS classified staff member, who generates faculty contracts prior to counselors and instructors starting work. In addition, the classified employee supports and manages paperwork for counseling and instructional faculty contracts, including updated renditions, which are maintained in DSPS, both in hard and electronic copies. Finally, the DSPS Director recognizes the importance of proper execution of documentation in hiring and will ensure that no faculty member will start work before the adjunct faculty assignment is executed (per contract). Finally, the District is moving towards adoption of an electronic workflow approval process for all contracts and the efficiencies brought about by this change will support quicker approvals and integrate Human Resources, Payroll and DSPS.

**HARTNELL COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings or questioned costs identified during 2017-18.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Closing Date]

Board of Trustees
Hartnell Community College District

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of \$ _____ Hartnell Community College District (Monterey and San Benito Counties, California) Election of 2016 General Obligation Bonds, Series B (the "Bonds"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination as bond counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to Government Code Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5, the requisite fifty-five percent vote of the qualified electors of the Hartnell Community College District (the "District") voting at an election held on November 8, 2016, and a resolution adopted by the Board of Trustees of the District (the "Resolution").
2. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* property taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.
3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.
4. Interest on the Bonds is exempt from State of California personal income tax.
5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

6. The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bondowner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

Stradling Yocca Carlson & Rauth

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Hartnell Community College District (the “District”) in connection with the issuance of \$ _____ of the District’s Election of 2016 General Obligation Bonds, Series B (the “Bonds”). The Bonds are being issued pursuant to a Resolution of the District adopted on June 16, 2020 (the “Resolution”). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, 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” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“Dissemination Agent” shall mean initially Wildan Financial Services, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

“Financial Obligation” means: (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the Repository consistent with the Rule.

“Holders” shall mean registered owners of the Bonds.

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

“Official Statement” shall mean the Official Statement, dated as of _____, 2020, relating to the offer and sale of the Bonds.

“Participating Underwriters” shall mean Piper Sandler & Co. and Morgan Stanley & Co. LLC, as the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org/>, 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.

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

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (presently ending June 30), commencing with the report for the 2019-20 Fiscal Year, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than 30 days (nor more than 60 days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than 15 Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the Repository to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a timely notice to the Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repository of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided and listing all the Repository to which it was provided.

SECTION 4. Content and Form of Annual Reports.

(a) The District’s Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, 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.

2. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District’s audited financial statements):

(A) State funding received by the District for the last completed fiscal year;

- (B) Full-time equivalent student counts of the District for the last completed fiscal year;
- (C) Outstanding District indebtedness;
- (D) Summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the then-current fiscal year;
- (E) tax delinquencies, to the extent the Counties are no longer on the Teeter Plan; and
- (F) assessed valuation of taxable property within the District, for the current fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

(b) The Annual Report shall be filed in an electronic format accompanied by identifying information prescribed by the Municipal Securities Rulemaking Board.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5(a), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not in excess of 10 business days after the occurrence of the event:

1. principal and interest payment delinquencies.
2. tender offers.
3. defeasances.
4. rating changes.
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).
6. unscheduled draws on the debt service reserves reflecting financial difficulties.
7. unscheduled draws on credit enhancement reflecting financial difficulties.
8. substitution of the credit or liquidity providers or their failure to perform.
9. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties.

10. bankruptcy, insolvency, receivership or similar event (within the meaning of the Rule) of the District. For the purposes of the event identified in this Section 5(a)(10), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental 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.

(b) Pursuant to the provisions of this Section 5(b), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. non-payment related defaults.
2. modifications to rights of Holders.
3. optional, contingent or unscheduled bond calls.
4. unless described under Section 5(a)(5) above, material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
5. release, substitution or sale of property securing repayment of the Bonds.
6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
7. Appointment of a successor or additional trustee or paying agent with respect to the Bonds or the change of name of such a trustee or paying agent.
8. Incurrence of a Financial Obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect Bondowners.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) hereof would be material under applicable federal securities laws, the District shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file

any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(c).

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon 15 days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

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

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;
- (b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;
- (c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds; and
- (d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

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

financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriters, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repository. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: _____, 2020

HARTNELL COMMUNITY COLLEGE DISTRICT

By _____
Vice President of Administrative Services

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of District: HARTNELL COMMUNITY COLLEGE DISTRICT

Name of Bond Issue: Election of 2016 General Obligation Bonds, Series B

Date of Issuance: _____, 2020

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

HARTNELL COMMUNITY COLLEGE DISTRICT

By _____ [form only; no signature required]

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APPENDIX D

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF SALINAS AND THE COUNTIES OF MONTEREY AND SAN BENITO

The following information regarding the City of Salinas (the “City”), Monterey County (“Monterey”) and San Benito County (“San Benito” and together with Monterey, the “Counties”) is included only for the purpose of supplying general information regarding the local communities and economy. The Bonds are not a debt of the City or of the Counties. This material has been prepared by or excerpted from the sources as noted herein and has not been independently verified by the District, Bond Counsel, the Underwriters or the Municipal Advisor.

General

The City of Salinas. Incorporated in 1874, the City is the county seat and largest municipality of Monterey County. The City is located in the central coast region of California, 17 miles inland from Monterey Bay, 106 miles south of San Francisco and 325 miles north of Los Angeles. Known as “The Salad Bowl of the World,” Salinas fuels a \$2 billion agriculture industry which supplies 80% of the country's lettuce and artichokes, along with many other crops. Salinas is a general law city with a Council-Manager form of government. The City Council consists of seven members of which six are elected by district for four-year staggered terms. The Mayor is elected at-large and serves a two year term. The Council appoints the City Manager who is responsible for all City departments except the City Attorney.

Monterey County. Monterey County comprises the southern coast of Monterey Bay and is almost at the midpoint of the California coastline, approximately 125 miles south of San Francisco and 300 miles north of Los Angeles. It was incorporated in 1850 as one of the State’s original 27 counties. Monterey County covers an area of approximately 3,771 square miles. The Salinas Valley, located in the eastern portion of Monterey County, is a rich agricultural center and one of the nation’s major vegetable-producing areas. The Monterey Peninsula, famed for its scenic beauty, is a year-round tourist attraction with Pebble Beach, Cypress Point, The Monterey Bay Aquarium and the City of Carmel as the main attractions. South of the peninsula, Big Sur is known worldwide for its rugged scenery. The County is governed by a five-member elected Board of Supervisors, each of whom serves alternating four-year terms.

San Benito County. With an area of 1,389 square miles, San Benito County is bordered by Santa Clara County on the north, Merced and Fresno Counties on the east, and Monterey County on the south and west. It was incorporated in 1874 and is home to several American Viticultural Areas. Along with agriculture, agritourism is having a growing economic impact on San Benito County, in addition to the many recreational opportunities provided by its several parks, such as Pinnacles National Park. The five-member elected Board of Supervisors serve four-year terms of office.

Population

The following table shows historical population figures for the City, Counties and State of California (the “State”) for the past 10 years.

**POPULATION ESTIMATES
2011 through 2020
City of Salinas, Monterey County, San Benito County and the State of California**

<u>Year</u>	<u>City of Salinas</u>	<u>Monterey County</u>	<u>San Benito County</u>	<u>State of California</u>
2011	151,167	417,276	55,730	37,561,624
2012	153,445	422,621	56,518	37,924,661
2013	156,084	425,968	56,978	38,269,864
2014	157,332	427,733	57,656	38,556,731
2015	158,059	430,310	58,138	38,870,150
2016	160,220	435,400	58,740	39,131,307
2017	161,124	438,723	59,549	39,398,702
2018	161,446	439,193	60,071	39,586,646
2019	162,353	441,304	61,513	39,695,376
2020	162,222	441,143	62,353	39,782,870

Source: 2011-2019 (2010 Census Benchmark) California Department of Finance as of January 1. Estimates for January 1, 2020.

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Personal Income

The following table shows per capita personal income for the Counties, the State and the United States for the past 10 years of data currently available.

PER CAPITA PERSONAL INCOME
2010 through 2019
Monterey County, San Benito County, State of California and the United States

<u>Year</u>	<u>Monterey County</u>	<u>San Benito County</u>	<u>State of California</u>	<u>United States</u>
2010	\$41,460	\$35,912	\$43,636	\$40,547
2011	42,404	37,506	46,175	42,739
2012	43,908	38,616	48,813	44,605
2013	44,860	40,398	49,303	44,860
2014	47,557	41,910	52,363	47,071
2015	51,672	46,239	55,808	48,994
2016	52,686	48,634	57,801	49,890
2017	53,989	50,955	60,219	51,910
2018	56,193	53,822	63,711	54,526
2019	n/a	n/a	66,661	56,663

Note: Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation). Last updated March 24, 2020.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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Principal Employers

The following tables show the principal employers in the Counties by number of employees.

