

NEW ISSUE – BOOK ENTRY ONLY

RATINGS: S&P: “A”; MOODY’S “A3”  
(See “RATINGS” herein)

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the portion of each Lease Payment constituting interest (and original issue discount) 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 Special Counsel, the portion of each Lease Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See “TAX MATTERS” herein with respect to tax consequences relating to the Certificates.*

**\$68,570,000\***

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**  
**Certificates of Participation**  
**(2019 School Financing Project)**  
**Evidencing the Fractional Interests of the**  
**Owners Thereof in Lease Payments to be Made by the**  
**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**Dated: Date of Delivery**

**Due: October 1, as shown on the inside cover**

*This cover page contains information for general reference only. It is not a complete summary of the Certificates, the Trust Agreement or the Lease. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “RISK FACTORS” herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates. Capitalized terms used but not otherwise defined on the cover page hereof shall have the meanings assigned herein.*

The San Bernardino City Unified School District Certificates of Participation (2019 School Financing Project) (the “Certificates”), are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2019 (the “Trust Agreement”), by and among U.S. Bank National Association, as trustee, the San Bernardino Schools Financing Corporation (the “Corporation”) and the San Bernardino City Unified School District (the “District”). The proceeds of the Certificates will be used to (i) finance capital improvements to District sites and facilities, (ii) purchase a municipal bond debt service reserve fund insurance policy for deposit in the debt service reserve fund established for the Certificates, and (iii) pay certain costs related to the execution and delivery of the Certificates.

Pursuant to a Site Lease, dated as of June 1, 2019, the District will lease certain real property of the District and the school facilities located thereon as further described herein (the “Properties”), to the Corporation, and will lease the Properties back from the Corporation pursuant to a Lease/Purchase Agreement, dated as of June 1, 2019 (the “Lease”), by and between the Corporation and the District. The Certificates evidence fractional interests in Lease Payments to be made by the District, as lessee under the Lease, for use and possession of the Properties. The District has covenanted to budget and appropriate Lease Payments in each fiscal year in consideration of the use and occupancy of the Properties from any source of legally available funds, and to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations therefor. **The District’s obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Properties.**

The Certificates will be delivered in book-entry form only, and will be initially delivered 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 Certificates (the “Beneficial Owners”) will not receive physical certificates representing their interest in the Certificates. The Certificates shall be dated their date of delivery and shall represent interest payable semiannually on each April 1 and October 1, commencing October 1, 2019. The Certificates shall be delivered in denominations of \$5,000 principal amount or any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

**The Certificates are subject to extraordinary prepayment, optional prepayment and mandatory sinking fund prepayment prior to their stated maturity dates as further described herein\*.**

**The District has applied for a municipal bond insurance policy to guarantee the scheduled payment of principal of and interest on the Certificates when due, as well as for a municipal bond debt service reserve insurance policy to be credited to the Reserve Fund, and, if commitments for such policies are issued, the District will determine, prior to the sale of the Bonds, whether to obtain such policies.**

**The obligation of the District to make Lease Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. The obligation of the District to make Lease Payments is subject to the District’s beneficial use and possession of the Properties.**

**Maturity Schedule\***  
**(see inside front cover)**

*The Certificates are offered when, as and if delivered and received by the Underwriter, subject to the approval as to legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, as Special Counsel. Certain matters will be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, for the Underwriter by Katten Muchin Rosenman LLP, New York, New York, and for the Trustee and the Corporation by their respective counsels. It is anticipated that the Certificates in book-entry form will be available for delivery to The Depository Trust Company in New York, New York on or about \_\_\_\_\_, 2019.*

**PiperJaffray**

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

\* 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<sup>(1)</sup>: 796711

\$68,570,000\*  
San Bernardino City Unified School District  
Certificates of Participation  
(2019 School Financing Project)

\$\_\_\_\_\_ Serial Certificates

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>(1)</sup> Suffix</u>
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				

\$\_\_\_\_\_ – \_\_\_\_\_% Term Certificates due October 1, \_\_\_\_\_ – Yield: \_\_\_\_\_%; CUSIP<sup>(1)</sup> Suffix: \_\_\_\_\_

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\* 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. None of the Underwriter, the Municipal Advisor or the District is responsible for the selection, uses 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 or the Underwriter and are included solely for the convenience of the registered owners of the applicable Certificates. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.
- (2) Yield to call at par on the October 1, \_\_\_\_\_ call date.

Certain of the information contained herein, other than that provided by the District, has been obtained from sources that are believed to be reliable. No representation, warranty or guarantee, however, is made by the Underwriter as to the accuracy or completeness of any information in this Official Statement, including, without limitation, the information contained in the Appendices hereto, and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Underwriter.

No dealer, broker, salesperson or other person has been authorized by the District, the Corporation or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Certificates shall under any circumstances create any implication that there has been no change in the affairs of the District, the Corporation or other matters described herein since the date hereof.

This Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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 Underwriter has provided the following sentence for inclusion in this Official Statement:

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

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE CERTIFICATES AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

The District maintains a website. However, the information presented on the District’s website is not incorporated into this Official Statement by any reference, and should not be relied upon in making investment decisions with respect to the Certificates.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**BOARD OF EDUCATION**

Abigail Rosales-Medina, *President*  
Gwendolyn Dowdy-Rodgers, *Vice President*  
Dr. Barbara Flores, *Member*  
Michael J. Gallo, *Member*  
Dr. Margaret Hill, *Member*  
Danny Tillman, *Member*  
Dr. Scott Wyatt, *Member*

**DISTRICT ADMINISTRATION**

Dr. Dale Marsden, *Superintendent*  
Jayne Christakos, *Associate Superintendent Business, Facilities, and Operations*  
Dr. Harold J. Vollkommer, *Deputy Superintendent*

**SPECIAL COUNSEL AND DISCLOSURE COUNSEL**

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

**MUNICIPAL ADVISOR**

Fieldman, Rolapp & Associates, Inc.  
*Irvine, California*

**TRUSTEE**

U.S. Bank National Association  
*Los Angeles, California*

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**\$68,570,000\***  
**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**  
**Certificates of Participation**  
**(2019 School Financing Project)**

**Evidencing the Fractional Interests of the**  
**Owners Thereof in Lease Payments to be**  
**Made by the**  
**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**INTRODUCTION**

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, 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.

This Official Statement provides certain information concerning the sale and delivery of \$68,570,000\* of San Bernardino City Unified School District Certificates of Participation (2019 School Financing Project) (the “Certificates”), evidencing the fractional interests of the Owners thereof (as hereinafter defined) in Lease Payments (as hereinafter defined) to be made by the San Bernardino City Unified School District (the “District”) pursuant to a Lease/Purchase Agreement, dated as of June 1, 2019 (the “Lease”), by and between the San Bernardino Schools Financing Corporation, as lessor (the “Corporation”), and the District, as lessee, for the use and possession of the real property and school facilities thereon known as Paakuma` K-8 School and portions of Captain Leland F. Norton Elementary School (the “Properties”).

**The District**

The San Bernardino City Unified School District (the “District”) was formed on July 1, 1964, and is located in an area encompassing approximately 160 square miles in San Bernardino County (the “County”), approximately 65 miles east of Los Angeles. The District primarily serves a portion of the City of Highland, the majority of the City of San Bernardino and some unincorporated areas of the County. The District operates 49 elementary schools, 10 middle schools, a K-8 school, a middle college high school, six comprehensive high schools, an alternative education school, two continuation high schools, two community day schools, an adult education school, and two special education schools. Enrollment in the District for the 2018-19 school year is 48,936 students and the average daily attendance (“ADA”) for fiscal 2018-19 is projected to be 46,207. The fiscal year 2018-19 assessed valuation of the area served by the District is \$15,519,086,236.

The District is governed by a seven-member Board of Education (the “Board”), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between three and four available positions. The management and policies of the District are administered by a Superintendent 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. Dr. Dale Marsden is currently the Superintendent of the District.

For more information regarding the District, see also “SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT” and “DISTRICT FINANCIAL MATTERS” herein. The District’s audited

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\* Preliminary, subject to change.

financial statements for the fiscal year ended June 30, 2018 are attached hereto as Appendix C and should be read in their entirety.

### **Purpose of the Certificates**

The proceeds of the Certificates will be used to (i) finance capital improvements to District sites and facilities, as further described herein (ii) purchase a municipal bond debt service reserve fund insurance policy for deposit in the debt service reserve fund (the “Reserve Fund”) established for the Certificates, and (iii) pay certain costs related to the execution and delivery of the Certificates. See also “THE PROJECT” and “ESTIMATED SOURCES AND USES OF PROCEEDS” herein.

### **Security and Source of Payment of the Certificates**

The Certificates are being executed and delivered pursuant to a Trust Agreement (the “Trust Agreement”), dated as of June 1, 2019, by and among the District, the Corporation and U.S. Bank National Association, as trustee (the “Trustee”). The District is required under the Lease to pay Lease Payments for the use and possession of the Properties, as further described under the caption “THE PROPERTY” herein. The District is also required to pay any taxes and assessments, and is responsible for all maintenance and repair of the Properties.

Pursuant to an Assignment Agreement, dated as of June 1, 2019 (the “Assignment Agreement”), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners, substantially all of its rights under the Lease and a Site Lease, dated as of June 1, 2019 (the “Site Lease”), by and between the District and the Corporation, including its rights to receive and collect Lease Payments and prepayments from the District under the Lease and rights as may be necessary to enforce the payment of such Lease Payments and prepayments. All rights assigned by the Corporation pursuant to the Assignment Agreement shall be administered by the Trustee in accordance with the provisions of the Trust Agreement for the equal and proportionate benefit of all Owners.

The Certificates evidence fractional and undivided interests in the right to receive Lease Payments and prepayments thereof to be made by the District to the Corporation under the Lease. The Lease Payments are designed to pay, when due, the principal and interest with respect to the Certificates. The District has covenanted in the Lease that it will take such action as may be necessary to include the Lease Payments and other payments due under the Lease in its annual budgets and to make the necessary annual appropriations therefor. See “SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES – Lease Payments” herein. The District’s obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Properties. See “RISK FACTORS - Abatement” herein.

**The obligation of the District to make Lease Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the State of California (the “State”) or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.**

### **Description of the Certificates**

*For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see “THE CERTIFICATES” herein and Appendix A - “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto. The summaries and descriptions*

*in the Official Statement of the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement and other agreements relating to the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in such documents.*

**Registration, Transfers and Exchanges.** The Certificates will be executed and delivered as fully registered Certificates, 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 Certificates (the “Beneficial Owners”), under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates, but will instead receive credit balances on the books of their respective nominees. See Appendix E - “BOOK-ENTRY ONLY SYSTEM” attached hereto. In the event that the book-entry only system described below is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement.

**So long as Cede & Co. is the registered owner of the Certificates, as nominee of DTC, references herein to the “Owners” “Certificate Owners” or “Holders” of the Certificates (other than under the caption “TAX MATTERS,” and in Appendix B) will mean Cede & Co. and will not mean the Beneficial Owners of interests in the Certificates.**

**Payments.** The Certificates shall be dated as of their date of delivery and shall represent interest therefrom, payable semiannually on each October 1 and December 1, commencing October 1, 2019 (each, a “Certificate Payment Date”). Principal with respect to the Certificates shall be payable on each October 1, in the amounts and years as set forth on the inside cover page hereof.

Principal and interest due with respect to the Certificates are payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Certificates, the Beneficial Owners will become the registered Owners of the Certificates and will be paid principal and interest by the Trustee, all as described herein. See Appendix A - “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” and Appendix E – “BOOK-ENTRY ONLY SYSTEM” attached hereto.

**Prepayment.** The Certificates are subject to optional prepayment, extraordinary prepayment and mandatory sinking fund prepayment as further described herein.

**Denominations.** The Certificates are being executed and delivered in minimum denominations of \$5,000 principal amount, or any integral multiple thereof.

**Bond Insurance.** The District has applied for a municipal bond insurance policy (a “Policy”) to guarantee the scheduled payment of principal of and interest on the Certificates when due, as well as for a municipal bond debt service reserve insurance policy (a “Reserve Policy”) to be credited to the Reserve Fund, and, if commitments for such policies are issued, the District will determine, prior to the sale of the Certificates, whether to obtain such policies. See also “BOND INSURANCE.”

In the event of a default in the payment of principal or interest on the Certificates, when all or some becomes due, any Owner of a Certificate may have a claim under any Policy secured in connection with the Certificates. Such a Policy would not insure against redemption premium, if any, with respect to the Certificates. In the event that the provider of a Policy (a “Bond Insurer”) is unable to make payment of principal or interest on Certificates as such payments become due under the Policy, the Certificates will be payable solely as otherwise described herein. In the event that a Bond Insurer becomes obligated to make payments on the Certificates, no assurance can be given that such event would not adversely affect

the market price of the Certificates or the marketability (liquidity) of the Certificates. See also “RISK FACTORS – Risks Relating to Bond Insurance.”

### **Continuing Disclosure**

The District has covenanted for the benefit of the Owners and Beneficial Owners of the Certificates to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District’s Fiscal Year (presently ending on June 30) (the “Annual Report”), commencing with the report for the Fiscal Year ending June 30, 2019, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”). See “CONTINUING DISCLOSURE” herein and Appendix D - “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto.

### **Professionals Involved in the Offering**

U.S. Bank National Association, Los Angeles, California, will act as Trustee with respect to the Certificates. Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, is acting as Special Counsel and Disclosure Counsel with respect to the Certificates. Fieldman, Rolapp & Associates, Inc., Irvine, California is acting as Municipal Advisor to the District with respect to the Certificates. The payment of fees for Special/Disclosure Counsel and the Municipal Advisor are contingent on the execution and delivery of the Certificates and the payment of the purchase price therefor by Piper Jaffray & Co.(the “Underwriter”). Certain matters will be passed on for the Underwriter by Katten Muchin Rosenman LLP, and for the Trustee and the Corporation by their respective counsels. From time to time, Special Counsel represents the Municipal Advisor and the Underwriter on matters unrelated to the District or the Certificates.

### **Certificate Owners’ Risks**

Certain events could affect the ability of the District to make the Lease Payments when due. See “RISK FACTORS” herein, for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Certificates.

### **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 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 the Lease, the Site Lease, the Trust Agreement and the Assignment Agreement are available, upon request, and upon payment to the District of a charge for copying, mailing and handling, from the Superintendent, San Bernardino City Unified School District, 777 North F. Street, San Bernardino, California 92410.

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 Certificates 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 Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of 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 entirety 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 Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement contains brief descriptions of, among other things, the District, the Corporation, the Certificates, the Trust Agreement, the Lease, the Assignment Agreement and the Site Lease and certain other matters relating to the security for the Certificates. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents and agreements are qualified in their entirety by reference to such documents, and agreements and references herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Copies of such documents will be available for inspection at the principal office of the Trustee after delivery of the Certificates. Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Trust Agreement or the Lease.

The sale and delivery of the Certificates to potential investors is made only by means of the Official Statement.

## **THE PROJECT**

The net proceeds of the Certificates are expected to be used to complete the construction of Pacific High School administration space and auditorium, and to provide for kindergarten class modernization, expansion to full day programming and ensuring compliance with the Americans with Disabilities Act at Del Rosa Elementary School, Bradley Elementary School and Manual A. Salinas Creative Arts Elementary School, pursuant to master plan projects. See also “ESTIMATED SOURCES AND USES OF PROCEEDS” herein.

## **THE PROPERTIES**

Pursuant to the Site Lease, the District is leasing the Properties to the Corporation and leasing the Properties back from the Corporation pursuant to the Lease. The Properties consist of the existing site and school facilities known as Paakuma` K-8 School (“Paakuma`”), located at 17825 Sycamore Creek Loop Parkway, San Bernardino, California 92407 and portions of Captain Leland F. Norton Elementary School (“Norton”), located at 747 North Mountain View Avenue, San Bernardino, California 92401. The portions of Norton included as the leased asset under the Site Lease and the Lease include all APNs comprising Norton, excluding APN 0140-294-10 and APN 0140-294-13, which have no building improvements thereon.