PRINCIPAL EMPLOYERS Monterey County 2020

<u>Employer Name</u>	<u>Industry</u>	<u>Employees</u>
Azcona Harvesting	Harvesting-Contract	1,000-4,999
Bud of California	Fruits & Vegetables-Growers & Shippers	1,000-4,999
Carol Hatton Breast Care Center	Health Services	1,000-4,999
Casa Palmero At Pebble Beach	Hotels & Motels	1,000-4,999
Natividad Medical Center	Health Services	1,000-4,999
Pebble Beach Co	Resorts	1,000-4,999
Premier Raspberry LLC	Grocers-Wholesale	1,000-4,999
Salinas Valley Memorial Healthcare	Health Services	1,000-4,999
County-Monterey Behavioral Growers Co	Health Services	500-999
	Fruits & Vegetables & Produce-Retail	500-999

Source: California Employment Development Department, Labor Market Information Division. America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

PRINCIPAL EMPLOYERS San Benito County 2020

<u>Employer Name</u>	<u>Industry</u>	<u>Employees</u>
Earthbound Farm	Marketing Programs & Services	1,000-4,999
R & R Labor	Labor Contractors	500-999
Hazel Hawkins Memorial Hospital	Health Services	250-499
Mcelectronics, Inc.	Wire Harnesses-Electrical-Manufacturers	250-499
San Benito High School	Education	250-499
True Leaf Farms	Organic Foods & Services	250-499
Corbin Sparrow	Motorcycles-Supplies & Parts-Manufacturers	100-249
Denise & Filice Packing Co	Fruits & Vegetables-Wholesale	100-249
Nob Hill Foods	Grocers-Retail	100-249
San Benito Foods	Canning - Manufacturers	100-249

Source: California Employment Development Department, Labor Market Information Division. America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

Employment

The following table summarizes the labor force, employment and unemployment figures for the past five years for the City, Counties and State.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT 2015 through 2019⁽¹⁾

City of Salinas, Monterey County, San Benito County, the State of California and the United States

<u>Year</u>	<u>Area</u>	<u>Labor Force</u>	<u>Employment</u> ⁽²⁾	<u>Unemployment</u> ⁽³⁾	<u>Unemployment Rate (%)</u>
2015	City of Salinas	78,900	72,200	6,700	8.5
	Monterey County	218,200	200,500	17,700	8.1
	San Benito County	29,800	27,500	2,200	7.6
	State of California	18,828,800	17,660,700	1,168,100	6.2
	United States	157,130,000	148,834,000	8,296,000	5.3
2016	City of Salinas	80,300	72,400	7,900	9.9
	Monterey County	218,700	202,000	16,800	7.7
	San Benito County	30,400	28,400	2,000	6.7
	State of California	19,021,200	17,980,100	1,041,100	5.5
	United States	159,187,000	151,436,000	7,751,000	4.9
2017	City of Salinas	80,300	72,900	7,500	9.3
	Monterey County	219,700	204,000	15,700	7.2
	San Benito County	30,600	28,900	1,800	5.8
	State of California	19,176,400	18,257,100	919,300	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4
2018	City of Salinas	80,900	74,000	6,900	8.5
	Monterey County	222,200	207,900	14,200	6.4
	San Benito County	31,200	29,600	1,600	5.1
	State of California	19,280,080	18,460,700	820,100	4.3
	United States	162,075,000	155,761,000	6,314,000	3.9
2019	City of Salinas	81,000	74,300	6,700	8.3
	Monterey County	222,500	208,700	13,800	6.2
	San Benito County	31,400	29,800	1,600	5.1
	State of California	19,411,600	18,627,400	784,200	4.0
	United States	163,539,000	157,538,000	6,001,000	3.7

Note: Data is not seasonally adjusted.

⁽¹⁾ Annual averages, unless otherwise specified.

⁽²⁾ Includes persons involved in labor-management trade disputes.

⁽³⁾ The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2019 Benchmark.

Industry

The District is included in the Salinas Metropolitan Statistical Area (the “MSA”). The distribution of employment in the MSA is presented in the following table for the past five years of data currently available. These figures are multi county-wide statistics and may not necessarily accurately reflect employment trends in the City or in the Counties.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES 2015 through 2019 Salinas Metropolitan Statistical Area

<u>Category</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Farm	53,000	53,300	53,200	55,000	54,700
Mining and Logging	300	200	200	200	300
Manufacturing	5,500	5,400	5,600	5,400	5,300
Wholesale Trade	5,300	5,300	5,600	5,900	5,800
Retail Trade	16,400	16,500	16,400	16,800	16,800
Transportation, Warehousing and Utilities	4,300	4,300	4,100	4,000	4,200
Information	1,300	1,100	1,100	1,000	1,000
Financial Activities	4,100	4,200	4,300	4,500	4,400
Professional and Business Services	12,800	13,400	13,200	14,000	14,800
Educational and Health Services	18,400	18,800	19,700	19,900	20,400
Leisure and Hospitality	23,400	24,300	24,500	25,300	26,200
Other Services	5,000	5,100	5,200	5,100	5,100
Government	<u>31,100</u>	<u>31,900</u>	<u>33,300</u>	<u>34,500</u>	<u>34,600</u>
Total, All Industries	<u>186,100</u>	<u>189,500</u>	<u>192,400</u>	<u>198,000</u>	<u>200,000</u>

Note: May not add to total due to independent rounding.

Source: California Employment Development Department, Labor Market Information Division. March 2019 Benchmark.

Commercial Activity

Summaries of annual taxable sale date for the past five years of data currently available for the City and Counties are shown in the following tables.

**ANNUAL TAXABLE SALES
2014 through 2018
Monterey County
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2014	7,327	\$4,339,409	10,535	\$6,200,747
2015	7,240	4,548,935	11,437	6,454,359
2016	7,352	4,714,130	11,657	6,716,141
2017	7,544	4,891,626	11,959	6,939,334
2018	7,666	5,112,856	12,490	7,339,237

*Source: Taxable Sales in California, California State Board of Equalization for 2014.
Taxable Sales in California, California Department of Tax and Fee Administration ("CDTFA") for 2015-18.*

**ANNUAL TAXABLE SALES
2014 through 2018
San Benito County
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2014	888	\$338,945	1,313	\$560,376
2015	863	357,481	1,426	608,094
2016	967	387,804	1,546	664,687
2017	1,066	420,161	1,704	762,320
2018	1,067	432,160	1,761	767,936

*Source: Taxable Sales in California, California State Board of Equalization for 2014.
Taxable Sales in California, California Department of Tax and Fee Administration ("CDTFA") for 2015-18.*

**ANNUAL TAXABLE SALES
2014 through 2018
City of Salinas
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2014	1,907	\$1,764,501	2,759	\$2,265,218
2015	1,922	1,866,817	3,010	2,364,843
2016	1,938	1,958,521	3,053	2,483,726
2017	1,998	2,033,752	3,099	2,543,925
2018	2,054	2,072,189	3,284	2,635,379

*Source: Taxable Sales in California, California State Board of Equalization for 2014.
Taxable Sales in California, California Department of Tax and Fee Administration ("CDTFA") for 2015-18.*

Construction Activity

The annual building permit valuations and number of permits for new dwelling units issued for the past five years of data currently available for the City and Counties are shown in the following tables.

**BUILDING PERMITS AND VALUATIONS
2015 through 2019
Monterey County
(Dollars in Thousands)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Residential	\$219,262	\$242,389	\$271,978	\$339,628	\$231,340
Non-Residential	<u>233,142</u>	<u>197,865</u>	<u>171,630</u>	<u>151,103</u>	<u>195,621</u>
TOTAL	\$442,404	\$440,254	\$443,608	\$490,731	\$426,961
<u>Units</u>					
Single Family	374	486	523	611	574
Multiple Family	<u>258</u>	<u>118</u>	<u>178</u>	<u>212</u>	<u>116</u>
TOTAL	632	604	701	823	690

Note: Totals may not add to sum because of rounding.
Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
2015 through 2019
San Benito County
(Dollars in Thousands)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Residential	\$74,162	\$134,741	\$151,676	\$181,029	\$223,475
Non-Residential	<u>45,812</u>	<u>36,326</u>	<u>18,204</u>	<u>13,961</u>	<u>20,590</u>
TOTAL	\$119,974	\$171,067	\$169,880	\$194,990	\$244,065
<u>Units</u>					
Single Family	223	443	586	556	634
Multiple Family	<u>49</u>	<u>99</u>	<u>2</u>	<u>51</u>	<u>4</u>
TOTAL	272	542	588	607	638

Note: Totals may not add to sum because of rounding.

Source: *Construction Industry Research Board.*

BUILDING PERMITS AND VALUATIONS
2015 through 2019
City of Salinas
(Dollars in Thousands)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Residential	\$24,593	\$13,274	\$13,713	\$45,664	\$24,678
Non-Residential	<u>24,506</u>	<u>45,099</u>	<u>38,028</u>	<u>36,737</u>	<u>50,022</u>
TOTAL	\$49,459	\$58,373	\$51,741	\$82,401	\$74,700
<u>Units</u>					
Single Family	45	1	28	61	210
Multiple Family	<u>48</u>	<u>50</u>	<u>0</u>	<u>90</u>	<u>14</u>
TOTAL	93	51	28	151	224

Note: Totals may not add to sum because of rounding.

Source: *Construction Industry Research Board.*

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APPENDIX E

MONTEREY COUNTY TREASURY POOL

The following information concerning the Monterey County Treasury Pool (the "Treasury Pool") has been provided by the Treasurer, and has not been confirmed or verified by the District or the Underwriters. The District and the Underwriters have not made an independent investigation of the investments in the Treasury Pool and have made no assessment of the current County investment policy. The value of the various investments in the Treasury Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Treasurer, with the consent of the County Board of Supervisors may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the Treasury Pool will not vary significantly from the values described herein. Finally, neither the District nor the Underwriters make any representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date. Additional information regarding the Treasury Pool may be obtained from the Treasurer at http://www.co.monterey.ca.us/taxcollector/Treasury_Main.html; however, the information presented on such website is not incorporated herein by any reference.

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Monterey County Board of Supervisors

Board Order

168 West Alisal Street,
1st Floor
Salinas, CA 93901
831.755.5066
www.co.monterey.ca.us

A motion was made by Supervisor Luis A. Alejo, seconded by Supervisor John M. Phillips to:

Receive and Accept the Treasurer's Report of Investments for the Quarter Ending March 31, 2020.

PASSED AND ADOPTED on this 28th day of April 2020, by roll call vote:

AYES: Supervisors Alejo, Phillips, Lopez, Parker and Adams

NOES: None

ABSENT: None

(Government Code 54953)

I, Valerie Ralph, Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof of Minute Book 82 for the meeting April 28, 2020.

Dated: April 28, 2020

File ID: 20-304

Agenda Item No.: 34

Valerie Ralph, Clerk of the Board of Supervisors
County of Monterey, State of California

Joel G. Pablo, Deputy



Monterey County

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

Legistar File Number: 20-304

April 28, 2020

Introduced: 4/16/2020

Current Status: Agenda Ready

Version: 1

Matter Type: General Agenda Item

Title

Receive and Accept the Treasurer's Report of Investments for the Quarter Ending March 31, 2020.

Report

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Receive and Accept the Treasurer's Report of Investments for the Quarter Ending March 31, 2020.

SUMMARY:

Government Code Section 53646 (b) (1) states the Treasurer may submit a quarterly report of investments. The attached exhibits provide a narrative portfolio review of economic and market conditions that support the investment activity during the January - March period, the investment portfolio position by investment type and the investment portfolio by maturity range.

DISCUSSION:

The U.S. economy entered the year on a strong footing, however, that deteriorated quickly as the COVID-19 pandemic took hold across the Globe, including the U.S. With a virtual economic shutdown, and a global health crisis at hand, the Federal Reserve responded aggressively by cutting rates at two emergency meetings to the new target range of 0% to 0.25%. Treasury yields plunged in response to the Fed's new zero interest rate policy, with longer-term Treasury yields reaching new historic lows. The immediate impact of the pandemic on global economies made typical economic indicators, most of which are backward-looking, essentially irrelevant.

On March 31, 2020, the Monterey County investment portfolio contained an amortized book value of \$1,814,628,516.77 spread among 187 separate securities and funds. The par value of those funds was \$1,817,425,030.14 with a market value of \$1,814,484,769.93 or 100.0% of amortized book value. The portfolio's net earned income yield for the period was 2.25%. The portfolio produced an estimated quarterly income of \$10,116,975.49 that will be distributed proportionally to all agencies participating in the investment pool. The investment portfolio had a weighted average maturity of 278 days. The County Treasury continues to use shorter term debt to provide portfolio liquidity.

The investment portfolio is in compliance with all applicable provisions of state law and the adopted Investment Policy and contains sufficient liquidity to meet all projected outflows over the next six months. Market value pricings were obtained through resources such as Bloomberg LLP, Union Bank of California and live-bid pricing of corporate securities.

OTHER AGENCY INVOLVEMENT:

A copy of this report will be distributed to all agencies participating in the investment pool and the

Treasury Oversight Committee. In addition, the report will be published on the County Treasurer's website. A monthly report of investment transactions is provided to the Board of Supervisors as required by Government Code 53607.

FINANCING:

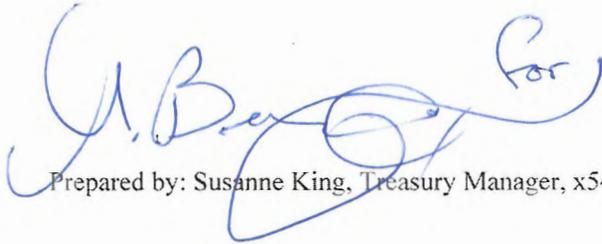
The investment portfolio contains sufficient liquidity to meet all projected expenditures over the next six months. Investment earnings in the General Fund have exceeded budgeted revenue for fiscal year 2019-2020.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

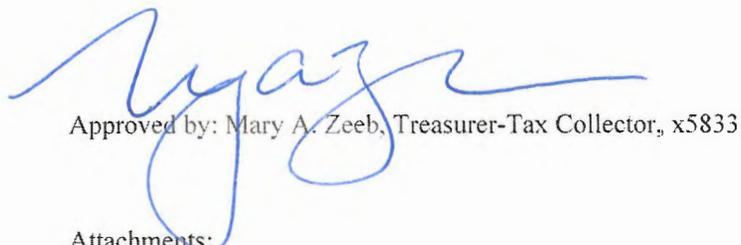
This recommendation supports the Administration initiative by providing transparency and accountability in the management of County funds in the Treasurer's investment portfolio.

Mark a check to the related Board of Supervisors Strategic Initiatives

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety



Prepared by: Susanne King, Treasury Manager, x5490



Approved by: Mary A. Zeeb, Treasurer-Tax Collector, x5833

Attachments:

- Exhibit A - Investment Portfolio Review 03.31.20
- Exhibit B - Portfolio Management Report 03.31.20
- Exhibit C - Aging Report 04.01.20

cc:

- Auditor-Controller - Internal Audit Section
- All depositors
- County Administrative Office
- County Counsel

Treasury Oversight Committee

Exhibit A

Investment Portfolio Review

Quarter Ending March 31, 2020

OVERVIEW

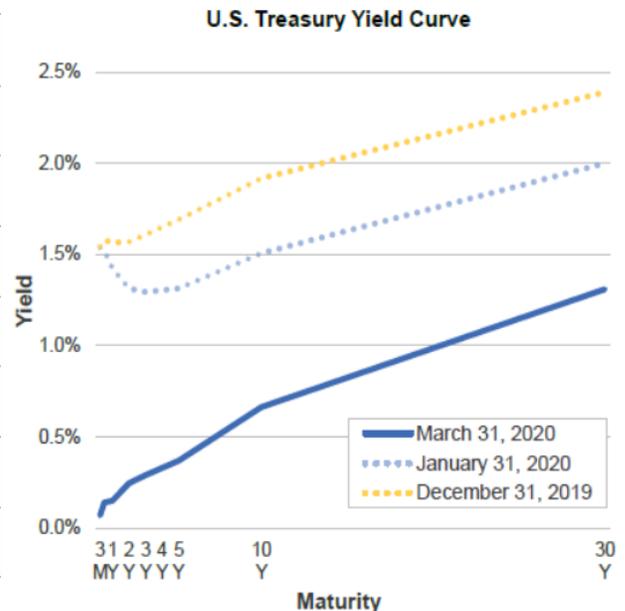
January 1, 2020 – March 31, 2020

The U.S. economy entered the year on a strong footing, however, that deteriorated quickly as the COVID-19 pandemic took hold across the Globe, including the U.S. With a virtual economic shutdown, and a global health crisis at hand, the Federal Reserve responded aggressively by cutting rates at two emergency meetings to the new target range of 0% to 0.25%. Treasury yields plunged in response to the Fed's new zero interest rate policy, with longer-term Treasury yields reaching new historic lows. The immediate impact of the pandemic on global economies made typical economic indicators, most of which are backward-looking, essentially irrelevant.