Paakuma` was originally constructed in 2015 using proceeds from the sale of District general obligation bonds, developer fees, and State funds. Paakuma` accommodates approximately 900 students, with a current enrollment of 888 students in kindergarten through eighth grades. The site consists of a 20.5-acre site of approximately 76,397 square feet consisting of 4 permanent structures, including 39 classrooms, a gymnasium, a multipurpose room, computer lab, Library and an administration office. The facility supports teaching and learning through its classroom and playground space, science labs, music rooms and a staff resource room. The school also has professional office space for support staff (i.e., speech therapist, psychologist, etc.).

Norton is a state of the art facility completed in 2012, utilizing State funds. Norton accommodates approximately 962 students, with a current enrollment of 536 students in kindergarten through sixth grade. The school site sits on 14.1 acres and has 36 classrooms, a multipurpose room, library, soccer and baseball fields, ball wall, dedicated student drop-off lanes, an administration building, and ample instructional and playground space.

The improvements on the Paakuma` currently has a total estimated insured replacement value of approximately \$50,086,405 and Norton currently has a total estimated insured replacement value of approximately \$51,922,000. See also “RISK FACTORS – Property Values” herein.

## **THE CERTIFICATES**

### **General**

The Certificates will be executed in the aggregate principal amount of \$68,570,000\*. The Certificates will be dated the date of delivery (the “Date of Delivery”), and will be executed as fully registered book-entry Certificates, without coupons, in denominations of \$5,000 principal amount or any integral multiple thereof, and will mature on October 1 of each year, as set forth on the inside cover page hereof.

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\* Preliminary, subject to change.

Interest with respect to the Certificates will be payable each Certificate Payment Date, commencing on October 1, 2019, at the rates per annum set forth on the inside cover page hereof. If a Certificate is executed: (i) as of a Certificate Payment Date, interest with respect thereto will be payable from the date thereto; (ii) after the close of business on the fifteenth day of the month preceding each Certificate Payment Date (whether or not a Business Day) (each, a "Record Date") and before the following Certificate Payment Date, interest with respect thereto will be payable from such following Certificate Payment Date; or (iii) prior to or on September 15, 2019, interest with respect thereto will be payable from the Date of Delivery. Interest with respect to the Certificates will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Certificates evidence and represent fractional and undivided interests of the Owners thereof in the Lease Payments to be made by the District. To the extent Lease Payments are abated or not made under the Lease, all Certificate Owners will receive a proportionate reduction in their payments. See "RISK FACTORS – Abatement" herein. If the Lease is prepaid in part, for any reason, the Certificate Owner will be entitled only to the remaining Lease Payments.

Principal and premium, if any, with respect to the Certificates will be payable upon surrender by the Owners thereof at the principal office of the Trustee. Interest with respect to the Certificates will be payable by wire transfer to a bank account within the United States that is on record with the Trustee as of the Record Date.

## **Prepayment**

***Extraordinary Prepayment.*** The Certificates are subject to prepayment prior to their respective maturity dates on any day, in whole or in part, from the proceeds of any insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Properties remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof (collectively, "Net Proceeds"), which the Trustee shall deposit in the Prepayment Fund or other moneys deposited with the Trustee as provided in the Lease at least 45 days prior to the date set for such extraordinary prepayment and credited towards the prepayment made by the District pursuant to the Lease, at a prepayment price equal to the principal amount thereof, together with accrued interest to the date fixed for prepayment, without premium.

Prepayments from Net Proceeds and the resulting redemption of Certificates that were purchased at a price greater than the applicable redemption price could reduce the otherwise expected yield on such Certificates. See "RISK FACTORS – Extraordinary Prepayment from Net Proceeds."

***Optional Prepayment\****. The Certificates evidencing principal maturing on or after October 1, \_\_\_\_\_ are subject to optional prepayment prior to their stated maturities, in whole or in part, on any day on or after October 1, \_\_\_\_\_, from any lawfully available source of funds in the event the District exercises its option under the Lease to prepay the principal component of the Lease Payments (in integral multiples of \$5,000), at the principal amount thereof, plus accrued interest to the date fixed for prepayment, without premium.

***Mandatory Sinking Fund Prepayment.*** The Certificates evidencing principal maturing on October 1, \_\_\_\_\_, are subject to prepayment prior to maturity from mandatory sinking fund prepayments of the principal component of Lease Payments, on October 1 of each year on and after October 1, \_\_\_\_\_, at a prepayment price equal to the principal amount thereof, plus accrued interest to the date fixed for

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\* Preliminary, subject to change.

prepayment, without premium. The principal component of such Lease Payments to be so prepaid and the dates therefor and the final payment date is as indicated in the following table:

<b><u>Year Ending</u></b> <b><u>October 1</u></b>	<b><u>Principal Component</u></b> <b><u>To Be Prepaid</u></b>
------------------------------------------------------	------------------------------------------------------------------

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

***Selection of Certificates for Prepayment.*** Whenever less than all the Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment, from the Outstanding Certificates not previously called for prepayment, as directed by the District or, if the District does not so direct, pro rata among maturities and within each maturity by lot.

### **Prepayment Procedures**

***Notice of Prepayment.*** When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice of the prepayment of the Certificates. Such notice shall specify: (a) the prepayment date, (b) the prepayment price, (c) if less than all of the Outstanding Certificates are to be prepaid, the Certificate numbers (and in the case of partial prepayment, the respective principal amounts), (d) the CUSIP numbers of the Certificates to be prepaid, (e) the place or places where the prepayment will be made, (f) the original date of execution and delivery of the Certificates, (g) the rate of interest payable with respect to each Certificate being prepaid, and (h) any other descriptive information regarding the Certificates needed to identify accurately the Certificates being prepaid. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount evidenced by such Certificate to be prepaid, together with interest accrued to said date, and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

Notice of such prepayment shall be sent (i) by registered or certified mail, postage prepaid, to the Corporation and the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, at least twenty (20) days, but not more than forty-five (45) days, prior to the prepayment date, (ii) by registered or certified mail, postage prepaid, telephonically confirmed facsimile transmission, or overnight delivery service, to the Depository on the date of mailing of notice to the Owners, and (iii) by registered or certified mail, postage prepaid, or overnight delivery service to the national Information Services that disseminate securities redemption notices, on the date notice is mailed to the Owners. Notice of prepayment shall also be sent as required by the Continuing Disclosure Certificate.

Neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

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

“Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system.



Notice having been given to the Owners of the Certificates as aforesaid, and the moneys for the prepayment (including the interest to the applicable date of prepayment), having been set aside in the Prepayment Fund or as otherwise permitted by the Trust Agreement, the Certificates shall become due and payable on said date of prepayment, and upon presentation and surrender thereof at the Principal Office of the Trustee, said Certificates shall be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment.

***Effect of Notice of Prepayment.*** If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to said date of prepayment, shall be held by the Trustee (or such other escrow agent as shall be selected by the District) so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, interest with respect to the Certificates to be prepaid shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid, without liability for interest thereon.

***Rescission of Notice of Prepayment.*** With respect to any notice of prepayment of Certificates, unless upon the giving of such notice such Certificates shall be deemed to have been defeased pursuant to the Trust Agreement, such notice shall state that such prepayment shall be conditional upon the receipt by the Trustee (or an independent escrow agent selected by the District) on or prior to the date fixed for such prepayment of the moneys necessary and sufficient to pay the principal, premium, if any, and interest with respect to such Certificates to be prepaid, and that if such moneys shall not have been so received said notice shall be of no force and effect, the Certificates shall not be subject to prepayment on such date and the Certificates shall not be required to be prepaid on such date. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made and the Trustee shall within a reasonable time thereafter give notice, to the persons to whom and in the manner in which the notice of prepayment was given, that such moneys were not so received.

### **Additional Certificates**

Under the terms of the Trust Agreement the District is authorized to sell Additional Certificates secured by Lease Payments for use and occupancy of the Properties. Such Additional Certificates would be payable from legally available moneys of the District and be subject to appropriation. See Appendix A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Trust Agreement" attached hereto.

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## SEMI-ANNUAL CERTIFICATE PAYMENT SCHEDULES

Lease Payments are required to be made by the District under the Lease on or before March 15 and September 15 of each year (each, a “Lease Payment Date”) for the use and possession of the Properties for the period commencing as of the Date of Delivery and terminating on October 1, 2038, or extended as provided in the Lease. The Lease requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee under the Trust Agreement (the “Lease Payment Fund”). On each Certificate Payment Date, the Trustee will withdraw from the Lease Payment Fund the aggregate amount of such Lease Payments and will apply such amounts to make principal and interest payments represented by the Certificates when due.

The table on the following page summarizes the semi-annual Certificate payment requirements of the District.

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Payments</u>	<u>Annual Payments</u>
10/1/2019				
4/1/2020				
10/1/2020				
4/1/2021				
10/1/2021				
4/1/2022				
10/1/2022				
4/1/2023				
10/1/2023				
4/1/2024				
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10/1/2034				
4/1/2035				
10/1/2035				
4/1/2036				
10/1/2036				
4/1/2037				
10/1/2037				
4/1/2038				
10/1/2038				
<b>Total</b>				

*Source: The Underwriter.*

## **SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES**

**Neither the Certificates nor the obligation of the District to make Lease Payments constitutes an obligation of the District for which the District is obligated to levy or pledge, or for which the District has levied or pledged, any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the State or any of its political subdivisions within the meaning of any constitutional limitation or violates any statutory debt limitation.**

### **General**

Each Certificate represents a fractional interest in the Lease Payments and prepayments to be made by the District to the Trustee under the Lease. The District is obligated to pay Lease Payments from any source of legally available funds, and has covenanted in the Lease to include all Lease Payments coming due in its annual budgets and to make the necessary annual appropriations therefor. The Corporation, pursuant to the Assignment Agreement, has assigned all of its rights under the Lease (excepting certain rights as specified therein), including the right to receive Lease Payments and prepayments, to the Trustee for the benefit of the Owners. By the fifteenth day of each March and September (if such day is not a Business Day, the next succeeding Business Day), the District must pay to the Trustee a Lease Payment (to the extent required under the Lease) which is equal to the amount necessary to pay the principal, if any, and interest due with respect to the Certificates on the next succeeding Certificate Payment Date.

Under the Lease, the District agrees to pay certain taxes, assessments, utility charges, and insurance premiums charged with respect to the Properties and the Certificates and fees and expenses of the Trustee. The District is responsible for repair and maintenance of the Properties during the term of the Lease. The District may at its own expense in good faith contest such taxes, assessments and utility and other charges if certain requirements set forth in the Lease are satisfied, including obtaining an opinion of counsel that the Properties will not be subjected to loss or forfeiture.

The District's obligation to make Lease Payments will be abated in the event of, and to the extent of, substantial interference with use and possession of the Properties arising from damage, destruction, or taking by eminent domain or condemnation of the Properties. Abatement would not constitute a default under the Lease and the Trustee would not be entitled in such event to pursue remedies against the District. See "RISK FACTORS - Abatement" herein.

Should the District default under the Lease, the Trustee, as assignee of the Corporation, may terminate the Lease and re-lease the Properties or may retain the Lease and hold the District liable for all Lease Payments thereunder on an annual basis. See also "RISK FACTORS – Limited Recourse on Default" herein. Under no circumstances will the Trustee have the right to accelerate Lease Payments. See "RISK FACTORS - No Acceleration Upon Default" herein.

### **Lease Payments**

Subject to the provisions of the Lease regarding abatement in the event of loss of use and possession of any portion of the Properties (see "RISK FACTORS - Abatement" herein) and prepayment of Lease Payments (see the provisions relating to prepayment under the caption "THE CERTIFICATES" above), the District agrees to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Properties, the Lease Payments to be due and payable on each Lease Payment Date.

Any monies deposited in the Lease Payment Fund during the month preceding a Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) shall be credited to the payment of Lease Payments due and payable on such Lease Payment Date.

The Trust Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on April 1 and October 1 of each year, commencing October 1, 2019, the Trustee will apply such amounts in the Lease Payment Fund as are necessary to make interest and principal payments, respectively, with respect to the Certificates as the same shall become due and payable, in the amounts specified in the Lease.

### **Bond Insurance**

The District has applied for municipal bond insurance to guarantee the scheduled payment of principal of and interest on the Certificates when due, which bond insurance, if purchased, would be issued concurrently with the delivery of the Certificates.

### **Reserve Fund**

A debt service reserve fund (the "Reserve Fund") is established by the Trust Agreement. Upon the execution and delivery of the Certificates, the District expects to deposit into the Reserve Fund a municipal bond debt service reserve insurance policy (a "Reserve Policy") or proceeds of the Certificates in an amount equal to the Reserve Requirement. The term "Reserve Requirement" means, as of any calculation date, an amount equal to the least of (i) the maximum aggregate annual Lease Payments (in any Fiscal Year, as defined in the Trust Agreement) then payable under the Lease, (ii) 125% of the average annual aggregate Lease Payments (in any Fiscal Year) then payable under the Lease, or (iii) 10% of the original face amount of the Certificates and/or the Additional Certificates, as applicable (the "Reserve Requirement"). The full amount available in the Reserve Fund may be used by the Trustee in the event of abatement or failure by the District to make Lease Payments with respect to the Certificates. Subject to the requirements and restrictions contained in the Trust Agreement, the District may substitute for a Reserve Policy or moneys on deposit in the Reserve Fund another line of credit, letter of credit, an insurance policy, or any other comparable credit facility (each, a "Reserve Facility"), or alternatively cash, or any combination thereof, which in the aggregate makes funds available in the Reserve Fund in an amount equal to the Reserve Requirement, as provided in the Trust Agreement.

The District is obligated to replenish the Reserve Fund up to the Reserve Requirement by paying reserve replenishment rent under the Lease ("Reserve Replenishment Rent") to the extent that amounts have been withdrawn from the Reserve Fund or a draw has been made on a Reserve Facility, thereby reducing the amounts available thereunder to pay principal of or interest with respect to the Certificates, or there shall be a valuation deficiency in the Reserve Fund together with all amounts available under any Reserve Facility resulting from a decrease of 10% or more of the market value of the Permitted Investments therein. Reserve Replenishment Rent will be paid, however, only if (i) Lease Payments are not in abatement, (ii) the amount of such Lease Payments is less than the fair rental value of the Property and (iii) the amount on deposit in the Reserve Fund is less than the Reserve Requirement, or the amount on deposit in the Lease Payment Fund is less than the amount required to be on deposit therein corresponding to the cumulative gross Lease Payments. See Appendix A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease Agreement – Agreement to Lease; Term of Lease; Lease Payments – Lease Payments – Reserve Replenishment Rent" attached hereto.

To the extent that the conditions to payment of Reserve Replenishment Rent are satisfied under the Lease, the District will be obligated to pay Reserve Replenishment Rent to the Trustee regardless of whether or not the District is in default under the Lease. Interest or income received by the Trustee on investment of moneys in the Reserve Fund will be retained in the Reserve Fund so long as amounts on deposit in the Reserve Fund are less than the Reserve Requirement. In the event that amounts on deposit in the Reserve Fund exceed the Reserve Requirement, subject to the requirement of transfers to the Rebate Fund, such excess shall be transferred to the Lease Payment Fund on or before March 15 and September 15 of each year, and may be applied to the Lease Payments next coming due from the District.

### **Additional Payments**

In addition to the Lease Payments, the District shall also pay such Additional Payments as shall be required for the payment of all administrative costs of the Corporation relating to the Properties or the Certificates, including without limitation, all expenses, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, fees and payments due to [Insurer] in connection with the Policy or Reserve Policy, fees and payments to the provider of any other Reserve Facility, taxes of any sort whatsoever payable by the Corporation as a result of its interest in the Properties or undertaking of the transactions contemplated in the Lease or the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement including premiums or insurance maintained pursuant to the Lease to indemnify the Corporation and its employees, officers and directors, and the Trustee and its agents, successors and assigns. The District's obligation to make Additional Payments will be abated in the event of, and to the extent of, substantial interference with use and possession of the Properties arising from damage, destruction, or taking by eminent domain or condemnation of the Properties. See "RISK FACTORS – Abatement" herein.