U.S. TREASURY YIELD CURVE

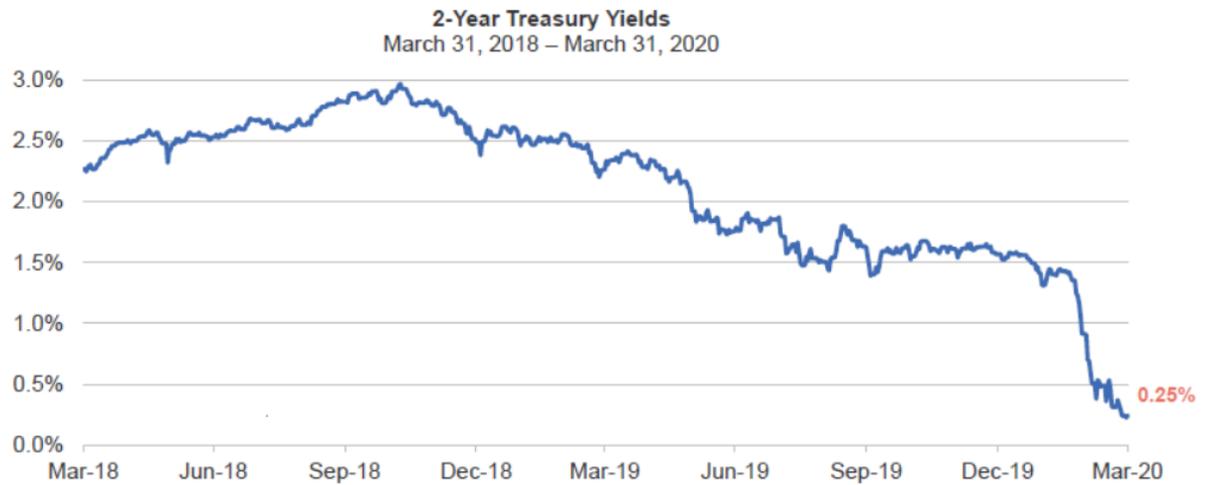
- Rates Plummeted Due to the Coronavirus Outbreak

	1Q2020 3/31/20	4Q2019 12/31/19	QoQ Change
3 month	0.09%	1.54%	-1.45%
1 year	0.15%	1.57%	-1.42%
2 year	0.25%	1.57%	-1.32%
3 year	0.29%	1.61%	-1.32%
5 year	0.38%	1.69%	-1.31%
10 year	0.67%	1.92%	-1.25%
30 year	1.32%	2.39%	-1.07%



Source: Bloomberg, as of 3/31/20.

- The 2-year Treasury decreased by 132 basis point (1.32%) to end the quarter at 0.25%.
- Yields felt the pressure of weakness in business investment and other economic data, as well as heightened recession fears for the U.S. and global economies due to the coronavirus outbreak.



Source: Bloomberg, as of 3/31/20.

The County Treasury investments continue to focus on capturing relative value while remaining cautious. The following indicators reflect key aspects of the investment portfolio in light of the above noted conditions:

1. Market Access – During the quarter, investment purchases for the portfolio included U.S. Treasuries, Commercial Paper, Certificates of Deposits, and Corporate Notes. The Treasurer continues to keep a higher level of liquid assets reflecting the need to maintain levels of available cash to ensure the ability to meet all cash flow needs.
2. Diversification - The Monterey County Treasurer’s portfolio consists of 187 separate fixed income investments, all of which are authorized by the State of California Government Code 53601.

The portfolio asset spread is detailed in the table below:

Portfolio Asset Composition							
Corporate Notes	Negotiable CDs	Overnight Liquid Assets	US Treasuries	Federal Agencies	Commercial Paper	Supranationals	Municipal Bonds
13.6%	2.1%	18.9%	56.1%	1.7%	6.1%	1.5%	<0.1%

- Total may not equal 100% due to rounding

3. Credit Risk – Approximately 84.9% of the investment portfolio is comprised of U.S. Treasuries, Federal Agency securities, Negotiable CDs and other liquid funds. All assets have a better than investment grade rating. U.S. Treasuries are not specifically rated, but

are considered the safest of all investments. All corporate debt (13.6%) is rated in the higher levels of investment grade and all Federal Agency and Municipal holdings are rated AA. The Supranational (1.5%) is rated AAA. The credit quality of the Treasurer’s portfolio continues to be high.

The portfolio credit composition is detailed in the table below:

Portfolio Credit Composition							
AAA	AAAm	AA	A	A-1 (Short Term)	Aaf/S1+ (CalTRUST)	BBB+ (split rated)	Not Rated
1.6%	8.2%	62.5%	8.9%	7.7%	6.6%	0.5%	4.1%

• Total may not equal 100% due to rounding

4. Liquidity Risk – Liquidity risk, as measured by the ability of the County Treasury to meet withdrawal demands on invested assets, was actively managed during the January – March quarter. The portfolio’s average weighted maturity was 278 days, and the Treasurer maintained \$346M (19%) in overnight investments to provide immediate liquidity to be able to react quickly to needs or opportunities in the current environment. In addition, the Treasurer maintained \$841M (46%) in securities with maturities under a year to provide additional enhanced liquidity.

PORTFOLIO CHARACTERISTICS

	<u>December 31, 2019</u>	<u>March 31, 2020</u>
Total Assets	\$1,853,827,448.73	\$1,817,425,030.14
Market Value	\$1,848,747,198.94	\$1,814,484,769.93
Days to Maturity	331	278
Yield	2.32%	2.25%
Estimated Earnings	\$9,758,162.96	\$10,116,975.49

Given the volatile market environment due to the COVID-19 pandemic, the Treasury has a “hold and see” approach leaving maturing investments in short-term accounts for potential liquidity needs. As the situation continues to unfold, the portfolio will be actively managed under the established tenets of safety and liquidity while seeking to maximize the rate of return.

Exhibit B

Monterey County Daily Reports Portfolio Management Portfolio Details - Investments March 31, 2020

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	S&P	YTM	Maturity Date
Certificates of Deposit - Bank												
83369XDL9	12356	SOCIETE GENERALE NY		02/19/2020	260,000.00	260,000.00	260,000.00	1.800	A1	A	1.800	02/14/2022
83369XDL9	12357	SOCIETE GENERALE NY		02/19/2020	10,000,000.00	10,000,000.00	10,000,000.00	1.800	A1	A	1.800	02/14/2022
Subtotal and Average			4,735,384.62		10,260,000.00	10,260,000.00	10,260,000.00				1.800	
Money Market Accts - GC 53601(k)(2)												
SYS11672	11672	BlackRock			0.00	0.00	0.00	0.337			0.337	
SYS12159	12159	DREYFUS AMT FREE TAX EXEMPT MM			7,209,770.50	7,209,770.50	7,209,770.50	0.932			0.932	
SYS11830	11830	Federated		07/01/2019	0.00	0.00	0.00	0.101	Aaa	AAA	0.101	
SYS11578	11578	Fidelity Investments			100,000.00	100,000.00	100,000.00	0.847	Aaa	AAA	0.847	
Subtotal and Average			7,304,296.13		7,309,770.50	7,309,770.50	7,309,770.50				0.931	
State Pool - GC 16429.1												
SYS11361	11361	LAIF			75,000,000.00	75,000,000.00	75,000,000.00	2.281			2.281	
Subtotal and Average			70,854,945.05		75,000,000.00	75,000,000.00	75,000,000.00				2.281	
CALTRUST/CAMP - GC 53601(p)												
SYS11801	11801	CalTrust			48,800,000.00	48,800,000.00	48,800,000.00	1.750	Aaa	AAA	1.750	
SYS11802	11802	CalTrust			1,000,000.00	1,000,000.00	1,000,000.00	0.813	Aaa	AAA	0.813	
SYS12296	11803	CalTrust			20,000,000.00	20,000,000.00	20,000,000.00	1.133			1.133	
SYS12211	12211	CalTrust			50,300,000.00	50,300,000.00	50,300,000.00	0.976			0.976	
SYS12219	12219	CalTrust			330,536.55	330,536.55	330,536.55	1.158			1.158	
SYS10379	10379	Calif. Asset Mgmt			143,050,000.00	143,050,000.00	143,050,000.00	1.469		AAA	1.469	
SYS11961	11961	Calif. Asset Mgmt		07/01/2019	0.00	0.00	0.00	0.658		AAA	0.658	
Subtotal and Average			225,874,228.78		263,480,536.55	263,480,536.55	263,480,536.55				1.399	
SWEEP ACCOUNT-MORG STNLY												
SYS12041	12041	Morgan Stanley			1.00	1.00	1.00	704.694			704.694	
Subtotal and Average			2.44		1.00	1.00	1.00				704.694	
SWEEP ACCOUNT - CUSTOM												
SYS12138	12138	Morgan Stanley			64,722.09	64,722.09	64,722.09	0.912			0.912	
Subtotal and Average			75,612.90		64,722.09	64,722.09	64,722.09				0.912	

Exhibit B

Monterey County Daily Reports Portfolio Management Portfolio Details - Investments March 31, 2020

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	S&P	YTM	Maturity Date
Medium Term Notes - GC 53601(k)												
88579YAX9	12247	MMM COMPANY		01/11/2019	250,000.00	243,992.01	243,992.01	2.250			3.123	03/15/2023
88579YBF7	12334	MMM COMPANY		11/27/2019	3,440,000.00	3,499,456.64	3,499,456.64	2.750	A1	AA-	1.825	03/01/2022
88579YBF7	12348	MMM COMPANY		01/15/2020	5,000,000.00	5,089,312.66	5,089,312.66	2.750	A1	AA-	1.795	03/01/2022
88579YBH3	12359	MMM COMPANY		02/24/2020	130,000.00	131,055.42	131,055.42	2.000	A1	AA-	1.825	02/14/2025
023135AM8	12301	Amazon		05/31/2019	4,500,000.00	4,560,222.94	4,560,222.94	3.300	A3	AA-	2.472	12/05/2021
023135AW6	12317	Amazon		09/03/2019	200,000.00	203,465.55	203,465.55	2.400	A3	AA-	1.936	02/22/2023
025816BM0	12156	American Express Credit		08/21/2017	250,000.00	249,895.00	249,895.00	2.500	A3	BBB+	2.519	08/01/2022
0258MOEB1	12323	American Express Credit		10/28/2019	4,000,000.00	4,015,702.38	4,015,702.38	2.250	A2	A-	1.863	05/05/2021
037833CQ1	12151	Apple Inc Corp Notes		08/17/2017	250,000.00	250,612.15	250,612.15	2.300	Aa1	AA+	2.177	05/11/2022
037833AR1	12268	Apple Inc Corp Notes		02/22/2019	3,825,000.00	3,830,822.77	3,830,822.77	2.850	Aa1	AA+	2.705	05/06/2021
037833CC2	12284	Apple Inc Corp Notes		04/09/2019	5,000,000.00	4,934,664.85	4,934,664.85	1.550	Aa1	AA+	2.559	08/04/2021
05531FAV5	12153	BB&T Corporation		08/21/2017	250,000.00	249,863.67	249,863.67	2.050	A2	A-	2.101	05/10/2021
05531FAZ6	12325	BB&T Corporation		11/19/2019	5,000,000.00	5,008,576.39	5,008,576.39	2.150	A2	A-	1.940	02/01/2021
06051GGE3	12202	Bank of America Corp		06/07/2018	250,000.00	247,727.78	247,727.78	3.124	A3	A-	3.477	01/20/2023
06051GFW4	12234	Bank of America Corp		12/14/2018	5,000,000.00	4,955,467.57	4,955,467.57	2.625	Baa1	BBB+	3.515	04/19/2021
06051GGY9	12332	Bank of America Corp		11/27/2019	5,000,000.00	5,031,423.71	5,031,423.71	2.738	A2	A-	2.379	01/23/2022
084664BT7	12182	Berkshire Hathaway Finance		03/12/2018	250,000.00	250,259.24	250,259.24	3.000	Aa2	AA	2.947	05/15/2022
084664BT7	12291	Berkshire Hathaway Finance		04/26/2019	8,625,000.00	8,710,921.32	8,710,921.32	3.000	Aa2	AA	2.509	05/15/2022
14913Q2E8	12183	CATERPILLAR FINL SERVC		03/12/2018	250,000.00	246,440.67	246,440.67	2.550	A3	A	3.129	11/29/2022
14913Q2G3	12276	CATERPILLAR FINL SERVC		03/15/2019	6,125,000.00	6,135,417.94	6,135,417.94	2.900	A3	A	2.716	03/15/2021
14913Q2W8	12346	CATERPILLAR FINL SERVC		01/14/2020	5,000,000.00	5,048,039.13	5,048,039.13	2.650	A3	A	1.783	05/17/2021
166764AY6	12208	Chevron Corp. Global		06/25/2018	2,155,000.00	2,148,412.10	2,148,412.10	2.419	Aa2	AA-	2.926	11/17/2020
17275RBD3	12150	Cisco Systems Inc Corp		08/17/2017	250,000.00	250,554.43	250,554.43	2.200	A1	AA-	1.946	02/28/2021
17275RBD3	12302	Cisco Systems Inc Corp		05/31/2019	5,000,000.00	4,988,648.73	4,988,648.73	2.200	A1	AA-	2.456	02/28/2021
172967LC3	12307	Citibank		06/07/2019	3,840,000.00	3,862,351.61	3,862,351.61	2.900	A3	BBB+	2.530	12/08/2021
172967GL9	12308	Citibank		07/12/2019	250,000.00	255,895.72	255,895.72	3.375	A3	BBB+	2.523	03/01/2023
172967KK6	12326	Citibank		11/19/2019	5,000,000.00	5,033,048.47	5,033,048.47	2.700	A3	BBB+	2.024	03/30/2021
191216BG4	12250	Coca- Cola Co		01/14/2019	5,000,000.00	4,989,743.43	4,989,743.43	2.450	A1	A+	2.812	11/01/2020
191216AV2	12288	Coca- Cola Co		04/09/2019	4,980,000.00	5,028,409.41	5,028,409.41	3.300	Aa3	A+	2.587	09/01/2021
254687FK7	12319	The Walt Disney Copr		09/06/2019	240,000.00	239,213.47	239,213.47	1.750			1.851	08/30/2024
369550AR9	12237	General Dynamics Corp		12/14/2018	10,000,000.00	10,074,558.97	10,074,558.97	3.875	A2	A+	3.266	07/15/2021
38145GAG5	12205	Goldman Sachs		06/07/2018	250,000.00	245,811.05	245,811.05	2.350	A3	BBB+	3.454	11/15/2021
437076AW2	12235	Home Depot Inc		12/14/2018	2,750,000.00	2,780,035.19	2,780,035.19	4.400	A2	A	3.256	04/01/2021
02665WBF7	12286	American Honda Finance		04/09/2019	5,000,000.00	4,935,896.62	4,935,896.62	1.650	A1	A+	2.688	07/12/2021
02665WCZ2	12318	American Honda Finance		09/03/2019	200,000.00	203,044.96	203,044.96	2.400			2.021	06/27/2024