### **Insurance**

Pursuant to the Lease, the District will obtain a CLTA leasehold title insurance policy on the Properties in an amount equal to the aggregate principal component of Certificates Outstanding. The Lease also requires that the District maintain rental interruption insurance to insure against loss of Lease Payments from the Properties in an amount not less than the maximum remaining scheduled Lease Payments in any future twenty-four-month period. The District is obligated to obtain a standard comprehensive general public liability and property damage insurance policy or policies and workers' compensation insurance. The District is also obligated to procure and maintain casualty insurance providing coverage against loss or damage to the Properties. The District is not required to maintain flood or earthquake insurance. See "RISK FACTORS – Natural Disasters; Absence of Earthquake and Flood Insurance" herein, and Appendix A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease" attached hereto.

The proceeds of any rental interruption insurance will be paid to the Trustee and deposited in the Lease Payment Fund to be credited towards the payment of the Lease Payments in the order in which such Lease Payments become due and payable. The Lease requires the District to apply the Net Proceeds of any insurance award received by it either to replace or repair the Properties or to prepay Certificates if certain certifications with respect to the adequacy of the Net Proceeds to make repairs, and the timing thereof, cannot be made. The amount of Lease Payments will be abated and Lease Payments due under the Lease may be reduced during any period in which material damage or destruction to all or part of the Properties substantially interferes with the District's use and possession thereof. See "RISK FACTORS – Extraordinary Prepayment from Net Proceeds" and "—Abatement" herein.

## ESTIMATED SOURCES AND USES OF PROCEEDS

The estimated uses of total proceeds, reflecting proceeds to be received from the sale of the Certificates, are as follows:

	<u>Total</u>
<u>Sources</u>	
Principal Amount	
Plus Original Issue Premium	
Total	
<u>Uses</u>	
Building Fund <sup>(1)</sup>	
Lease Payment Fund	
Delivery Costs <sup>(2)</sup>	
Total	

<sup>(1)</sup> Reflects the deposit to the Building Fund for Project Costs. An additional deposit shall be made to the Building Fund for the payment of the Delivery Costs associated with the Certificates (less Policy and Reserve Policy premiums, which shall be wired directly to the Insurer by the Underwriter).

<sup>(2)</sup> Reflects all initial costs of executing and delivering the Certificates, including but not limited to the Underwriter's discount, legal and municipal advisory fees, printing fees, the fees of the Trustee, Policy and Reserve Policy premiums, if any, and other miscellaneous costs of issuance.

## RISK FACTORS

*The following factors, together with all other information provided in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. The discussion below does not purport to be, nor should it be construed to be, complete nor a summary of all factors which may affect the financial condition of the District, the District's ability to make Lease Payments in the future, the effectiveness of any remedies that the Trustee may have or the circumstances under which Lease Payments may be abated. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

*No representation is made as to the future financial condition of the District. Payment of the Lease Payments is a general fund obligation of the District and the ability of the District to make Lease Payments may be adversely affected by its financial condition as of any particular time.*

### General Considerations - Security for the Certificates

The obligation of the District to make the Lease Payments does not constitute a debt of the District or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State is obligated to levy or pledge any form of taxation or for which the District or the State has levied or pledged any form of taxation.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease to pay the Lease Payments and Additional Payments from any source of legally available funds and the District has covenanted in the Lease that it will take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease in its annual budgets and to make necessary annual appropriations for all such rental payments. The District is

currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments.

The District has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Lease Payments and other payments due under the Lease.

### **Extraordinary Prepayment from Net Proceeds**

Prepayment of the Certificates from Net Proceeds could be made as provided in the Trust Agreement, and the resulting prepayment of Certificates that were purchased at a price greater than the applicable prepayment price could reduce the otherwise expected yield on such Certificates.

### **Constitutional and Statutory Provisions Affecting Taxes and Appropriations**

Article XIII B of the State Constitution places certain limits on the appropriations the District is permitted to make. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

### **Abatement**

The obligation of the District under the Lease to pay Lease Payments is in consideration for the use and possession of the Properties. The obligation of the District to make Lease Payments (as well as Additional Payments and Reserve Replenishment Rent) may be abated in whole or in part if the District does not have full use and possession of the Properties.

The amount of Lease Payments (as well as Additional Payments and Reserve Replenishment Rent) due under the Lease will be adjusted or abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation, there is substantial interference with the use and possession of any portion of the Properties. During abatement, available moneys on deposit in the Lease Payment Fund and the Reserve Fund, and other special sources of money, including without limitation proceeds of rental interruption insurance, shall be applied to pay the Lease Payments and Additional Payments, as applicable.

If damage or destruction to the Properties results in abatement or adjustment of Lease Payments and the resulting Lease Payments or other special sources of money, including without limitation proceeds of rental interruption insurance, are insufficient to make all payments of principal and interest due with respect to the Certificates during the period that the Properties is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made, and the only remedy available to the Trustee or Owners will be the proceeds from rental interruption insurance. Such insurance is required to provide coverage of Lease Payments for up to two years during this period.

Notwithstanding the foregoing provisions of the Lease and the Trust Agreement specifying the extent of abatement in the event of the District's failure to have use and possession of the Properties, such provisions may be superseded by operation of law and, in such event, the resulting Lease Payments of the District may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Certificates Outstanding.

## **Natural Disasters; Absence of Earthquake and Flood Insurance**

The District, like all California communities, may be subject to unpredictable seismic activity, fires, floods, droughts and other natural disasters. Southern California is a seismically active area, which presents a potential risk for damage to buildings, roads and property within the District, including the Properties. While the Properties is not located within an Alquist Priolo Earthquake Study Zone, it is located near several geological faults, including the Mt. General Fault and the Harper Lake Fault. In addition, the Properties is not located within a 100-year flood plain.

The District is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake or flood insurance on the Properties being leased, and does not anticipate doing so. Thus, if seismic activity, flooding or other natural disasters caused significant damage to the Properties, the value of such property could be adversely affected. The District is not able to predict whether or to what extent such damage might occur.

Public school construction in the State, including the school facilities constructed on the Properties, are entitled and approved through the California Division of State Architect (“DSA”), which reviews building plans and calculations based on three sets of criteria: Seismic and Engineering; Fire, Life, Safety; and Access. DSA applies the State building code standards and requires that certain buildings are compliant with the Field Act for Public Schools set forth in Sections 17280 & 81130 *et seq* of the Education Code (the “Field Act”). The Field Act sets forth structural design standards to enable school buildings meet a higher threshold of seismic safety, ensuring safety for students and building occupants in the event of an earthquake.

## **Other Limitations on Liability**

Although the District covenants to budget and appropriate annually to provide for Lease Payments, the District has not pledged its full faith and credit to such payment. In the event that the District’s revenue sources are less than its total obligations in any year, the District could choose to fund other District services before paying one or all of the annual Lease Payments.

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

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



### **No Acceleration Upon Default**

In the event of a default by the District, the remedy of acceleration of the remaining Lease Payments is not available. The District will only be liable for Lease Payments on an annual basis, and the Trustee would in the event of default be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in the State.

### **Limited Recourse on Default**

The Lease and the Trust Agreement provide that the Trustee may take possession of the Properties and re-lease it if there is a default by the District and that, in the event such re-leasing occurs, the District would be liable for any resulting deficiency in the Lease Payments. The Lease provides that the Trustee may have such rights of access to the Properties as may be necessary to exercise any remedies. Portions of the Properties may not be easily recoverable, because they may be affixed to property not owned by the District and, even if recovered, may be of little or no value to others. Furthermore, due to the essential nature of the Properties in relation to the District, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto. The Trustee is not empowered to sell the Properties for the benefit of the Owners. In the event of a default, there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease. The District will be liable for Lease Payments only on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's Lease Payments.

Alternatively, the Trustee may terminate the Lease with respect to the Properties and proceed against the District to recover damages pursuant to the Lease. Any suit for money damages would be subject to limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

### **Substitution of Properties**

The Lease provides that, upon the satisfaction of certain conditions specified therein, the District may substitute other public facilities or real property for all or any portion of the Properties. See Appendix A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease – Covenants with Respect to the Properties – Substitution or Release of the Properties." The Lease requires that any property which will comprise the Properties after such a substitution must have a useful life and fair rental value at least equal to the useful life and fair rental value of the Properties at the time of substitution. Such a replacement could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments, Additional Payments and Reserve Replenishment Rent were to occur subsequent to such substitution.

### **Values of Properties**

The District has estimated the value of the real property constituting the Properties. (See "THE PROPERTIES" herein). The estimate makes certain assumptions which could affect the estimate of property value. If any of these assumptions are proven incorrect, there could be a negative impact on value. The estimates as to values are merely the opinions of the District as of the date the Properties were last insured.

The District previously commissioned and received an appraisal of all its school sites, including the Properties. This appraisal was conducted in 2018, using a replacement cost approach. The appraisal concluded that replacement value of the Properties was approximately \$102,008,405 million. The

appraisal excluded, among other things, assets of intangible nature, personal and leased property, and the value of the real property comprising the site of the Properties. The appraisal was based upon a variety of assumptions and limiting conditions, and no representation can be made that a more recent appraisal would reach similar conclusions regarding the replacement cost of the Properties. The estimates of value included herein (see “THE PROPERTY” herein) are opinions of the District as of the date the Properties was last insured.

The fee estate will not be assigned to the Trustee but, rather, the rights of the Corporation under the Lease, which is for a limited term, will be assigned to the Trustee. See Appendix A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” Thus, the value of the real property constituting the Properties and the buildings and improvements thereon are not necessarily an accurate measure of the value of the interest in the Lease assigned to the Trustee.

### **THE CORPORATION**

The San Bernardino Schools Financing Corporation, a nonprofit public benefit corporation, was incorporated on April 18, 1991 pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code). The Corporation was organized for the primary purpose of providing financial assistance to the District by acquiring, constructing, improving and financing various facilities, land and equipment, and by leasing facilities, land and equipment for the use of the District.

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## DISTRICT FINANCIAL MATTERS

### State Funding of Education

School district revenues consist primarily of guaranteed State moneys, local property taxes and funds received from the State in the form of categorical aid under ongoing programs of local assistance. All State aid is subject to the appropriation of funds in the State's annual budget.

**Revenue Limit Funding.** Previously, school districts operated under general purpose revenue limits established by the State Department of Education. In general, revenue limits were calculated for each school district by multiplying the ADA for such district by a base revenue limit per unit of ADA. Revenue limit calculations were subject to adjustment in accordance with a number of factors designed to provide cost of living adjustments ("COLAs") and to equalize revenues among school districts of the same type. Funding of a school district's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Since fiscal year 2013-14, school districts have been funded based on uniform funding grants assigned to certain grade spans. See "—Local Control Funding Formula" herein.

The following table reflects the District's historical ADA and the revenue limit rates per unit of ADA for fiscal years 2008-09 through 2012-13.

**AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT**  
**Fiscal Years 2008-09 through 2012-13**  
**San Bernardino City Unified School District**

<b>Fiscal Year</b>	<b>Average Daily Attendance<sup>(1)</sup></b>	<b>Base Revenue Limit Per ADA<sup>(2)</sup></b>	<b>Deficit Revenue Limit Per ADA<sup>(2)</sup></b>
2008-09	49,333	\$6,126	\$5,645
2009-10	48,428	6,388	5,215
2010-11	48,143	6,444	5,286
2011-12	47,931	6,506	5,165
2012-13	47,013	6,803	5,288

Note: All numbers are rounded to the nearest whole.

<sup>(1)</sup> Reflects ADA as of the second principal reporting period ("P-2 ADA"), which ends on or before the last attendance month prior to April 15 of each school year. An attendance month is equal to each four-week period of instruction beginning with the first day of school for a particular school district.

<sup>(2)</sup> Deficit revenue limit funding, when provided for in State budgetary legislation, reduced the revenue limit allocations received by school districts by applying a deficit factor to the base revenue limit for the given fiscal year, and resulted from an insufficiency of appropriation funds in the State budget to provide for State aid owed to school districts. The State's practice of deficit revenue limit funding was most recently reinstated beginning in fiscal year 2008-09, and discontinued following the implementation of the LCFF (as defined herein).

Source: San Bernardino City Unified School District.

**Local Control Funding Formula.** State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97"), enacted as part of the 2013-14 State budget, established a new system for funding school districts, charter schools and county offices of education. Certain provisions of AB 97 were amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49) ("SB 91").

The primary component of AB 97, as amended by SB 91, is the implementation of the Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations are provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Full implementation of the LCFF is expected to occur over a period of several fiscal

years. Beginning in fiscal year 2013-14, an annual transition adjustment is required to be calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap. For fiscal year 2013-14, State budgetary legislation has allocated \$2.1 billion of funding to begin implementation of the LCFF. See "—State Budget Measures" herein.

The Base Grants per unit of ADA for each grade span are as follows: (i) \$6,845 for grades K-3; (ii) \$6,947 for grades 4-6; (iii) \$7,154 for grades 7-8; and (iv) \$8,289 for grades 9-12. Beginning in fiscal year 2013-14, the Base Grants are to be adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this class size reduction goal in proportion to the growth in their funding over the implementation period. Additional add-ons are also provided to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

School districts that serve students of limited English proficiency ("EL" students), students from low income families that are eligible for free or reduced priced meals ("LI" students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI (foster youth automatically meet the eligibility requirements for free or reduced priced meals). A supplemental grant add-on (each, a "Supplemental Grant") is authorized for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by such districts' percentage of unduplicated EL/LI student enrollment. School districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a "Concentration Grant") equal to 50% of the applicable Base Grant multiplied the percentage of such district's unduplicated EL/LI student enrollment in excess of the 55% threshold.

The table on the following page shows a breakdown of the District's ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2012-13 through 2018-19.

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**ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE**  
**Fiscal Years 2012-13 through 2018-19**  
**San Bernardino City Unified School District**

<b>Fiscal Year</b>	<b>Average Daily Attendance<sup>(1)</sup></b>					<b>Enrollment<sup>(2)</sup></b>	
	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>	<b>Total ADA</b>	<b>Total Enrollment</b>	<b>% of EL/LI Enrollment<sup>(3)</sup></b>
2012-13	16,402.84	11,226.38	6,747.30	12,636.95	47,013.47	49,989	N/A
2013-14	16,425.71	11,306.99	6,669.77	12,671.90	47,074.37	49,889	94.89%
2014-15	16,413.31	11,506.72	6,767.44	12,779.45	47,466.92	50,242	91.40
2015-16	16,242.56	11,769.45	6,813.72	12,500.36	47,326.09	50,211	90.90
2016-17	15,777.83	11,833.03	6,762.13	12,516.48	46,889.47	49,840	88.83
2017-18	15,581.06	11,749.06	6,886.41	12,489.79	46,706.32	49,451	90.13
2018-19 <sup>(4)</sup>	15,357.04	11,134.75	7,216.91	12,390.88	46,099.58	48,936	89.97

<sup>(1)</sup> Except for fiscal year 2018-19, reflects P-2 ADA.

<sup>(2)</sup> For fiscal year 2012-13, reflects certified enrollment as of the October report submitted to the California Basic Educational Data System. For fiscal years 2013-14 and later, reflects certified enrollment as of the fall census day (the first Wednesday in October), which is reported to the California Longitudinal Pupil Achievement Data System in each school year and is used to calculate each school district's unduplicated EL/LI student enrollment. Adjustments may be made to the certified EL/LI counts by the State Department of Education.

<sup>(3)</sup> For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students was expressed solely as a percentage of its total fiscal year 2013-14 enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment was based on the two-year average of EL/LI enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI students has been based on a rolling average of such district's EL/LI enrollment for the current fiscal year and the two immediately preceding fiscal years.

<sup>(4)</sup> Projected.

Source: San Bernardino City Unified School District.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target ("ERT") add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the LCFF implementation period. The District does not qualify for the ERT add-on.

The sum of a school district's adjusted Base, Supplemental and Concentration Grants are multiplied by such district's P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, yields a district's total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district's share of applicable local property taxes. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the Legislature to school districts.

Certain schools districts, known as "basic aid" districts, have allocable local property tax collections that equal or exceed such districts' total LCFF allocation, and result in the receipt of no State apportionment aid. Basic aid school districts receive only special categorical funding, which is deemed to satisfy the "basic aid" requirement of \$120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for basic aid districts is that the legislatively determined allocations

to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The District does not currently qualify as a basic aid district.

***Accountability.*** Regulations adopted by the State Board of Education require that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such districts on the basis of the number and concentration of such EL/LI students, and detail the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts are also required to adopt local control and accountability plans (“LCAPs”) disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by the LCFF. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter. The State Board of Education has adopted a template LCAP for use by school districts.