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	S&P	YTM	Maturity Date
Medium Term Notes - GC 53601(k)												
02665WDF5	12333	American Honda Finance		11/27/2019	5,000,000.00	4,999,784.71	4,999,784.71	1.950	A2	A	1.952	05/20/2022
4581X0DB1	12191	Inter-America Devel BK		04/19/2018	285,000.00	284,780.55	284,780.55	2.625	Aaa		2.687	04/19/2021
44932HAH6	12181	IBM Corp Notes		03/12/2018	250,000.00	248,572.03	248,572.03	3.000	A1	A+	3.218	02/06/2023
458140AZ3	12136	INTEL CORP		05/15/2017	10,000,000.00	9,954,100.00	10,000,646.84	1.850	A1	A+	1.790	05/11/2020
24422EUA5	12180	John Deere Capital Corp		03/12/2018	250,000.00	246,762.23	246,762.23	2.700	A2	A	3.209	01/06/2023
24422ETB5	12278	John Deere Capital Corp		03/22/2019	5,000,000.00	4,995,856.33	4,995,856.33	2.450	A2	A	2.641	09/11/2020
46625HHU7	12157	JP Morgan Chase		08/21/2017	250,000.00	252,748.76	252,748.76	4.250	A3	A-	2.129	10/15/2020
46623EKG3	12324	JP Morgan Chase		11/13/2019	5,000,000.00	5,007,855.54	5,007,855.54	2.295	A2	A-	2.177	08/15/2021
46625HJD3	12329	JP Morgan Chase		11/18/2019	5,000,000.00	5,217,749.75	5,217,749.75	4.500	A2	A-	2.032	01/24/2022
46625HJD3	12341	JP Morgan Chase		12/17/2019	5,000,000.00	5,218,888.71	5,218,888.71	4.500	A2	A-	2.022	01/24/2022
57636QAB0	12282	MASTERCARD INC		04/04/2019	250,000.00	256,284.47	256,284.47	3.375	A2	A+	2.699	04/01/2024
58933YAQ8	12316	MERCK & CO INC		09/03/2019	10,000,000.00	10,112,517.10	10,112,517.10	2.350	A1	AA	1.729	02/10/2022
594918BG8	12149	MICROSOFT CORP		08/17/2017	250,000.00	250,384.66	250,384.66	2.000	Aaa	AAA	1.730	11/03/2020
594918BX1	12363	MICROSOFT CORP		03/11/2020	125,000.00	132,416.65	132,416.65	2.875	Aaa	AAA	1.289	02/06/2024
68389XBB0	12148	Oracle Corp		08/17/2017	250,000.00	251,316.20	251,316.20	2.500	A1	AA-	2.471	05/15/2022
742718EN5	12154	Procter & Gamble Co		08/21/2017	250,000.00	249,889.04	249,889.04	1.850	Aa3	AA-	1.905	02/02/2021
742718EN5	12253	Procter & Gamble Co		01/15/2019	3,475,000.00	3,450,177.61	3,450,177.61	1.850	Aa3	AA-	2.734	02/02/2021
713448DX3	12236	Pepsico Inc Corp Note		12/14/2018	3,800,000.00	3,755,522.02	3,755,522.02	2.000	A1	A+	3.177	04/15/2021
713448DX3	12249	Pepsico Inc Corp Note		01/14/2019	5,000,000.00	4,956,212.95	4,956,212.95	2.000	A1	A+	2.876	04/15/2021
717081ES8	12280	PFIZER INC		04/04/2019	250,000.00	252,372.67	252,372.67	2.950	A1	AA	2.692	03/15/2024
717081DR1	12303	PFIZER INC		06/04/2019	5,000,000.00	5,053,716.12	5,053,716.12	5.200	A1	AA	2.190	08/12/2020
717081DZ3	12315	PFIZER INC		09/03/2019	5,000,000.00	5,033,127.62	5,033,127.62	2.200	A1	AA	1.801	12/15/2021
69353RFT0	12360	PNC Bank NA		02/25/2020	4,130,000.00	4,130,000.00	4,130,000.00	1.743		A	1.743	02/24/2023
808513AW5	12196	Charles Schwab Corp		05/22/2018	160,000.00	159,998.18	159,998.18	3.250	A2		3.251	05/21/2021
857477AS2	12158	State Street Corp		08/21/2017	250,000.00	250,622.67	250,622.67	2.550	A1	A	1.874	08/18/2020
857477AS2	12266	State Street Corp		02/19/2019	2,125,000.00	2,123,293.22	2,123,293.22	2.550	A1	A	2.767	08/18/2020
857477AV5	12267	State Street Corp		02/22/2019	8,723,000.00	8,630,078.32	8,630,078.32	1.950	A1	A	2.927	05/19/2021
857477AV5	12269	State Street Corp		02/22/2019	1,300,000.00	1,286,125.47	1,286,125.47	1.950	A1	A	2.929	05/19/2021
857477AV5	12304	State Street Corp		06/04/2019	5,000,000.00	4,980,988.94	4,980,988.94	1.950	A1	A	2.295	05/19/2021
89236TCQ6	12165	Toyota Motor Corporation		08/22/2017	250,000.00	253,059.74	253,059.74	2.800	Aa3	AA-	2.231	07/13/2022
89233P5T9	12231	Toyota Motor Corporation		12/07/2018	5,000,000.00	4,998,246.59	4,998,246.59	3.300	Aa3	AA-	3.320	01/12/2022
89236TEU5	12279	Toyota Motor Corporation		03/22/2019	5,000,000.00	5,017,169.23	5,017,169.23	2.950	Aa3	AA-	2.606	04/13/2021
89233P5F9	12311	Toyota Motor Corporation		07/18/2019	5,000,000.00	5,084,467.18	5,084,467.18	3.400	Aa3	AA-	2.204	09/15/2021
89236TGJ8	12347	Toyota Motor Corporation		01/15/2020	5,000,000.00	5,002,984.57	5,002,984.57	1.800	Aa3	AA-	1.759	10/07/2021
89236TGT6	12358	Toyota Motor Corporation		02/21/2020	130,000.00	129,729.28	129,729.28	1.800	Aa3	AA-	1.845	02/13/2025

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	S&P	YTM	Maturity Date
Medium Term Notes - GC 53601(k)												
882508AY0	12298	Texas Instruments INC		05/30/2019	4,400,000.00	4,413,835.46	4,413,835.46	2.750	A1	A+	2.392	03/12/2021
911312BP0	12170	UNITED PARCEL SERVICE		11/14/2017	200,000.00	199,906.52	199,906.52	2.050	A1		2.099	04/01/2021
91159HHA1	12152	US BANCORP		08/17/2017	250,000.00	256,349.20	256,349.20	4.125	A1	A+	2.215	08/24/2021
91159HHL7	12300	US BANCORP		05/31/2019	4,287,000.00	4,282,342.80	4,282,342.80	2.350	A1	A+	2.484	01/29/2021
91159HHX1	12313	US BANCORP		08/06/2019	200,000.00	201,058.45	201,058.45	2.400			2.270	07/30/2024
91159HHC7	12322	US BANCORP		10/28/2019	3,500,000.00	3,571,533.63	3,571,533.63	3.000	A1	A+	1.888	03/15/2022
92826CAC6	12203	Visa Inc		06/07/2018	250,000.00	247,637.77	247,637.77	2.800	A1	A+	3.178	12/14/2022
931142EJ8	12223	Walmart Inc		10/31/2018	10,000,000.00	10,003,853.57	10,003,853.57	3.125	Aa2	AA	3.091	06/23/2021
Subtotal and Average			242,551,389.89		242,350,000.00	243,333,280.46	243,379,827.30				2.429	
Negotiable CDs - GC 53601(i)												
22535CDU2	12281	Credit Agricole CIB NY		04/04/2019	250,000.00	250,000.00	250,000.00	2.830	A1	A+	2.869	04/02/2021
55379WZT6	12272	MUFG Bank LTD/NY		02/28/2019	10,000,000.00	10,000,000.00	10,000,000.00	2.970		A-1	3.020	02/26/2021
55379WZT6	12273	MUFG Bank LTD/NY		02/28/2019	250,000.00	250,000.00	250,000.00	2.970		A-1	2.970	02/26/2021
867914BM4	12340	SUNTRUST BANKS INC		12/16/2019	5,000,000.00	5,053,531.67	5,053,531.67	2.700	A3	A-	2.072	01/27/2022
87019U6D6	12172	Swedbank		11/17/2017	18,000,000.00	17,902,800.00	18,000,000.00	2.270			2.270	11/16/2020
Subtotal and Average			33,557,149.11		33,500,000.00	33,456,331.67	33,553,531.67				2.473	
Commercial Paper Disc.- GC 53601(h)												
09659BHB9	12327	BNP Paribas NY		11/18/2019	10,000,000.00	9,932,533.33	9,932,533.33	1.840	P-1	A-1	1.889	08/11/2020
09659BHR4	12361	BNP Paribas NY		02/28/2020	12,600,000.00	12,528,460.00	12,528,460.00	1.400	P-1	A-1	1.410	08/25/2020
09659BDL1	12321	BNP Paribas Securities Corp		10/22/2019	16,050,000.00	16,033,990.13	16,033,990.13	1.890	P-1	A-1	1.908	04/20/2020
22533TGF7	12328	Credit Agricole CIB NY		11/18/2019	25,000,000.00	24,866,562.50	24,866,562.50	1.830	P-1	A-1	1.875	07/15/2020
62479LF34	12338	MUFG Bank LTD/NY		12/06/2019	25,000,000.00	24,918,187.50	24,918,187.50	1.870	P-1	A-1	1.888	06/03/2020
62479LH40	12351	MUFG Bank LTD/NY		02/04/2020	10,000,000.00	9,943,055.56	9,943,055.56	1.640	P-1	A-1	1.654	08/04/2020
63873JEL0	12350	Natixis NY Branch		01/31/2020	13,365,000.00	13,334,802.53	13,334,802.53	1.660	P-1	A-1	1.668	05/20/2020
Subtotal and Average			95,261,573.53		112,015,000.00	111,557,591.55	111,557,591.55				1.787	
Fed Agcy Coupon Sec - GC 53601(f)												
3130AF5B9	12222	Federal Home Loan Bank		10/12/2018	10,000,000.00	9,998,469.44	9,998,469.44	3.000			3.011	10/12/2021
3130AEWA4	12243	Federal Home Loan Bank		01/03/2019	10,000,000.00	10,002,980.89	10,002,980.89	2.625	Aaa	AA+	2.563	10/01/2020
3130AFW94	12264	Federal Home Loan Bank		02/15/2019	370,000.00	368,985.96	368,985.96	2.500			2.576	02/13/2024
3137EAEL9	12242	Federal Home Loan Mtg Corp		01/03/2019	10,000,000.00	9,986,541.28	9,986,541.28	2.375	Aaa	AA+	2.533	02/16/2021
3135G0V34	12263	Federal National Mtg Assn		02/08/2019	335,000.00	334,040.21	334,040.21	2.500			2.580	02/05/2024

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	S&P	YTM	Maturity Date
Subtotal and Average			38,973,251.25		30,705,000.00	30,691,017.78	30,691,017.78				2.700	
US Treasury Note-GC 53601(b)												
912828H86	12160	U.S. Treasury		08/18/2017	2,000,000.00	1,992,310.91	1,992,310.91	1.500	Aaa		1.719	01/31/2022
912828T67	12161	U.S. Treasury		08/18/2017	2,000,000.00	1,986,762.01	1,986,762.01	1.250	Aaa	AA+	1.685	10/31/2021
912828Q78	12162B	U.S. Treasury		08/18/2017	1,750,000.00	1,745,753.62	1,745,753.62	1.375	Aaa		1.607	04/30/2021
912828P4	12179	U.S. Treasury		03/12/2018	1,250,000.00	1,229,690.52	1,229,690.52	1.875	Aaa		2.617	07/31/2022
912828K58	12210	U.S. Treasury		06/29/2018	22,400,000.00	22,380,448.77	22,380,448.77	1.375	Aaa	AA+	2.506	04/30/2020
912828XH8	12216	U.S. Treasury		07/31/2018	10,000,000.00	9,975,290.18	9,975,290.18	1.625	Aaa		2.660	06/30/2020
912828Z22	12217	U.S. Treasury		09/14/2018	5,375,000.00	5,343,245.47	5,343,245.47	1.625			2.760	10/15/2020
912828A83	12220	U.S. Treasury		10/01/2018	21,000,000.00	20,929,726.56	20,929,726.56	2.375	Aaa		2.838	12/31/2020
9128284B3	12224	U.S. Treasury		10/31/2018	10,100,000.00	10,055,291.32	10,055,291.32	2.375	Aaa		2.858	03/15/2021
912828B58	12225	U.S. Treasury		10/31/2018	20,000,000.00	19,881,872.72	19,881,872.72	2.125	Aaa		2.861	01/31/2021
9128284D9	12226	U.S. Treasury		11/07/2018	850,000.00	837,756.14	837,756.14	2.500	Aaa		3.017	03/31/2023
912828P79	12227A	U.S. Treasury		11/07/2018	540,000.00	517,705.55	517,705.55	1.500	Aaa		3.022	02/28/2023
912828F21	12228	U.S. Treasury		11/30/2018	20,330,000.00	20,123,924.73	20,123,924.73	2.125	Aaa		2.834	09/30/2021
912828WN6	12229	U.S. Treasury		11/30/2018	15,160,000.00	15,020,514.87	15,020,514.87	2.000	Aaa	AA+	2.824	05/31/2021
9128284W7	12230	U.S. Treasury		11/30/2018	15,000,000.00	14,983,378.10	14,983,378.10	2.750	Aaa		2.834	08/15/2021
912828XM7	12233	U.S. Treasury		12/14/2018	20,000,000.00	19,925,328.26	19,925,328.26	1.625	Aaa		2.784	07/31/2020
912828B90	12239	U.S. Treasury		12/14/2018	20,000,000.00	19,864,280.32	19,864,280.32	2.000	Aaa		2.772	02/28/2021
912828Q37	12240	U.S. Treasury		12/14/2018	19,600,000.00	19,318,984.56	19,318,984.56	1.250	Aaa	AA+	2.744	03/31/2021
912828Q2	12241	U.S. Treasury		12/18/2018	25,550,000.00	25,438,455.91	25,438,455.91	1.500	Aaa	AA+	2.705	08/15/2020
912828G3	12244	U.S. Treasury		01/08/2019	11,240,000.00	11,185,732.65	11,185,732.65	1.750	Aaa		2.547	11/15/2020
912828T91	12245	U.S. Treasury		01/11/2019	500,000.00	484,386.40	484,386.40	1.625	Aaa		2.557	10/31/2023
912828VB3	12246	U.S. Treasury		01/11/2019	785,000.00	766,446.06	766,446.06	1.750	Aaa		2.555	05/15/2023
912828WC0	12248	U.S. Treasury		01/14/2019	20,200,000.00	20,106,741.47	20,106,741.47	1.750	Aaa		2.566	10/31/2020
912828R7	12251	U.S. Treasury		01/15/2019	21,750,000.00	21,789,263.12	21,789,263.12	2.625	Aaa		2.514	12/15/2021
9128283Q1	12252A	U.S. Treasury		01/15/2019	10,000,000.00	9,957,839.75	9,957,839.75	2.000			2.550	01/15/2021
9128283L2	12254	U.S. Treasury		01/31/2019	25,250,000.00	25,129,460.32	25,129,460.32	1.875	Aaa		2.572	12/15/2020
912828VJ6	12255	U.S. Treasury		01/31/2019	21,100,000.00	21,065,497.82	21,065,497.82	1.875	Aaa	AA+	2.553	06/30/2020
912828X96	12256	U.S. Treasury		01/31/2019	25,300,000.00	25,268,635.74	25,268,635.74	1.500			2.551	05/15/2020
912828Z22	12257	U.S. Treasury		01/31/2019	25,300,000.00	25,177,497.54	25,177,497.54	1.625			2.549	10/15/2020
912828L65	12258	U.S. Treasury		01/31/2019	25,500,000.00	25,354,789.85	25,354,789.85	1.375	Aaa	AA+	2.551	09/30/2020
9128284B3	12259	U.S. Treasury		01/31/2019	25,000,000.00	24,967,069.40	24,967,069.40	2.375	Aaa		2.517	03/15/2021
912828V23	12260C	U.S. Treasury		01/31/2019	500,000.00	494,577.87	494,577.87	2.250	Aaa		2.560	12/31/2023
912828U57	12261	U.S. Treasury		02/08/2019	500,000.00	493,600.73	493,600.73	2.125	Aaa		2.498	11/30/2023
912828P38	12262	U.S. Treasury		02/08/2019	700,000.00	686,073.60	686,073.60	1.750	Aaa		2.492	01/31/2023