***Support and Intervention.*** AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district’s LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district’s LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district’s budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP.

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district’s strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to assist the district identify and implement programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts achieve the goals set forth in their LCAPs. On or before October 1, 2015, the State Board of Education is required to develop rubrics to assess school district performance and the need for support and intervention.

The State Superintendent of Public Instruction (the “State Superintendent”) is further authorized, with the approval of the State Board of Education, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State Superintendent is authorized to (i) modify a district’s LCAP, (ii) impose budget revisions designed to improve student outcomes, and (iii) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized to rescind an action required by a local collective bargaining agreement.

**Other State Sources.** In addition to State allocations determined pursuant to the LCFF, the District receives other State revenues consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into the LCFF. Categorical funding for certain programs was excluded from the LCFF, and school districts will continue to receive restricted State revenues to fund these programs.

**Other Revenue Sources**

**Federal and Local Sources.** The federal government provides funding for several of the District’s programs, including special education programs, programs under the Every Student Succeeds Act, and specialized programs such as Drug Free Schools, Innovative Strategies, and Vocational & Applied Technology. In addition, school districts may receive additional local revenues beyond local property tax collections, such as from leases and rentals, interest earnings, interagency services, developer fees, and other local sources.

**Developer Fees.** The District currently collects impact fees on residential development to finance essential school facilities within the District. Residential development is assessed a fee of \$3.79 per square foot. The District maintains a fund, separate and apart from the General Fund to account for developer fees collected by the District. State law requires that developer fees be spent only the construction or reconstruction of school facilities to accommodate growths in enrollment. The following table of developer fee revenues reflects the collection of fees from fiscal year 2012-13 through 2017-18 and a projected amount for fiscal year 2018-19.

**DEVELOPER FEES  
Fiscal Years 2012-13 through 2018-19  
San Bernardino City Unified School District**

<u>Year</u>	<u>Total Revenues</u>
2012-13	\$3,108,726
2013-14	3,442,524
2014-15	4,354,558
2015-16	(119,099) <sup>(1)</sup>
2016-17	4,961,910
2017-18	420,528
2018-19 <sup>(2)</sup>	2,750,577

<sup>(1)</sup> Reflects refund to developer due to prior overpayment of developer fees.

<sup>(2)</sup> Projected.

Source: San Bernardino City Unified School District.

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

The table below summarizes Redevelopment Revenues received by the District for fiscal years 2012-13 through 2017-18. Redevelopment Revenues are deposited in the District’s general fund. Redevelopment Revenues are generally not counted as an offset to the State-paid portion of the District’s LCFF allocation.

**REDEVELOPMENT REVENUES**  
**Fiscal Years 2012-13 through 2017-18<sup>(1)</sup>**  
**San Bernardino City Unified School District**

<u>Year</u>	<u>Redevelopment Revenues</u>
2012-13	\$2,884,965
2013-14	3,519,611
2014-15	5,155,046
2015-16	4,766,125
2016-17	6,422,370
2017-18	4,883,633

<sup>(1)</sup> The District only budgets for Redevelopment Revenues not offset against the State apportionment when they are received.  
*Source: San Bernardino City Unified School District.*

As outlined in a report by Public Economics, Inc., dated August 13, 2018 (the “Report”), the following table shows projected Redevelopment Revenues for fiscal years 2018-19 through 2037-38.

**REDEVELOPMENT REVENUES**  
**Fiscal Years 2018-19 through 2037-38<sup>(1)</sup>**  
**San Bernardino City Unified School District**

<u>Year</u>	<u>Redevelopment Revenues</u>
2018-19	\$5,105,463
2019-20	5,217,316
2020-21	5,117,247
2021-22	5,403,528
2022-23	5,697,383
2023-24	5,981,522
2024-25	6,272,280
2025-26	6,566,778
2026-27	6,854,804
2027-28	7,158,289
2028-29	7,380,374
2029-30	7,558,098
2030-31	7,865,223
2031-32	8,156,981
2032-33	7,822,811
2033-34	8,096,375
2034-35	8,384,227
2035-36	8,677,508
2036-37	8,977,836
2027-38	9,140,728

<sup>(1)</sup> Updated amounts as of fiscal year 2018-19, based on updated assessed valuation growth rates.  
*Source: Public Economics, Inc.*

The Report notes that the Redevelopment Revenues consist of “pass-through” tax increment revenues from 18 individual entitlements to annual payments paid by the County Auditor-Controller in January and June of each year, which are generated from four former redevelopment agencies. The projected Redevelopment Revenues provided in the Report depend on (i) assumed future growth in assessed valuation within 16 redevelopment project areas, (ii) implementation of pass-through-formulas



and of Redevelopment Agency Dissolution Law by the County Auditor-Controller, and (iii) payoff dates of former Redevelopment Agencies' enforceable obligations shown on their respective Recognized Obligation Payment Schedule. The report provides that assessed valuation growth was 3.25% for fiscal year 2016-17 and averaged 5.51% for all years dating back to fiscal year 1958-59. In fiscal year 2016-17, the report projected future Redevelopment Revenues assuming baseline assessed valuation growth of 1% per year for the first four years, 4% per year for the middle four years, and 2% per year for out years.

The District, however, can make no representations that the Redevelopment Revenues will continue to be received by the District in amounts consistent with prior years, particularly in light of the legislation eliminating redevelopment agencies. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 1A and Proposition 22" herein.

### **State 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.

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 is 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 Health and Safety Code Section 33401 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 District 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 [pass-through] 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 revenue limit apportionments from the State may be offset by the future receipt of residual distributions or from unencumbered cash and assets of former redevelopment agencies any other surplus property tax revenues pursuant to the Dissolution Act.

## **State Budget Measures**

*The following information concerning the State’s budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guarantee the accuracy or completeness of this information and has not independently verified such information.*

**2018-19 Budget.** On June 27, 2018, the Governor signed into law the State budget for fiscal year 2018-19 (the “2018-19 Budget”). The following information is drawn from the LAO’s review of the 2018-19 Budget.

To protect against potential future economic recessions, the 2018-19 Budget fully funds the BSA with a total deposit of over \$4.4 billion, including a \$2.6 billion optional deposit in addition to the Constitutionally-required deposit, and adds two additional reserves to State law: the Safety Net Reserve Fund, intended to save money specifically for future expenditures of the CalWORKs and Medi-Cal programs; and the Budget Deficit Savings Account (“BDSA”), which for 2018-19 will temporarily hold the \$2.6 billion optional BSA deposit until May 2019. In May 2019, the optional BSA deposit amount will be adjusted as necessary to reflect updated estimates of revenues, at which point it will be transferred to the BSA. The projected ending balance in the BSA at the end of the 2018-19 fiscal year is expected to

equal the BSA's current constitutional maximum of 10 percent of the estimated general fund revenues for fiscal year 2018-19.

For fiscal year 2017-18, the 2018-19 Budget projects total general fund revenues and transfers of \$129.8 billion and total expenditures of \$127.0 billion. The State is projected to end the 2017-18 fiscal year with total available general fund reserves of \$16.7 billion, including \$7.3 billion in the traditional general fund reserve and \$9.4 billion in the BSA. For fiscal year 2018-19, the 2018-19 Budget projects total general fund revenues of \$133.3 billion and authorizes expenditures of \$138.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$15.9 billion, including \$2.0 billion in the traditional general fund reserve, \$13.8 billion in the BSA and \$200 million in the Safety Net Reserve Fund. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2" herein.

With respect to education funding, the 2018-19 Budget revises the Proposition 98 minimum funding guarantees for both fiscal years 2016-17 and 2017-18, as a result of higher general fund revenues. The 2018-19 Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2016-17 at \$71.6 billion, an increase of \$252 million from the prior year. The 2018-19 Budget revises the minimum funding guarantee for fiscal year 2017-18 at \$75.6 billion, reflecting an increase of \$1.1 billion from the prior year. As part of the 2017-18 increase, the State is making an additional maintenance factor payment of \$789 million, on top of a previous \$536 million payment. After making the approximately \$1.3 billion total payment, the State will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the State is spending at the calculated minimum guarantee.

For fiscal year 2018-19, the 2018-19 Budget sets the minimum funding guarantee at \$78.4 billion, reflecting an increase of \$2.8 billion (or 3.7%) from the revised prior-year level. Fiscal year 2018-19 is projected to be a "Test 2" year, with the increase in the minimum funding guarantee attributable to a 3.67% increase in per capita personal income. With respect to K-12 education, the 2018-19 Budget sets Proposition 98 funding at \$67.9 billion, including \$47.5 billion from the State general fund, reflecting an increase of \$1.3 billion (or 2.7%) from the prior year. Per-pupil spending increases by \$579 (or 5.2%) from the prior year, up to \$11,640.

Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$3.7 billion in Proposition 98 funding to fully implement the LCFF, reaching the target funding targets and funding the statutory 2.71% COLA to the adjusted Base Grants for the prior year. Additionally, the 2018-19 Budget provides nearly an extra 1 percentage point increase in the LCFF rates. The adjusted Base Grants for fiscal year 2018-19 are as follows: \$8,235 for grades K-3, \$7,571 for grades 4-6, \$7,796 for grades 7-8 and \$9,269 for grades 9-12.
- *Low-Performing Students Block Grant* – \$300 million in one-time Proposition 98 funding to provide resources to local education agencies to help certain low-performing students, with funding allocated to local education agencies based on the count of students who did not meet statewide standards in spring 2018 on assessments of reading and math and who are not foster youth, low-income students, English learners, or students with disabilities.
- *State System of Support* – An increase of \$54 million in Proposition 98 funding for county offices of education to provide technical assistance to low-performing local educational agencies.

- *California Collaborative for Educational Excellence* – \$12 million in ongoing Proposition 98 funding for the California Collaborative for Educational Excellence (the “Collaborative”) to assist county offices of education and regional lead agencies. Additionally, the 2018-19 Budget re-appropriates \$5.6 million from prior-year one-time Proposition 98 appropriations for use by the Collaborative for additional statewide trainings and technical assistance.
- *Special Education Local Plan Area (SELPA) Technical Assistance* – \$10 million in Proposition 98 funding for up to ten SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance within the Statewide system of support.
- *Career Technical Education (CTE)* – \$164 million in ongoing Proposition 98 funding to create a new K-12 CTE program funded through the Strong Workforce Program, which is administrated by California Community College Chancellor’s Office, in consultation with the State Department of Education, as well as \$150 million in ongoing Proposition 98 funding to make permanent the State’s Career Technical Education Incentive Grant Program.
- *One-Time Discretionary Funding* – An increase of \$1.1 billion in one-time Proposition 98 funding for school districts, charter schools and county offices of education to use at local discretion. Similar to features included in prior State budgets, these funds would offset any applicable mandate reimbursement claims for these entities.
- *Special Education, Bilingual, and STEM Teachers* – \$75 million in one-time Proposition 98 funding to start new or expand existing teacher residency programs with \$50 million earmarked for special education teachers and \$25 million earmarked for bilingual and STEM teachers; and \$50 million in one-time Proposition 98 funding to provide one-time competitive grants to local educational agencies to fund new or existing local efforts to recruit and retain special education teachers.
- *Classified School Employee Summer Assistance Program* – \$50 million one-time Proposition 98 funding to provide state matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the 2019-20 school year, supplemented by State funding, and paid during the summer recess period.
- *Classified School Employee Professional Development Block Grant Program* – \$50 million one-time Proposition 98 funding for professional development opportunities for classified staff, with a priority on professional development for the implementation of school safety plans.
- *Federal Funds for Academic Enrichment* – \$165 million one-time federal ESSA Title IV funding for academic enrichment, with \$121 million of such funds distributed to local education agencies based on their share of existing Title I funding, and the remainder distributed competitively.
- *Charter School Facility Grant Program* – \$21 million one-time and \$25 million ongoing Proposition 98 funding to reflect increases in programmatic costs.
- *Kids Code After School Program* – \$15 million one-time Proposition 98 funding to fund the inclusion of computer coding in after-school curriculum.

- *Fiscal Crisis and Management Assistance Team (FCMAT)* – \$972,000 Proposition 98 funding to allow FCMAT provide additional assistance for fiscally distressed school districts and provide additional training for county offices of education regarding fiscal oversight of school districts.
- *Kindergarten Facilities* – \$100 million one-time non-Proposition 98 funding to help school districts cover facility costs associated with converting their part-day kindergarten programs into full-day programs.
- *Proposition 51* – a total allocation of \$594 million in Proposition 51 bond funds for K-12 school facility projects.

For additional information regarding the 2018-19 Budget, see the State Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov) and the LAO’s website at [www.lao.ca.gov](http://www.lao.ca.gov). However, the information presented on such websites is not incorporated herein by reference.

**Proposed 2019-20 Budget.** On January 10, 2019, the Governor released his proposed State budget for fiscal year 2019-20 (the “Proposed 2019-20 Budget”). The following information is drawn from the State Department of Finance’s summary, and the LAO’s review of, the Proposed 2019-20 Budget.

For fiscal year 2018-19, the Proposed 2019-20 Budget projects total general fund revenues and transfers of \$136.9 billion and total expenditures of \$144.1 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$18.3 billion, including \$3.9 billion in the traditional general fund reserve, \$13.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund. For fiscal year 2019-20, the Proposed 2019-20 Budget projects total general fund revenues and transfers of \$142.6 billion and authorizes expenditures of \$144.2 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$18.5 billion, including \$2.3 billion in the traditional general fund reserve, \$15.3 billion in the BSA and \$900 million in the Safety Net Reserve Fund. The Governor notes that additional deposits to the BSA are premised on a recent opinion by the California Office of Legislative Counsel which concluded that supplemental payments to the BSA made in prior fiscal years do not count towards calculating its constitutional maximum of 10%. Under the Governor’s new estimates, mandatory deposits to the BSA represent only 8.1% of State general fund taxes. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2” herein.

With respect to education funding, the Proposed 2019-20 Budget revises the Proposition 98 minimum funding guarantees for both fiscal years 2017-18 and 2018-19, as a result of lower-than-anticipated ADA and a year-to-year decline in State general fund revenue growth. The Proposed 2019-20 Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2017-18 at \$75.5 billion, a decrease of \$120.1 million from the prior year. The Proposed 2019-20 Budget revises the minimum funding guarantee for fiscal year 2018-19 at \$77.9 billion, reflecting a decrease of \$525.7 million from the prior year. Notwithstanding these decreases, the Proposed 2019-20 Budget maintains level funding for K-14 education in these years by maintaining a \$44 million overappropriation to the fiscal year 2017-18 minimum guarantee and using settle-up payments to offset otherwise unfunded obligations in fiscal year 2018-19.

For fiscal year 2019-20, the Proposed 2019-20 Budget sets the minimum funding guarantee at \$80.7 billion, reflecting an increase of \$2.8 billion (or 3.6%) from the revised prior-year level. Fiscal year 2019-20 is projected to be a “Test 3” year. With respect to K-12 education, ongoing per-pupil spending is set at \$12,003, reflecting an increase of \$435 from the prior year.

Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$2 billion in Proposition 98 funding for the LCFF, reflecting a 3.46% COLA, and bringing total LFCC funding to \$63 billion.
- *Categorical Programs* – An increase of \$187 million in Proposition 98 funding to support a 3.46% COLA for categorical programs that remain outside the LCFF.
- *Pension Costs* – A \$3 billion, one-time payment from non-Proposition 98 funds to CalSTRS, to reduce long-term liabilities for K-14 school districts. Of this amount, \$700 million would be provided to buy down employer contribution rates in fiscal years 2019-20 and 2020-21. The remaining \$2.3 billion would be paid towards employers’ long-term unfunded liability.
- *State System of Support* – An increase of \$20.2 million in Proposition 98 funding for county offices of education to provide technical assistance to low-performing local educational agencies.
- *Special Education* – \$577 million in Proposition 98 funding (of which \$186 million is one-time) to school districts based on their unduplicated counts of low-income, English learner and disabled students. These funds may be used for either (i) special education services for students with disabilities, or (ii) early intervention programs for students are not yet receiving special education services.
- *Preschool* – \$125 million in non-Proposition 98, ongoing funding to provide 10,000 full-day preschool slots for children from low income families. The Proposed 2019-20 Budget also provides for an increase of \$26.8 million in Proposition 98 funding to reflect the full-year cost of full-day preschool slots implemented during the prior fiscal year.
- *Early Education* – An increase of \$750 million in one-time non-Proposition 98 funding to create more full-day Kindergarten programs. The funds are primarily intended for constructing new or retrofitting existing school facilities needed to operate longer-day programs. The Proposed 2019-20 Budget also includes \$500 million for improvements to early education (including \$245 million for facilities, \$245 million for the child care workforce, and \$10 million to improve access and quality).
- *County Offices of Education* – An increase of \$9 million in Proposition 98 funding for county offices of education, reflecting a 3.46% COLA and ADA changes applicable to the LCFF.
- *Proposition 51* – a total allocation of \$1.5 billion in Proposition 51 bond funds for K-12 school facility projects.