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	S&P	YTM	Maturity Date
US Treasury Note-GC 53601(b)												
9128284G2	12265	U.S. Treasury		02/19/2019	17,785,000.00	17,759,205.84	17,759,205.84	2.375	Aaa		2.519	04/15/2021
912828B90	12270	U.S. Treasury		02/26/2019	29,000,000.00	28,868,253.75	28,868,253.75	2.000	Aaa		2.514	02/28/2021
912828C57	12271	U.S. Treasury		02/27/2019	10,000,000.00	9,976,892.20	9,976,892.20	2.250	Aaa		2.489	03/31/2021
9128286G0	12274	U.S. Treasury		03/07/2019	400,000.00	397,337.80	397,337.80	2.375	Aaa		0.000	02/29/2024
912828WG1	12277	U.S. Treasury		03/18/2019	10,000,000.00	9,979,518.94	9,979,518.94	2.250	Aaa		2.445	04/30/2021
912828Q78	12283	U.S. Treasury		04/05/2019	10,000,000.00	9,899,838.79	9,899,838.79	1.375	Aaa		2.332	04/30/2021
912828QN3	12285	U.S. Treasury		04/09/2019	24,600,000.00	24,804,966.59	24,804,966.59	3.125	Aaa		2.357	05/15/2021
9128282Q2	12289	U.S. Treasury		04/15/2019	17,675,000.00	17,614,581.74	17,614,581.74	1.500	Aaa	AA+	2.437	08/15/2020
912828VP2	12290	U.S. Treasury		04/23/2019	10,000,000.00	9,986,379.37	9,986,379.37	2.000	Aaa	AA+	2.419	07/31/2020
912828K58	12292	U.S. Treasury		04/26/2019	25,000,000.00	24,979,869.62	24,979,869.62	1.375	Aaa	AA+	2.410	04/30/2020
912828VP2	12293	U.S. Treasury		04/26/2019	25,000,000.00	24,970,075.34	24,970,075.34	2.000	Aaa	AA+	2.368	07/31/2020
912828VJ6	12294	U.S. Treasury		04/26/2019	25,000,000.00	24,968,799.85	24,968,799.85	1.875	Aaa	AA+	2.391	06/30/2020
912828L65	12295	U.S. Treasury		04/26/2019	25,300,000.00	25,178,254.33	25,178,254.33	1.375	Aaa	AA+	2.365	09/30/2020
912828VJ6	12296	U.S. Treasury		05/10/2019	10,000,000.00	9,988,028.33	9,988,028.33	1.875	Aaa	AA+	2.370	06/30/2020
912828WN6	12297	U.S. Treasury		05/17/2019	20,000,000.00	19,946,072.78	19,946,072.78	2.000	Aaa	AA+	2.238	05/31/2021
912828WJ5	12305	U.S. Treasury		06/06/2019	500,000.00	511,269.26	511,269.26	2.500	Aaa	AA+	1.924	05/15/2024
912828XD7	12306	U.S. Treasury		06/06/2019	500,000.00	500,056.63	500,056.63	1.875	Aaa	AA+	1.870	05/31/2022
912828S35	12309	U.S. Treasury		07/12/2019	750,000.00	739,721.53	739,721.53	1.375	Aaa	AA+	1.815	06/30/2023
912828S27	12310	U.S. Treasury		07/17/2019	20,000,000.00	19,820,274.20	19,820,274.20	1.125	Aaa	AA+	1.863	06/30/2021
912828S76	12312	U.S. Treasury		07/19/2019	20,000,000.00	19,810,411.76	19,810,411.76	1.125	Aaa	AA+	1.855	07/31/2021
912828T34	12314	U.S. Treasury		09/03/2019	30,000,000.00	29,819,027.25	29,819,027.25	1.125	Aaa	AA+	1.536	09/30/2021
912828Q29	12320	U.S. Treasury		09/06/2019	950,000.00	954,396.52	954,396.52	1.500	Aaa	AA+	1.341	03/31/2023
912828T67	12330	U.S. Treasury		11/18/2019	40,350,000.00	40,116,173.91	40,116,173.91	1.250	Aaa	AA+	1.624	10/31/2021
912828YM6	12331	U.S. Treasury		11/19/2019	170,000.00	168,751.86	168,751.86	1.500	Aaa	AA+	1.668	10/31/2024
912828U81	12335	U.S. Treasury		11/27/2019	25,000,000.00	25,168,853.40	25,168,853.40	2.000	Aaa	AA+	1.605	12/31/2021
912828S27	12336	U.S. Treasury		11/27/2019	25,000,000.00	24,843,220.54	24,843,220.54	1.125	Aaa	AA+	1.636	06/30/2021
912828RR3	12337	U.S. Treasury		11/27/2019	25,800,000.00	25,964,577.61	25,964,577.61	2.000	Aaa	AA+	1.599	11/15/2021
9128282F6	12339	U.S. Treasury		12/16/2019	9,575,000.00	9,504,345.54	9,504,345.54	1.125	Aaa	AA+	1.656	08/31/2021
9128287A2	12342	U.S. Treasury		12/19/2019	25,000,000.00	24,988,076.85	24,988,076.85	1.625	Aaa	AA+	1.663	06/30/2021
912828Q37	12343	U.S. Treasury		12/19/2019	25,000,000.00	24,902,777.78	24,902,777.78	1.250	Aaa	AA+	1.645	03/31/2021
912828M98	12344A	U.S. Treasury		12/19/2019	20,870,000.00	20,868,858.20	20,868,858.20	1.625	Aaa	AA+	1.633	11/30/2020
912828YT1	12345	U.S. Treasury		12/19/2019	24,900,000.00	24,846,842.70	24,846,842.70	1.500	Aaa	AA+	1.608	11/30/2021
912828YJ3	12349	U.S. Treasury		01/15/2020	11,800,000.00	11,781,413.29	11,781,413.29	1.500	Aaa	AA+	1.607	09/30/2021
912828Z52	12352	U.S. Treasury		02/05/2020	500,000.00	500,037.86	500,037.86	1.375	Aaa	AAA	1.373	01/31/2025
912828YM6	12353	U.S. Treasury		02/05/2020	500,000.00	502,683.66	502,683.66	1.500	Aaa	AA+	1.378	10/31/2024

Exhibit B

Monterey County Daily Reports Portfolio Management Portfolio Details - Investments March 31, 2020

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	Moody's	S&P	YTM	Maturity Date
US Treasury Note-GC 53601(b)												
912828YY0	12354A	U.S. Treasury		02/05/2020	370,000.00	376,370.55	376,370.55	1.750	Aaa	AA+	1.374	12/31/2024
9128286Z8	12355	U.S. Treasury		02/05/2020	250,000.00	253,892.65	253,892.65	1.750	Aaa	AAA	1.371	06/30/2024
912828ZC7	12362	U.S. Treasury		03/04/2020	400,000.00	405,646.26	405,646.26	1.125	Aaa	AA+	0.831	02/28/2025
Subtotal and Average			1,041,452,188.12		1,014,475,000.00	1,011,144,087.92	1,011,144,087.92				2.278	
Supranationals												
4581X0CX4	12201	Inter-America Devel BK		05/31/2018	12,975,000.00	12,961,871.37	12,961,871.37	1.625	Aaa	AAA	2.541	05/12/2020
459058GA5	12195	INTL BK RECON & DEVELP		04/30/2018	15,000,000.00	14,935,555.09	14,935,555.09	1.626	Aaa	AAA	2.675	09/04/2020
Subtotal and Average			37,630,570.79		27,975,000.00	27,897,426.46	27,897,426.46				2.613	
Municipal Bonds												
13063DGA0	12192	California TXBL		04/25/2018	290,000.00	290,003.95	290,003.95	2.800	Aa3	AA-	2.799	04/01/2021
Subtotal and Average			290,004.44		290,000.00	290,003.95	290,003.95				2.799	
Total and Average			1,806,671,646.17		1,817,425,030.14	1,814,484,769.93	1,814,628,516.77				2.148	



Exhibit C Monterey County Aging Report By Maturity Date As of April 1, 2020

Aging Interval:				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value
Aging Interval:	0 days	(04/01/2020 - 04/01/2020)	14 Maturities	345,855,030.14	19.05%	345,855,030.14	345,855,030.14
Aging Interval:	1 - 90 days	(04/02/2020 - 06/30/2020)	12 Maturities	216,190,000.00	11.90%	215,876,068.68	215,829,521.84
Aging Interval:	91 - 365 days	(07/01/2020 - 04/01/2021)	53 Maturities	624,867,000.00	34.31%	622,595,291.28	622,498,091.28
Aging Interval:	366 - 730 days	(04/02/2021 - 04/01/2022)	62 Maturities	596,413,000.00	32.86%	596,197,181.56	596,197,181.56
Aging Interval:	731 - 1095 days	(04/01/2022 - 04/01/2023)	23 Maturities	35,745,000.00	1.42%	25,762,021.08	25,762,021.08
Aging Interval:	1096 - 1460 days	(04/02/2023 - 03/31/2024)	10 Maturities	4,515,000.00	0.25%	4,463,885.88	4,463,885.88
Aging Interval:	1461 days and after	(04/01/2024 -)	13 Maturities	3,840,000.00	0.21%	3,879,038.15	3,879,038.15
Total for 187 Investments				1,827,425,030.14	100.00	1,814,628,516.77	1,814,484,769.93