For additional information regarding the Proposed 2019-20 Budget, see the State Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov) and the LAO’s website at [www.lao.ca.gov](http://www.lao.ca.gov). However, the information presented on such websites is not incorporated herein by reference.

**May Revision.** On May 9, 2019, the Governor released his May revision (the “May Revision”) to the Proposed 2019-20 Budget. The following information is drawn from the State Department of Finance’s summary, and the LAO’s review of, the May Revision.

For fiscal year 2018-19, the May Revision projects total general fund revenues and transfers of \$138 billion and total expenditures of \$143.2 billion. The State is projected to end the 2018-19 fiscal year

with total available general fund reserves of \$ 20.1 billion, including \$4.8 billion in the traditional general fund reserve, \$14.4 billion in the BSA and \$900 million in the Safety Net Reserve Fund. For fiscal year 2019-20, the May Revision projects total general fund revenues and transfers of \$143.8 billion and authorizes expenditures of \$147 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$19.5 billion, including \$1.6 billion in the traditional general fund reserve, \$16.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund. As further described herein, the May Revision also calculates that, for the first time, the State will be obligated to make a deposit into the PSSSA, the Proposition 39 reserve established by Proposition 2. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2” herein.

With respect to education funding, the May Revision makes additional revisions to Proposition 98 funding levels for fiscal years 2017-18 and 2018-19. Specifically, the May Revision sets the minimum funding guarantee for fiscal year 2017-18 at \$75.6 billion (including \$53 billion from the State general fund), an increase of \$78.4 million from the level set by the Proposed 2019-20 Budget. For fiscal year 2018-19, the May Revision sets the minimum funding guarantee at \$78.1 billion (including \$54.4 billion from the State general fund), an increase of \$279 million from the Proposed 2019-20 Budget. These increases in funding are primarily attributable to stronger growth in State general fund revenues relative to the administration’s January estimates, as well as a slight upward revision in student attendance estimates.

For fiscal year 2019-20, the May Revision sets the minimum funding guarantee at \$81.1 billion (including \$55.9 billion from the State general fund), an increase of \$389 million from the Proposed 2019-20 Budget. Fiscal year 2019-20 is now projected to be a “Test 1” year. Although total Proposition 98 funding increases during fiscal years 2017-18 through 2019-20, the State general fund share of education funding also increases by approximately \$1.1 billion, due to a decrease in projected property tax revenues over this period.

Other significant adjustments, or additional proposals, with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$70 million Proposition 98 funding in fiscal year 2018-19, as well as a decrease of \$63.9 million to the funding level for fiscal year 2019-20, each relative to the Proposed 2019-20 Budget. These changes reflect adjustments to ADA and the fiscal year 2019-20 COLA that affect the LCFF calculation.
- *Proposition 98 Reserve Deposit* – The May Revision projects that a deposit to the PSSSA of \$389.3 million will be required during fiscal year 2019-20 in order to comply with Proposition 2. The amount of the deposit reflects the difference between the projected “Test 1” funding level in 2019-20, and the prior year’s funding level, as adjusted for growth and inflation. The amount proposed to be deposited into the PSSSA is below the threshold required to trigger certain maximum local reserve levels for school districts created by State legislation approved in 2014 (as amended in 2017). See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2 – SB 858; SB 751.”
- *Categorical Programs* – A decrease of \$7.4 million in Proposition 98 funding for selected categorical programs relative to the amount set in the Proposed 2019-20 Budget, reflecting a change in the COLA from 3.46% to 3.26%. The May Revision also provides an increase of \$7.6 million in Proposition 98 funding for selected categorical programs, based on updated ADA estimates.

- *Pension Costs* – An increase of \$150 million to the one-time, non-Proposition 98 funding provided in the Proposed 2019-20 Budget to reduce long-term STRS liabilities for K-14 school districts. As a result, employer contribution rates for fiscal year 2019-20 would be effectively reduced to 16.7%.
- *Workforce Development* - \$89.8 million in one-time, non-Proposition 98 funding to provide for a teacher loan forgiveness program for newly credentialed teachers to work in high-need subject matter areas such as special education and STEM (Science, Technology, Engineering and Math). The May Revision also includes \$44.8 million in one-time, non-Proposition 98 funding to provide training and resources for classroom educators, and \$13.9 million in ongoing federal funding for professional learning opportunities for public K-12 administrators.
- *Special Education* – A total of \$696.2 million in ongoing Proposition 98 funding for special education. This reflects a \$119.2 million increase from the amount set in the Proposed 2019-20 Budget, and would be a 21% increase from the prior year.

For additional information regarding the May Revision, see the State Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov) and the LAO’s website at [www.lao.ca.gov](http://www.lao.ca.gov). However, the information presented on such websites is not incorporated herein by reference.

***Future Actions.*** 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. State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District.

### **Investment of District Funds**

Most District funds are deposited with the Treasurer-Tax Collector of the County (the “Treasurer”) to the credit of the proper fund of the District. The Treasurer is responsible for the investment of the funds of the County, and certain classes of involuntary depositors such as school districts (including District funds which will be used to make the Lease Payments), community college districts and certain special districts in the County, are required under state law to be deposited into the County treasury. In addition, certain agencies invest certain of their funds in the County treasury on a voluntary basis. Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the “Investment Pool”). For more information regarding the Investment Pool, see Appendix G – “SAN BERNARDINO COUNTY INVESTMENT POOL.”

### **Accounting Practices**

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

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



susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

### **Comparative Financial Statements**

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's audited financial statements for the year ended June 30, 2018 are included for reference in Appendix C hereto. The table on the following page shows a summary of the District's audited general fund revenues, expenditures and changes in fund balance for fiscal years 2013-14 through 2017-18.

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**AUDITED GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES  
AND FUND BALANCES<sup>(1)</sup>**

**Fiscal Years 2013-14 through 2017-18  
San Bernardino City Unified School District**

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
<b>Revenue</b>					
LCFF Sources	\$348,824,324	\$404,554,217	\$472,250,483	\$502,148,915	\$511,267,773
Federal sources	52,585,744	45,544,060	43,116,962	49,453,277	57,321,301
Other state sources	83,448,519	79,198,489	99,005,875	83,450,621	93,273,229
Other local sources	<u>8,796,250</u>	<u>17,390,095</u>	<u>10,518,558</u>	<u>13,197,225</u>	<u>9,794,239</u>
<b>Total Revenues</b>	493,654,837	546,686,861	624,891,878	648,250,038	671,656,542
<b>Expenditures</b>					
Current					
Instruction	302,867,661	333,119,516	363,144,910	376,599,095	396,078,054
Instruction-related activities:					
Supervision of instruction	19,588,399	25,238,172	25,505,553	30,032,268	36,672,756
Instructional library, media and technology	2,911,129	2,983,860	3,443,878	3,596,649	3,981,203
School site administration	43,091,503	48,503,266	42,777,148	47,434,197	52,633,377
Pupil services:					
Home-to-school transportation	15,643,417	16,829,734	20,862,016	22,350,969	21,118,489
Food services	--	--	11,484	53,611	34,048
All other pupil services	31,429,739	36,688,358	40,617,202	45,520,927	52,037,709
Administration:					
Data processing	5,678,832	6,315,204	6,971,084	7,402,365	8,409,292
All other administration	21,100,872	21,418,911	20,351,505	21,571,221	20,375,595
Plant services	48,304,026	52,789,056	62,355,644	64,469,172	67,579,073
Facility acquisition and construction	4,353,214	2,107,483	4,594,702	4,573,394	7,685,595
Community services	1,362,385	1,233,138	1,405,271	1,287,536	786,390
Other outgo	9,776	706,933	391,341	430,478	646,770
Debt service					
Principal	--	1,760,588	1,155,701	104,941	109,466
Interest and other	<u>2,854,039</u>	<u>1,346,198</u>	<u>38,839</u>	<u>13,545</u>	<u>15,845</u>
<b>Total Expenditures</b>	499,194,992	551,040,417	593,626,278	625,440,368	668,163,662
<b>Excess (deficiency) of revenues over expenditures</b>	(5,540,155)	(4,353,556)	31,265,600	22,809,670	3,492,880
<b>Other Financing Sources (Uses):</b>					
Transfers in	13,049	74,785	59,977	--	--
Other sources – capital lease	--	3,284,035	--	--	--
Transfers out	<u>(553,584)</u>	<u>(1,412,608)</u>	<u>(1,896,851)</u>	<u>(1,155,932)</u>	<u>(2,121,667)</u>
<b>Net Financing Sources (Uses)</b>	(540,535)	1,946,212	(1,836,874)	(1,155,932)	(2,121,667)
<b>NET CHANGE IN FUND BALANCE</b>	(6,080,690)	(2,407,344)	29,428,726	21,653,738	1,371,213
<b>Fund Balance — Beginning</b>	<u>62,148,755</u>	<u>56,068,065</u>	<u>53,660,721</u>	<u>83,089,447</u>	<u>104,743,185</u>
<b>Fund Balance — Ending</b>	<u>\$56,068,065</u>	<u>\$53,660,721</u>	<u>\$83,089,447</u>	<u>\$104,743,185</u>	<u>\$106,114,398</u>

<sup>(1)</sup> From the District's comprehensive audited financial statements for fiscal years 2013-14 through 2017-18, respectively. Reflects restricted and unrestricted general fund activity, as well as the activity of the Special Reserve Fund for Other Than Capital Outlay Projects, the Deferred Maintenance Fund and the Special Reserve Fund for Postemployment Benefits, pursuant to the fund type definitions promulgated by GASB Statement No. 54. All amounts rounded to nearest whole number.

Source: San Bernardino City Unified School District.

## **Budget Process**

***State Budgeting Requirements.*** The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 (“AB 1200”), which became State law on October 14, 1991. Portions of AB 1200 are summarized below. Additional amendments to the budget process were made by Assembly Bill 2585, effective as of September 9, 2014, including the elimination of the dual budget cycle option for school districts. All school districts must now be on a single budget cycle.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations, if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, whether the budget includes the expenditures necessary to implement a LCAP, and whether the budget’s ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before September 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by September 15 of the county superintendent’s recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent’s recommendations. The committee must report its findings no later than September 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than October 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget may be disapproved.

A school district whose budget has been disapproved must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent’s recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final school district budgets and not later than November 8, must approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. No later than November 8, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved. Until a school district’s budget is approved, the school district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

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***Interim Financial Reports.*** Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

***General Fund Budgeting.*** The table on the following page show the District's general fund adopted budgets for the years 2015-16 through 2018-19, audited general fund results for the fiscal years 2015-16 through 2017-18, and projected ending results for the fiscal year 2018-19.

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**GENERAL FUND BUDGETING<sup>(1)</sup>**  
**Fiscal Years 2015-16 through 2018-19**  
**San Bernardino City Unified School District**

	2015-16		2016-17		2017-18		2018-19	
	<u>Budgeted<sup>(2)</sup></u>	<u>Audited<sup>(2)</sup></u>	<u>Budgeted<sup>(2)</sup></u>	<u>Audited<sup>(2)</sup></u>	<u>Budgeted<sup>(2)</sup></u>	<u>Audited<sup>(2)</sup></u>	<u>Budgeted<sup>(3)</sup></u>	<u>Projected Actuals<sup>(3)</sup></u>
<b>REVENUES</b>								
LCFF Sources	\$472,542,164	\$472,250,483	\$502,534,382	\$502,148,915	\$510,210,430	\$511,267,773	\$537,819,675	\$540,138,679
Federal sources	43,080,353	43,116,962	42,978,223	49,453,277	44,503,620	57,321,301	50,442,057	61,707,444
Other State sources	81,456,733	99,005,875	63,251,374	83,450,621	68,092,912	93,273,229	90,579,163	91,559,809
Other local sources	<u>5,139,941</u>	<u>10,518,558</u>	<u>5,508,753</u>	<u>13,197,225</u>	<u>6,071,311</u>	<u>9,794,239</u>	<u>6,209,458</u>	<u>11,004,058</u>
<b>Total Revenues</b>	602,219,191	624,891,878	614,272,733	648,250,038	628,878,273	671,656,542	685,050,353	704,409,990
<b>EXPENDITURES</b>								
Certificated salaries	278,533,596	253,651,990	282,494,361	273,041,212	275,600,921	285,876,385	291,572,165	292,627,336
Classified salaries	78,597,295	72,088,859	81,886,131	79,931,361	82,565,651	84,698,050	89,312,275	88,862,706
Employee benefits	119,849,857	126,011,554	127,873,557	144,735,476	152,664,231	156,318,083	176,633,544	174,791,463
Books and Supplies	45,985,743	38,841,460	36,904,088	34,340,637	38,006,755	34,971,824	41,176,861	48,454,622
Services and operating expenditures	97,615,268	96,658,652	102,057,491	88,683,190	96,352,844	99,088,694	97,514,067	112,127,079
Capital outlay	6,779,271	7,156,329	4,057,458	6,363,063	4,061,635	8,233,314	22,810,089	26,906,457
Other outgo	(2,297,521)	(1,970,605)	(2,032,815)	(1,773,057)	(1,574,004)	(1,147,999)	(1,362,003)	(2,975)
Debt Service – principal	--	1,155,701	--	104,941	--	109,466	--	--
Debt Service – interest	--	<u>32,338</u>	--	<u>13,545</u>	--	<u>15,845</u>	--	--
<b>Total Expenditures</b>	625,063,509	593,626,278	633,240,271	625,440,368	647,678,033	668,163,662	717,656,999	742,331,460
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(22,844,318)	31,265,600	(18,967,538)	22,809,670	(18,799,760)	3,492,880	(32,606,646)	(37,921,470)
<b>Other Financing Sources (Uses)</b>								
Transfers in	109	59,977	--	--	--	--	--	--
Other sources – capital lease	--	--	--	--	--	--	--	--
Transfers out	<u>(1,413,667)</u>	<u>(1,896,851)</u>	<u>(1,501,324)</u>	<u>(1,155,932)</u>	<u>(3,508,495)</u>	<u>(2,121,667)</u>	<u>(885,663)</u>	<u>(885,663)</u>
<b>Net Financing Sources (Uses)</b>	(1,413,558)	(1,836,874)	(1,501,324)	(1,155,932)	(3,508,495)	(2,121,667)	(885,663)	(885,663)
<b>NET CHANGE IN FUND BALANCE</b>								
<b>BALANCE</b>	(24,257,876)	29,428,726	(20,468,863)	21,653,738	(22,308,255)	1,371,213	(33,492,309)	(38,807,133)
<b>Fund Balance - Beginning</b>	<u>53,660,721</u>	<u>53,660,721</u>	<u>83,089,447</u>	<u>83,089,447</u>	<u>104,743,185</u>	<u>104,743,185</u>	<u>96,915,361<sup>(4)</sup></u>	<u>105,964,993</u>
<b>Fund Balance - Ending</b>	<u>\$29,402,845</u>	<u>\$83,089,447</u>	<u>\$62,620,585</u>	<u>\$104,743,185</u>	<u>\$82,434,930</u>	<u>\$106,114,398</u>	<u>\$63,423,052</u>	<u>\$67,157,860</u>

<sup>(1)</sup> Reflects combined unrestricted and restricted general fund and Fund 14. All amounts rounded to nearest whole number.

<sup>(2)</sup> From the District's audited financial statements for fiscal years 2015-16 through 2017-18, respectively. On behalf payments of \$15,966,100, \$21,154,477 and \$22,939,117 for each respective fiscal year, are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, as Fund 14, Deferred Maintenance Fund, for reporting purposes has been consolidated into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP) revenues and expenditures, however are not included in the original and final General Fund budgets.

<sup>(3)</sup> From the District's Second Interim Financial Report for fiscal year 2018-19 approved by the Board on March 12, 2019. Does not include Fund 14, the Deferred Maintenance Fund, in the amount of \$149,405.00.

<sup>(4)</sup> Fund balance as of the original adopted budget for fiscal year 2018-19, adopted by the Board on June 19, 2018.

Source: San Bernardino City Unified School District.

## District Debt Structure

**Long-Term Obligations.** A schedule of changes in long-term debt for the year ended June 30, 2018, is shown below:

**SCHEDULE OF LONG TERM DEBT  
As of June 30, 2018  
San Bernardino City Unified School District**

<b>Governmental Activities</b>	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2018</b>
General Obligation Bonds	\$232,194,564	\$56,854,384	\$7,655,000	\$ 281,393,948
Premium on Issuance	18,943,055	2,493,624	1,619,523	19,817,156
2011 Certificates of Participation	53,080,000	--	5,330,000	47,750,000
Discount on Issuance	(346,175)	--	(39,944)	(306,231)
Capital Lease Obligations	262,805	--	109,466	153,339
Accumulated Vacation (net)	3,151,648	696,700	--	3,848,348
Claims Liability	21,741,424	4,248,434	4,248,434	21,741,424
SELF Assessment	1,807,966	--	301,316	1,506,650
Net OPEB Liability	<u>79,044,836</u>	<u>9,438,165</u>	<u>3,437,698</u>	<u>85,045,303</u>
TOTAL Governmental Activities	<u>\$409,880,123</u>	<u>\$73,731,307</u>	<u>\$22,661,493</u>	<u>\$460,949,937</u>
<b>Business-Type Activities</b>				
Net OPEB Liability	<u>\$1,778,652</u>	<u>\$205,408</u>	<u>\$55,806</u>	<u>\$1,928,254</u>
TOTAL District	<u>\$411,658,775</u>	<u>\$73,936,715</u>	<u>\$22,717,299</u>	<u>\$462,878,191</u>

<sup>(1)</sup> See "SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT – District Retirement Systems - GASB Statement Nos. 67 and 68" herein.

Source: San Bernardino City Unified School District.

### **General Obligation Bonds.**

**1999 Authorization.** The District received authorization at an election held on April 27, 1999, at which the requisite vote of at 55% of the persons voting on the proposition voted to authorize the issuance of \$50,000,000 principal amount of general obligation bonds of the District (the "1999 Authorization"). On September 9, 1999, the District concurrently issued \$27,700,000 aggregate principal amount of its Election of 1999 General Obligation Bonds, Series A (the "1999 Series A Bonds") and \$7,300,000 aggregate principal amount of its Election of 1999 General Obligation Capital Appreciation Bonds, Series B (the "1999 Series B Bonds"). On May 14, 2003, the District issued \$15,000,000 aggregate principal amount of its Election of 1999 General Obligation Bonds, Series C (the "1999 Series C Bonds"). On September 29, 2004, the District issued \$37,055,000 aggregate principal amount of its 2004 General Obligation Refunding Bonds (the "2004 Refunding Bonds"), the proceeds of which were used to refund certain of the then-outstanding 1999 Series A Bonds and 1999 Series C Bonds.

**2004 Authorization.** The District received authorization at an election held on March 2, 2004, at which the requisite vote of at least 55% of the persons voting on the proposition voted to authorize the issuance of \$140,000,000 principal amount of general obligation bonds of the District (the "2004 Authorization"). On September 29, 2004, the District issued \$44,999,497.70 aggregate principal amount of its Election of 2004 General Obligation Bonds, Series A (the "2004 Series A Bonds"). On May 18, 2006, the District issued \$67,999,967.45 aggregate principal amount of its Election of 2004 General Obligation Bonds, Series B (the "2004 Series B Bonds"). On March 14, 2007, the District issued \$9,997,216.65 aggregate principal amount of its Election of 2004 General Obligation Bonds, Series C (the "2004 Series C Bonds"). On March 17, 2011, the District concurrently issued \$11,525,419.10 aggregate principal amount of its General Obligation Bonds, 2004 Series D (the "2004 Series D Bonds")

and \$5,477,433.60 aggregate principal amount of its Taxable General Obligation Bonds, 2004 Series E (the “2004 Series E Bonds”). On June 12, 2013, the District issued \$86,000,000 aggregate principal amount of its 2013 General Obligation Refunding Bonds, Series A (Federally Tax-Exempt) (the “2013 Refunding Bonds”), the proceeds of which were used to advance refund certain of the then-outstanding 2004 Series A Bonds, 2004 Series B Bonds and 2004 Refunding Bonds. On August 7, 2014, the District issued \$24,705,000 aggregate principal amount of its 2014 General Obligation Refunding Bonds (the “2014 Refunding Bonds”), the proceeds of which were used to currently refund certain of the then-outstanding 2004 Series A Bonds and the 2004 Refunding Bonds.

2012 Authorization. Pursuant to the 2012 Authorization, the District received authorization at an election held on November 6, 2012, by an affirmative vote of at least 55% of the persons voting on the proposition to authorize the issuance of \$250,000,000 principal amount of general obligation bonds of the District. On June 12, 2013, the District concurrently issued \$30,150,000 aggregate principal amount of its Election of 2012 General Obligation Bonds, Series A (Federally Tax-Exempt) (the “2012 Series A Bonds”), and \$12,515,000 aggregate principal amount of its Election of 2012 General Obligation Bonds, Series B (Federally Taxable) (the “2012 Series B Bonds”). On July 15, 2015, the District issued \$32,495,000 aggregate principal amount of its Election of 2012 General Obligation Bonds, Series C (the “2012 Series C Bonds”). On October 18, 2017, the District concurrently issued \$31,550,000 aggregate principal amount of its Election of 2012 General Obligation Bonds, Series D (Tax Exempt) (the “2012 Series D Bonds”), and \$21,085,000 aggregate principal amount of its Election of 2012 General Obligation Bonds, Series E (Federally Taxable) (the “2012 Series E Bonds”). Currently, \$122,205,000 of the 2012 Authorization remains unissued.

The tables on the following pages show the annual debt service payments for the District’s outstanding general obligation bonds pursuant to the 1999 Authorization, 2004 Authorization and 2012 Authorization, assuming no optional redemptions are made.

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**OUTSTANDING GENERAL OBLIGATION BONDS ANNUAL DEBT SERVICE – 1999 AND 2004 AUTHORIZATIONS**  
**San Bernardino City Unified School District**

Year Ending <u>August 1</u>	1999 Series C <u>Bonds</u>	2004 Series A <u>Bonds</u>	2004 Series B <u>Bonds</u>	2004 Series C <u>Bonds</u>	2004 Series D <u>Bonds</u>	2004 Series E <u>Bonds</u>	2013 Refunding <u>Bonds</u>	2014 Refunding <u>Bonds</u>	<u>Total</u>
2019	--	--	--	\$114,106.25	--	--	\$9,091,500.00	\$3,058,475.00	\$12,264,081.25
2020	\$1,640,000.00	--	--	119,106.25	--	--	8,529,250.00	2,381,875.00	12,670,231.25
2021	1,755,000.00	--	--	119,106.25	--	--	8,776,000.00	2,434,500.00	13,084,606.25
2022	1,880,000.00	--	--	129,106.25	--	--	9,017,000.00	2,490,000.00	13,516,106.25
2023	2,005,000.00	--	--	129,106.25	--	--	9,276,250.00	2,541,250.00	13,951,606.25
2024	2,140,000.00	--	--	132,250.00	--	--	9,541,500.00	2,602,500.00	14,416,250.00
2025	4,880,000.00	--	--	142,250.00	--	--	8,356,000.00	1,340,500.00	14,718,750.00
2026	5,035,000.00	--	--	147,250.00	--	--	8,620,750.00	1,391,000.00	15,194,000.00
2027	5,220,000.00	--	--	147,250.00	--	--	8,900,250.00	1,441,250.00	15,708,750.00
2028	--	--	--	152,250.00	--	--	9,182,250.00	1,491,000.00	10,825,500.00
2029	--	\$3,910,000.00	--	8,118,750.00	--	--	--	--	12,028,750.00
2030	--	--	\$11,700,000.00	690,000.00	--	--	--	--	12,390,000.00
2031	--	--	--	12,760,000.00	--	--	--	--	12,760,000.00
2032	--	--	--	--	--	\$11,520,000.00	--	--	11,520,000.00
2033	--	--	--	--	--	11,700,000.00	--	--	11,700,000.00
2034	--	--	--	--	--	12,050,000.00	--	--	12,050,000.00
2035	--	--	--	--	\$7,000,000.00	5,365,000.00	--	--	12,365,000.00
2036	--	--	--	--	12,755,000.00	--	--	--	12,755,000.00
2037	--	--	--	--	13,130,000.00	--	--	--	13,130,000.00
2038	--	--	--	--	13,515,000.00	--	--	--	13,515,000.00
2039	--	--	--	--	13,895,000.00	--	--	--	13,895,000.00
2040	--	--	--	--	14,295,000.00	--	--	--	14,295,000.00
2041	--	--	--	--	14,725,000.00	--	--	--	14,725,000.00
2042	--	--	--	--	1,995,000.00	--	--	--	1,995,000.00
<b>Total</b>	<u>\$24,555,000.00</u>	<u>\$3,910,000.00</u>	<u>\$11,700,000.00</u>	<u>\$22,900,531.25</u>	<u>\$91,310,000.00</u>	<u>\$40,635,000.00</u>	<u>\$89,290,750.00</u>	<u>\$21,172,350.00</u>	<u>\$305,473,631.25</u>

Source: San Bernardino City Unified School District.



**OUTSTANDING GENERAL OBLIGATION BONDS ANNUAL DEBT SERVICE – ALL AUTHORIZATIONS  
San Bernardino City Unified School District**

Year Ending <u>August 1</u>	1999 and 2004 <u>Authorizations</u>	2012 Series A <u>Bonds</u>	2012 Series B <u>Bonds</u>	2012 Series C <u>Bonds</u>	2012 Series D <u>Bonds</u>	2012 Series E <u>Bonds</u>	<u>Total</u>
2019	\$12,264,081.25	\$1,295,600.00	\$812,590.00	\$1,407,981.26	\$1,977,712.50	\$2,324,500.00	\$20,082,465.01
2020	12,670,231.25	1,295,600.00	896,700.00	1,407,981.26	1,633,712.50	2,001,500.00	19,905,725.01
2021	13,084,606.25	1,295,600.00	986,432.00	1,407,981.26	1,889,512.50	2,104,100.00	20,768,232.01
2022	13,516,106.25	1,295,600.00	1,080,091.00	1,407,981.26	1,899,312.50	1,065,700.00	20,264,791.01
2023	13,951,606.25	1,295,600.00	1,172,638.00	1,457,981.26	1,985,462.50	1,101,700.00	20,964,988.01
2024	14,416,250.00	1,295,600.00	1,273,674.00	1,516,481.26	2,053,312.50	1,140,700.00	21,696,017.76
2025	14,718,750.00	1,295,600.00	1,372,574.50	1,575,981.26	1,288,312.50	992,500.00	21,243,718.26
2026	15,194,000.00	1,295,600.00	1,483,510.50	1,637,231.26	1,345,362.50	1,024,500.00	21,980,204.26
2027	15,708,750.00	2,545,600.00	340,145.00	1,704,981.26	1,398,862.50	1,064,700.00	22,763,038.76
2028	10,825,500.00	3,001,850.00	--	1,774,825.00	1,448,862.50	1,097,700.00	18,148,737.50
2029	12,028,750.00	3,124,350.00	--	1,846,156.26	1,505,362.50	1,148,950.00	19,653,568.76
2030	12,390,000.00	3,246,350.00	--	1,919,006.26	1,557,862.50	1,191,450.00	20,304,668.76
2031	12,760,000.00	3,377,350.00	--	1,998,706.26	1,606,362.50	1,235,450.00	20,977,868.76
2032	11,520,000.00	3,511,350.00	--	2,082,606.26	1,670,862.50	1,275,700.00	20,060,518.76
2033	11,700,000.00	3,652,600.00	--	2,161,156.26	1,736,562.50	1,327,200.00	20,577,518.76
2034	12,050,000.00	3,799,600.00	--	2,244,406.26	1,799,562.50	1,387,800.00	21,281,368.76
2035	12,365,000.00	3,951,000.00	--	2,331,906.26	1,869,862.50	1,439,600.00	21,957,368.76
2036	12,755,000.00	4,111,200.00	--	2,429,806.26	1,942,162.50	1,492,800.00	22,730,968.76
2037	13,130,000.00	4,274,400.00	--	2,525,131.26	2,024,818.76	1,547,200.00	23,501,550.02
2038	13,515,000.00	--	--	7,072,631.26	2,688,725.00	1,007,600.00	24,283,956.26
2039	13,895,000.00	--	--	7,354,731.26	2,790,600.00	1,047,600.00	25,087,931.26
2040	14,295,000.00	--	--	7,498,487.50	2,943,200.00	1,104,800.00	25,841,487.50
2041	14,725,000.00	--	--	--	5,481,200.00	2,063,400.00	22,269,600.00
2042	<u>1,995,000.00</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,688,800.00</u>	<u>2,137,200.00</u>	<u>9,821,000.00</u>
<b>Total</b>	<b><u>\$305,473,631.25</u></b>	<b><u>\$48,960,450.00</u></b>	<b><u>\$9,418,355.00</u></b>	<b><u>\$56,764,137.70</u></b>	<b><u>\$52,226,368.76</u></b>	<b><u>\$33,324,350.00</u></b>	<b><u>\$506,167,292.71</u></b>

Source: San Bernardino City Unified School District.

**Certificates of Participation.** On March 24, 2011, the District executed and delivered \$53,080,000 of its 2011 Certificates of Participation Series A (the “2011 Certificates”) to finance the construction and improvement of various school facilities of the District. The 2011 Certificates were designated as “Qualified School Construction Bonds,” pursuant to Section 54F of the Internal Revenue Code of 1986, as amended. The District expects to receive, on or about August 1 and February 1 of each year (each a “Certificate Payment Date”), a cash subsidy payment (each a “Subsidy Payment”) from the United States Treasury equal to the lesser of the interest that would have been payable with respect to the 2011 Certificates on or about each Certificate Payment Date or the tax credit rate published by the United States Treasury on the date of sale of the 2011 Certificates.

The following table shows all future semi-annual lease payments due with respect to the 2011 Certificates, without regard to the Subsidy Payments expected to be received from the United States Treasury.

**SEMI-ANNUAL LEASE PAYMENTS**  
**San Bernardino City Unified School District<sup>(1)(2)</sup>**

Year Ending <u>August 1</u>	Principal <u>Amount</u>	Interest	Semi-Annual <u>Debt Service</u>	Annual <u>Debt Service</u>
2019	--	\$1,694,609.35	\$1,694,609.35	--
2020	\$5,590,000.00	1,694,609.35	7,284,609.35	\$8,979,218.70
2020	--	1,479,310.50	1,479,310.50	--
2021	5,725,000.00	1,479,310.50	7,204,310.50	8,683,621.00
2021	--	1,258,812.13	1,258,812.13	--
2022	5,865,000.00	1,258,812.13	7,123,812.13	8,382,624.26
2022	--	1,027,056.65	1,027,056.65	--
2023	6,015,000.00	1,027,056.65	7,042,056.65	8,069,113.30
2023	--	784,862.68	784,862.68	--
2024	6,185,000.00	784,862.68	6,969,862.68	7,754,725.36
2024	--	532,731.15	532,731.15	--
2025	6,360,000.00	532,731.15	6,892,731.15	7,425,462.30
2025	--	270,285.75	270,285.75	--
2026	<u>6,550,000.00</u>	<u>270,285.75</u>	<u>6,820,285.75</u>	<u>7,090,571.50</u>
Total	<u>\$42,290,000.00</u>	<u>\$14,095,336.42</u>	<u>\$56,385,336.42</u>	<u>\$56,385,336.42</u>

<sup>(1)</sup> The District expects to use the proceeds of the 2012 Series E Bonds to pay the regularly scheduled lease payments with respect to the 2011 Certificates from February 1, 2019 through August 1, 2021.

<sup>(2)</sup> Reflects gross interest payments exclusive of the Subsidy Payments. The Subsidy Payments do not constitute the full faith and credit guarantee of the United States Government, but are required to be paid by the United States Treasury. However, the Subsidy Payments are subject to reduction (the “Sequestration Reduction”) pursuant to the federal Balanced Budget and Emergency Deficit Control Act of 1985, as amended, which currently includes provisions reducing the Subsidy Payments by 6.2% through the end of the current federal fiscal year (September 30, 2019). In the absence of action by the United States Congress, the rate of the Sequestration Reduction is subject to change in the following federal fiscal year. The District cannot predict whether or how subsequent sequestration actions may affect Subsidy Payments currently scheduled for receipt in future federal fiscal years.

Source: San Bernardino City Unified School District.

**Capital Leases.** The District has entered into agreements to lease various pieces of equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District’s liability on capital lease agreements with options to purchase as of June 30, 2018 is summarized below:

**ANNUAL LEASE PAYMENTS  
Capital Leases  
San Bernardino City Unified School District**

Balance, July 1, 2017	\$276,467
Payments	<u>(118,486)</u>
Balance, June 30, 2018	<u>\$157,981</u>

The capital leases have minimum lease payments as follows:

Year Ending <u>June 30</u>	Lease <u>Payments</u>
2019	\$118,486
2020	39,495
Less: Amount Representing Interest	<u>(4,642)</u>
Present Value of Minimum Lease Payments	<u>\$153,339</u>

*Source: San Bernardino City Unified School District.*

**Ad Valorem Property Taxation**

District property taxes are assessed and collected by the County at the same time and on the same tax rolls as County, city and special district taxes. Assessed valuations are the same for both District and 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. Other property is assessed on the “unsecured roll.” A supplemental roll is developed when property changes hands or new construction is completed. Each county 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 equalized in August. Property taxes are payable in two installments, due November 1 and February 1 respectively and become delinquent on 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 county treasurer-tax collector. Property on the secured roll with delinquent taxes is declared tax-defaulted on or about June 30 of the calendar year. Such property may thereafter be redeemed 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 tax-collecting authority of the relevant county.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if they are not paid by August 31. In the case of unsecured property taxes, a 10% penalty attaches to

delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien may be recorded against the assessee. 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 the 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 the 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 "—Secured Tax Charges 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.

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies, including school districts, will 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 following table represents a 10-year history of assessed valuations in the District, as of the date the equalized assessment tax roll is established in August at each year, together with a preliminary assessed valuation for fiscal year 2018-19.

**ASSESSED VALUATIONS**  
**Fiscal Years 2009-10 through 2018-19**  
**San Bernardino City Unified School District**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2009-10	\$10,992,933,556	\$1,817,263	\$754,252,537	\$11,749,003,356
2010-11	10,182,936,731	1,816,803	785,041,167	10,969,794,701
2011-12	9,988,348,298	1,816,892	788,338,472	10,778,503,662
2012-13	10,054,929,671	1,314,966	774,316,635	10,830,561,272
2013-14	10,406,934,556	1,314,459	888,685,140	11,296,934,155
2014-15	11,109,942,118	1,218,222	953,676,315	12,064,836,655
2015-16	11,834,208,698	1,222,294	953,636,990	12,789,067,982
2016-17	12,718,016,813	1,172,596	896,410,192	13,615,599,601
2017-18	13,555,461,629	1,241,180	934,534,433	14,491,237,242
2018-19	14,550,899,004	1,207,716	966,979,516	15,519,086,236

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the District's control, such as general market decline in property values, 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, fire, drought, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District.

### **Alternative Method of Tax Apportionment**

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the 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 is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special assessment districts which provide for accelerated judicial foreclosure of property for which assessments are delinquent.

The District will receive 100% of secured property taxes irrespective of actual delinquencies in the collection of such taxes by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors is to order discontinuance of the Teeter Plan subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency.

### **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, 2019 for debt outstanding as of March 1, 2019. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

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.

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT  
San Bernardino City Unified School District**

2018-19 Assessed Valuation: \$15,519,086,236

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/19</u>
San Bernardino Community College District	21.989%	\$94,555,767
<b>San Bernardino City Unified School District</b>	<b>100.000</b>	<b>241,159,446</b>
San Bernardino County Community Facilities District No. 2006-1, I.A. Nos. 1,2,3,4 and 5	25.941-100.000	<u>35,835,822</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$371,551,035</b>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Bernardino County General Fund Obligations	6.977%	\$23,383,764
San Bernardino County Pension Obligation Bonds	6.977	20,151,409
San Bernardino County Flood Control District General Fund Obligations	6.977	4,382,951
<b>San Bernardino City Unified School District Certificates of Participation</b>	<b>100.000</b>	<b>42,290,000<sup>(1)</sup></b>
City of Colton General Fund and Pension Obligation Bonds	0.038	11,033
City of Redlands Certificates of Participation and Pension Obligation Bonds	0.037	3,422
City of Rialto General Fund Obligations	0.037	2,547
City of San Bernardino General Fund Obligations	83.968	7,799,250
City of San Bernardino Pension Obligation Bonds	83.968	<u>36,489,303</u>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$134,513,679</b>
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>		 \$214,792,146
 COMBINED TOTAL DEBT		 \$720,856,860 <sup>(2)</sup>
 <u>Ratios to 2018-19 Assessed Valuation:</u>		
<b>Direct Debt (\$241,159,446) .....</b>	<b>1.55%</b>	
Total Direct and Overlapping Tax and Assessment Debt.....	2.39%	
<b>Combined Direct Debt (\$283,449,446).....</b>	<b>1.83%</b>	
Combined Total Debt .....	4.64%	
 <u>Ratios to Redevelopment Incremental Assessed Valuation (\$6,466,225,202):</u>		
Overlapping Tax Increment Debt.....	3.32%	

<sup>(1)</sup> Excludes the Certificates.

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

Source: California Municipal Statistics, Inc.

## SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

### Introduction

The District was formed on July 1, 1964, and is located in an area encompassing approximately 160 square miles in the County, approximately 65 miles east of Los Angeles. The District primarily serves a portion of the City of Highland, the majority of the City of San Bernardino and some unincorporated areas of the County. The District operates 49 elementary schools, 10 middle schools, a K-8 school, a middle college high school, six comprehensive high schools, an alternative education school, two continuation high schools, two community day schools, an adult education school, and two special education schools. Enrollment in the District for the 2018-19 school year is 48,936 students and the ADA for fiscal 2018-19 is projected to be 46,207. The fiscal year 2018-19 assessed valuation of the area served by the District is \$15,519,086,236.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial reports of the District may be obtained by contacting: San Bernardino City Unified School District, 777 North F Street, San Bernardino, CA 92410, telephone: (909) 381-1100, Attention: Superintendent. The District may impose a charge for copying, mailing and handling.

### Administration

The Board consists of seven elected members. Members are elected to serve staggered four-year terms. Elections for positions to the Board are held every two years, alternating between three and four available positions. A president is elected by members of the Board each year. Current members of the Board, together with their offices and the dates their terms expire, are listed below:

Board Member	Office	Term Expires
Abigail Rosales-Medina	President	December 2022
Gwendolyn Dowdy-Rodgers	Vice President	December 2020
Dr. Barbara Flores	Member	December 2022
Michael J. Gallo	Member	December 2020
Danny Tillman	Member	December 2022
Dr. Scott Wyatt	Member	December 2020
Dr. Margaret Hill	Member	December 2020

The administrative staff of the District participating in the financing include Dr. Dale Marsden, Superintendent and Jayne Christakos, Associate Superintendent Business, Facilities, and Operations. Brief biographies of the Superintendent, the Associate Superintendent Business, Facilities, and Operations, and the Deputy Superintendent follow:

***Dale Marsden, Ed.D., Superintendent.*** Dr. Marsden joined the District as Superintendent in June of 2012. Dr. Marsden began his teaching career in 1985 as an outdoor education science teacher for the Orange County Department of Education. Shortly after, he joined the United States Air Force. Prior to joining the District, Dr. Marsden served as a teacher, assistant principal, and principal, and has held the positions of Director of Quality and Development, Deputy Superintendent, and Superintendent, all in Victor Elementary School District. Dr. Marsden received a Bachelor's degree in Liberal Studies and Master's degree in Educational Administration from California State University, San Bernardino, and a doctorate of education in Educational Leadership, Administration and Policy from Pepperdine University. In 2018, Dr. Marsden was named a national Leader to Learn From by Education Week.

**Jayne Christakos, Associate Superintendent Business, Facilities, and Operations.** Ms. Christakos joined the District as Associate Superintendent Business, Facilities, and Operations in July of 2015. Immediately prior thereto, she served as the Assistant Superintendent, Business Services at Placentia-Yorba Linda Unified School District. Ms. Christakos has also served as Assistant Superintendent, Business Services and as Director, Fiscal Services, at San Jacinto Unified School District. Ms. Christakos received a Bachelor of Science in Business Administration from California State University, San Bernardino, a Master of Arts in Management from the University of Redlands, and a Chief Business Official certification from the Fiscal Crisis and Management Assistance Team and the California Association of School Business Officials.

**Harold J. Vollkommer, Ed.D., Deputy Superintendent.** Dr. Vollkommer was appointed to the District as Deputy Superintendent in 2013. Previously, Dr. Vollkommer held the positions of Assistant Superintendent of Human Resources, Human Resources Director, Principal, Assistant Principal, and teacher. He received a Bachelor’s Degree in Liberal Studies from the University of Redlands, a Master of Arts in Educational Administration from California State University, San Bernardino, and a Doctorate in Organizational Leadership from the University of La Verne.

**Recent Enrollment Trends**

On average throughout the District, the regular education pupil-teacher ratio is approximately 24:1 in grades K-3, 33:1 in grades 4-6, 29:1 in grades 7-8, and 30:1 in grades 9-12. The following table shows a seven-year enrollment history for the District.

**ANNUAL ENROLLMENT<sup>(1)</sup>**  
**Fiscal Years 2012-13 through 2018-19**  
**San Bernardino City Unified School District**

Year	Enrollment	Annual Change	Annual % Change
2012-13	49,989	--	--
2013-14	49,889	(100)	(0.20)%
2014-15	50,242	353	0.71
2015-16	50,211	(31)	(0.06)
2016-17	49,840	(371)	(0.74)
2017-18	49,451	(389)	(0.77)
2018-19	48,936	(515)	(1.05)

<sup>(1)</sup> Enrollment excludes charter school students. Enrollment for fiscal year 2012-13 is reported as of the October report submitted to the CBEDS. Fiscal years 2013-14 through 2017-18 reflect certified enrollment as of the fall census day (the first Wednesday in October), which is reported to CALPADS in each school year and used to calculate each school district’s unduplicated EL/LI student enrollment. CALPADS figures exclude preschool and adult transitional students.  
*Source: San Bernardino City Unified School District.*

**Charter Schools**

The State Legislature enacted the Charter Schools Act of 1992 (Education Code Sections 47600-47663) to permit teachers, parents, students, and community members to establish schools that would be free from most state and district regulations. Revised in 1998, the State’s charter school law states that local boards are the primary charter approving agency and that county panels can appeal a denied charter. State education standards apply, and charter schools are required to use the same student assessment instruments. Charter schools are exempt from state and local education rules and regulations, except as specified in the legislation.



The District has certain fiscal oversight and other responsibilities with respect to both independent and District-operated charter schools established within its boundaries. However, independent charter schools receive funding directly from the State, and such funding would not be reported in the District’s audited financial statements. District-operated charter schools receive their funding through the District, and would be reflected in the District’s audited financial statements.

The District has approved charters for 12 charter schools that are currently operating within the District (collectively, the “Charter Schools”). All of the Charter Schools are independent.

The following table shows enrollment figures for the Charter Schools for the past seven fiscal years, and budgeted figures for fiscal year 2018-19.

**CHARTER SCHOOLS ENROLLMENT**  
**Fiscal Years 2012-13 through 2018-19**  
**San Bernardino City Unified School District**

<u>Fiscal Year</u>	<u>Charter Schools Enrollment</u>
2012-13	3,467
2013-14	3,896
2014-15	3,123
2015-16	3,092
2016-17	3,303
2017-18	3,569
2018-19	3,837

*Source: San Bernardino City Unified School District.*

The District can make no representations regarding how many District students will transfer to charter schools in the future or back to the District from the Charter Schools, and the corresponding financial impact on the District.

**Labor Relations**

The District currently employs 3,056 full-time certificated employees and 1,406 classified employees. In addition, the District currently employs 1,021 part-time faculty and staff. District employees, except management and some part-time employees, are represented by the four bargaining units as noted below:

**LABOR RELATIONS**  
**San Bernardino City Unified School District**

<u>Labor Organization</u>	<u>Number of Employees In Bargaining Unit</u>	<u>Contract Expiration Date</u>
San Bernardino Teachers Association	2,854	June 30, 2019
California School Employees Association	2,621	June 30, 2019
Communications Workers of America	1,142	June 30, 2021
San Bernardino School Police Officers Association	16	June 30, 2021

*Source: San Bernardino City Unified School District.*

## District Retirement Systems

*The information set forth below regarding the District's retirement programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District, the Municipal Advisor or the Underwriter.*

**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

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*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 for employees hired after the Implementation Date (defined below) will be 10.205%.

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

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*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.

The District's contributions to STRS were \$20,886,129 in fiscal year 2014-15, \$27,528,698 in fiscal year 2015-16, \$34,101,695 in fiscal year 2016-17, and \$37,799,152 in fiscal year 2017-18. The District currently projects \$47,630,330 for its contribution to STRS for fiscal year 2018-19.

The State also contributes to STRS, currently in an amount equal to 7.328% for fiscal year 2018-19 and 7.828% for fiscal year 2019-20. 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.

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, 2017 included 1,624 public agencies and 1,366 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 District is currently required to contribute to PERS at an actuarially determined rate, which is 18.062% of eligible salary expenditures for fiscal year 2018-19, and will be 20.733% of eligible salary expenditures in fiscal year 2019-20. 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 2018-19 and will be 7% in fiscal year 2019-20, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 7% in fiscal year 2018-19 and will be 7% in fiscal year 2019-20. See "—California Public Employees' Pension Reform Act of 2013" herein.

The District's contributions to PERS were \$9,386,310 in fiscal year 2014-15, \$9,691,407 in fiscal year 2015-16, \$12,173,917 in fiscal year 2016-17, and \$14,445,322 in fiscal year 2017-18. The District currently projects \$19,484,529 or its contribution to PERS for fiscal year 2018-19.

Certain qualified employees of the District are eligible to participate in the District's PEPRA Safety School Police Plan, which is within the Safety Risk Pool operated by PERS (the "PEPRA Safety Risk Pool"). There are currently 22 school police officers who are members of District's Safety Plan. The District is currently required to contribute to PERS for the PEPRA Safety Risk Pool at an actuarially determined rate, which is 15.826% (enrolled after January 1, 2013) of eligible salary expenditures for fiscal year 2018-19 and will be 15.760% (enrolled after January 1, 2013) of eligible salary expenditures for fiscal year 2019-20. Participants enrolled in PERS prior to January 1, 2013 currently contribute at an actuarially determined rate of 9.00% and participants enrolled in PERS after January 1, 2013 contribute 15.25% of their respective salaries for fiscal year 2018-19, while participants enrolled prior to January 1, 2013 will contribute 9.00% and those enrolled after January 1, 2013 will contribute 15.25% for fiscal year 2019-20.

Certain qualified employees of the District are also eligible to participate in the District's Safety Plan, which is within the Safety Risk Pool operated by PERS (the "Safety Risk Pool"). The District is currently required to contribute to PERS for the Safety Risk Pool at an actuarially determined rate, which is 27.645% (enrolled prior January 1, 2013) of eligible salary expenditures for fiscal year 2018-19 and will be 28.762% (enrolled after January 1, 2013) of eligible salary expenditures for fiscal year 2018-19, and will be 28.762% (enrolled prior January 1, 2013) of eligible salary expenditures for fiscal year 2019-20. Participants enrolled in PERS prior to January 1, 2013 currently contribute at an actuarially determined rate of 9.00% and participants enrolled in PERS after January 1, 2013 contribute 15.25% of their respective salaries for fiscal year 2018-19, while participants enrolled prior to January 1, 2013 will contribute 9.00% and those enrolled after January 1, 2013 will contribute 15.25% for fiscal year 2019-20.

The District's contributions to PERS for the Safety Risk Pool were \$729,241 in fiscal year 2014-15, \$934,869 in fiscal year 2015-16, \$790,628 in fiscal year 2016-17, and \$703,070 in fiscal year 2017-18. The District currently projects \$709,023 for its contribution to PERS for the Safety Risk Pool in fiscal year 2018-19.

***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](http://www.calstrs.com); (ii) PERS: [www.calpers.ca.gov](http://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.

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**FUNDED STATUS**  
**STRS (Defined Benefit Program) and PERS (Schools Pool and Safety Risk Pool)**  
**(Dollar Amounts in Millions)<sup>(1)</sup>**  
**Fiscal Years 2010-11 through 2017-18**

**STRS**

<b><u>Fiscal Year</u></b>	<b><u>Accrued Liability</u></b>	<b><u>Value of Trust Assets (MVA)<sup>(2)</sup></u></b>	<b><u>Unfunded Liability (MVA)<sup>(2)</sup></u></b>	<b><u>Value of Trust Assets (AVA)<sup>(3)</sup></u></b>	<b><u>Unfunded Liability (AVA)<sup>(3)</sup></u></b>
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

**PERS**

<b><u>Fiscal Year</u></b>	<b><u>Accrued Liability</u></b>	<b><u>Value of Trust Assets (MVA)</u></b>	<b><u>Unfunded Liability (MVA)</u></b>	<b><u>Value of Trust Assets (AVA)<sup>(3)</sup></u></b>	<b><u>Unfunded Liability (AVA)<sup>(3)</sup></u></b>
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	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2014-15	73,325	56,814	16,511	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2015-16	77,544	55,785	21,759	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2016-17	84,416	60,865	23,551	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2017-18	92,071	64,846	27,225	-- <sup>(4)</sup>	-- <sup>(4)</sup>

**PERS – Safety Risk Pool**

<b><u>Fiscal Year</u></b>	<b><u>Accrued Liability</u></b>	<b><u>Share of Pool's Market Value of Assets</u></b>	<b><u>Plan's Share of Pool's Unfunded Liability</u></b>	<b><u>Value of Trust Assets (AVA)<sup>(3)</sup></u></b>	<b><u>Unfunded Liability (AVA)<sup>(3)</sup></u></b>
2010-11	\$7.132	\$4.315	\$2.817	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2011-12	7.982	4.755	3.227	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2012-13	8.464	5.492	2.972	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2013-14	10.170	7.519	2.651	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2014-15	11.775	8.842	2.933	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2015-16 <sup>(5)</sup>	13.744	10.117	3.627	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2016-17	16.780	13.387	3.392	-- <sup>(4)</sup>	-- <sup>(4)</sup>

**PERS – Safety Risk Pool (PEPRA)**

<b><u>Fiscal Year</u></b>	<b><u>Accrued Liability</u></b>	<b><u>Share of Pool's Market Value of Assets</u></b>	<b><u>Plan's Share of Pool's Unfunded Liability</u></b>	<b><u>Value of Trust Assets (AVA)<sup>(3)</sup></u></b>	<b><u>Unfunded Liability (AVA)<sup>(3)</sup></u></b>
2010-11	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2011-12	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2012-13	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2013-14	\$0.018	\$0.019	(\$0.001)	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2014-15	0.069	0.066	0.003	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2015-16 <sup>(5)</sup>	0.172	0.156	0.016	-- <sup>(4)</sup>	-- <sup>(4)</sup>
2016-17	0.294	0.278	0.017	-- <sup>(4)</sup>	-- <sup>(4)</sup>

<sup>(1)</sup> Amounts may not add due to rounding.

<sup>(2)</sup> 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.

<sup>(3)</sup> Reflects actuarial value of assets.

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

<sup>(5)</sup> On April 16, 2019, the PERS Board (defined below) approved the K-14 school district contribution rate for fiscal year 2019-20 and released certain actuarial information to be incorporated into the June 30, 2018 actuarial valuation to be released in summer 2019.

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), 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%. The 2017 STRS Actuarial Valuation continues using the Entry Age Normal Actuarial Cost Method.

Based on salary increases less than assumed and actuarial asset gains recognized from the current and prior years, the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2018 (the "2018 STRS Actuarial Valuation") reports that the unfunded actuarial obligation decreased by \$109 million since the 2017 STRS Actuarial Valuation and the funded ratio increased by 1.4% to 64.0% over such time period.

According to the 2018 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.

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 16, 2019, the PERS Board established the employer contribution rates for 2019-20 and released certain information from the Schools Pool Actuarial Valuation as of June 30, 2018, ahead of its summer of 2019 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, 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 projected contribution rate for 2020-21 is projected to be 23.6%, with annual increases thereafter, resulting in a projected 26.5% employer contribution rate for fiscal year 2025-26.

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 employees, including the District, took effect for the fiscal year beginning July 1, 2014.

For the fiscal year ending June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of STRS, PERS – Schools Pool, and PERS – Safety Risk Pool as shown in the following table.

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
STRS	\$476,814,851	\$155,432,185	\$21,015,325	\$54,204,428
PERS – Schools Pool	161,091,171	62,793,494	3,868,877	23,364,184
PERS – Safety Risk Pool	<u>3,751,888</u>	<u>2,432,682</u>	<u>263,046</u>	<u>(126,003)</u>
Total	<u>\$641,657,910</u>	<u>\$220,658,361</u>	<u>\$25,147,248</u>	<u>\$77,442,609</u>

Source: San Bernardino City Unified School District.

For additional information, see “APPENDIX A – 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 12 – Employee Retirement Systems” herein.

### **Public Agency Retirement System**

Under federal law, all public sector employees who are not members of an existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to use the Public Agency Retirement System (“PARS”), a defined contribution pension plan, as its alternative plan. The District contributes 1% of an employee’s gross earnings, and an employee is required to contribute 6.5% of his or her gross earnings, to PARS. The District contributed \$87,585 and \$94,560 to PARS in fiscal years 2016-17 and 2017-18, respectively, and the District currently projects a contribution of \$68,879 to PARS in fiscal year 2018-19.

### **Other Post-Employment Benefits**

**Plan Description.** The postemployment benefit plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits (the “Benefits”) to eligible retirees and their spouses. Membership of the Plan currently consists of 299 retirees and beneficiaries currently receiving Benefits, and 4,347 active Plan members.

**Funding Policy.** The contribution requirements of the Plan members and the District are established and may be amended by the District, the District’s bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. The District contributed \$3,886,370, \$3,195,139, and \$8,287,868 to the Plan in fiscal years 2015-16 through 2017-18, respectively, all of which was used for current premiums. For fiscal year 2018-19, the District currently projects a contribution of \$5,037,201 to the Plan, all of which is expected to be used for current premiums.

The District has established an internal service fund to begin funding its UAAL (as defined herein) with respect to the Benefits. Such fund has not been irrevocably pledged to the payment of the Benefits. As of March 1, 2019, \$60,534,026 is on deposit in the internal service fund, and the District currently projects a contribution of \$5,037,201 to the fund in fiscal year 2018-19.

**Accrued Liability.** The District has implemented *Governmental Accounting Standards Board Statement #74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (“GASB Statement No. 74”) and *Governmental Accounting Standards Board Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB Statement No. 75”), pursuant to which the District has commissioned and received an actuarial study of its liability with respect to the Program benefits. GASB Statements No. 74 and No. 75 (discussed below) require biennial actuarial valuations for all plans. The most recent actuarial study was dated April 30, 2018 (the “Study”). The Study concluded that, as of a June 30, 2017 measurement date, the Total OPEB Liability (the “TOL”) with respect to such Program benefits, was \$87,041,457.

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

Most of GASB Statement No. 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 (NOL), 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 NOL and a sensitivity analysis of the NOL 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 Statement No. 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 (the TOL), 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 Statement No. 74 requirements, a projection of the benefit payments and future Fiduciary Net Position (FNP) is performed based on the funding policy and assumptions of the plan, along with the methodology specified in GASB. As of June 30, 2018, the FNP of the GASB Statement No. 74 qualifying trust was \$73,359.

GASB No. 74 has an effective date for plan fiscal years beginning after June 15, 2016 and GASB Statement No. 75 will be effective for employer fiscal years beginning after June 15, 2017. The District first recognized GASB No. 74 and GASB No. 75 in their financial statements for fiscal year 2017-18. The full extent of the effect of the new standards on the District is not known at this time. See also “APPENDIX C – 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 1 – “Summary of Significant Accounting Policies.”

**Net OPEB Obligation.** As of June 30, 2018, the District recognized a net long-term balance sheet liability (the “Net OPEB Obligation”) of \$86,973,557. See “APPENDIX B – 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 9” attached hereto.

## **Risk Management**

***Property and Liability.*** The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To mitigate this potential loss, the District participates in the Southern California Schools Risk Management (“SCSRM”) public risk entity pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

***Workers’ Compensation.*** The District is self-funded for workers’ compensation, with excess coverage provided by the Schools Excess Liability Fund (“SELF”) public entity risk pool.

***Employee Medical Benefits.*** The District contracts with Kaiser and Health Net to provide employee medical and surgical benefits, and Delta Care and Met Life for dental benefits. Additional dental benefits and basic life insurance benefits are provided through the Southern California Schools Employee Benefits Association (“SCEBA”) public entity risk pool.

***Participation in Public Entity Risk Pools.*** The District is a member of the SCSRM, SELF and SCEBA risk pools, which are not component units of the District for financial reporting purposes, and it pays an annual premium to each such entity for the coverage provided. During fiscal year 2017-18, the District made payments of \$2,886,068, \$301,316, and \$467,441 to SCSRM, SELF and SCEBA, respectively. For fiscal year 2018-19, the District projects payments of 3,147,867, \$301,316 and \$475,437 to SCSRM, SELF and SCEBA, respectively. See “APPENDIX A – 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 11– Risk Management,” and “Note 14– Participation in Public Entity Risk Pools,” attached hereto for further information.

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## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING TAXES AND APPROPRIATIONS**

### **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. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 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 the 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 base year value, adjusted for inflation. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on the Certificates.

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 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. In addition, Article XIII A requires the approval of two-thirds or more of all members of the State legislature to change any state taxes for the purpose of increasing tax revenues.

### **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 California State Supreme Court have upheld the general validity of Article XIII A.

### **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 percent 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 percent of the Original Cash Value, then the Replacement Base Year Value is calculate by combining the Original Base Year Value with such excessive Replacement Cash Value; if the Replacement Cash Value does not exceed 120 percent 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 percent of the Original Cash Value when the replacement property is acquired or constructed within one year of the destruction, (2) 110 percent of the Original Cash Value when the replacement property is acquired or constructed within two years of the

destruction, or (3) 115 percent of the Original Cash Value when the replacement property is acquired or constructed within three years of the destruction.

### **State-Assessed Utility Property**

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization (“SBE”) as part of a “going concern” rather than as individual pieces of real or personal property. Such State-assessed unitary and certain other property is allocated to the counties by the 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.

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

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

Article XIII B (“Article XIII B”) of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines

- (a) “change in the cost of living” with respect to school districts to mean the percentage change in California per capita income from the preceding year, and
- (b) “change in population” with respect to a school district to mean the percentage change in the average daily attendance (“ADA”) of the school 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 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund 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 of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California 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 school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article 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 school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article 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 California 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 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California 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 of the State of California approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act 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 the 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 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 would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which 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 Governor's budget.

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

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

- 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 California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.
- 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. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the State Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the State Legislature and the Governor, which 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 (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B

by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 39**

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another State-wide 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, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement authorized by Proposition 39 applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require such bonds may be issued only if the tax rate per \$100,000 of taxable property value projected to be levied as the result of any single election would not exceed \$60 (for a unified school district), \$30 (for a high school or elementary school district), or \$25 (for a community college district) when assessed valuation is projected to increase in accordance with Article XIII A of the State 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.

### **Jarvis v. Connell**

On May 29, 2002, the California 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 of California). 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 California 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 California Supreme Court upheld the holding of the Court of Appeal, stating that the 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 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 1A and Proposition 22**

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-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 does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also 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 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 expected 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% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, was expected to be an increase in the State's general fund costs by approximately \$1 billion annually for several decades. See "DISTRICT FINANCIAL INFORMATION – State Dissolution of Redevelopment Agencies" herein.

### **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 – Proposition 98” and “—Proposition 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.

## **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 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 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 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 be otherwise 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 ADA 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 ADA growth and cost of living.

**SB 858.** Senate Bill 858 (“SB 858”) became effective upon the passage of Proposition 2. SB 858 includes provisions which could limit the amount of reserves that may be maintained by a school district in certain circumstances. Under SB 858, in any fiscal year immediately following a fiscal year in which the State has made a transfer into the PSSSA, any adopted or revised budget by a school district would need to contain a combined unassigned and assigned ending fund balance that (a) for school districts with an A.D.A. of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the State Education Code, or (b) for school districts with an A.D.A. that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the State Education Code. In certain cases, the county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive years within a three-year period if there are certain extraordinary fiscal circumstances.

The District, which has an A.D.A. of less than 400,000, is required to maintain a reserve for economic uncertainty in an amount equal to 3% of its general fund expenditures and other financing uses.

**SB 751.** Senate Bill 751 (“SB 751”), enacted on October 11, 2017, alters the reserve requirements imposed by SB 858. Under SB 751, in a fiscal year immediately after a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds 3% of the combined total general fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised cannot have an assigned or unassigned ending fund balance that exceeds 10% of those funds. SB 751 excludes from the requirements of those provisions

basic aid school districts (also known as community funded districts) and small school districts having fewer than 2,501 units of average daily attendance.

### **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 State general obligation bonds for the new construction and modernization of K-14 facilities.

***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.

The District makes no guarantees that it will either pursue or qualify for Proposition 51 state facilities funding.

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 22, 26, 30, 39, 98, 55 and 51 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.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Lease Payment constituting interest with respect to the Certificates 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 Special Counsel, the portion of each Lease Payment constituting interest with respect to the Certificates is exempt from State of California personal income tax.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated prepayment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. The amount of original issue discount that accrues to the owner of the Certificate is excluded from 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.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) on the Certificates 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 execution and delivery of the Certificates to assure that the portion of each Lease Payment constituting interest (and original issue discount) on the Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Lease Payment constituting interest (and original issue discount) on the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

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 Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar certificates).

SUBSEQUENT TO THE ISSUANCE OF THE CERTIFICATES 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 CERTIFICATES INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE CERTIFICATES. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE CERTIFICATES. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE CERTIFICATES 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 CERTIFICATES, 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 CERTIFICATES.

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement and the Tax Certificate relating to the Certificates permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the effect on the exclusion from gross income of the portion of each Lease Payment constituting interest



(and original issue discount) for federal income tax purposes if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

A copy of the proposed form of opinion of Special Counsel is attached hereto as Appendix B.

### **CERTAIN LEGAL MATTERS**

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California Special Counsel, will render an opinion with respect to the Certificates substantially in the form attached hereto as Appendix B. A copy of such approving opinion will be available at the time of delivery of the Certificates. The payment of fees of Special Counsel is contingent upon the closing of the Certificates transaction. Certain matters will be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, for the Underwriter by Katten Muchin Rosenman LLP, and for the Trustee and the Corporation by their respective counsels.

### **ENHANCED REPORTING REQUIREMENTS**

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (“TIPRA”). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. 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.

### **FINANCIAL STATEMENTS**

The District’s audited financial statements with required supplemental information for the year ended June 30, 2018, the independent auditor’s report of the District, the related statements of activities and of cash flows for the year then ended, and the report dated December 17, 2018 of Vavrinek Trine Day & Co. LLP (the “Auditor”), are included in this Official Statement as Appendix C. In connection with the inclusion of the financial statements and the report of the Auditor thereon in 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.

### **CONTINUING DISCLOSURE**

***Current Undertaking.*** The District will covenant in a Continuing Disclosure Certificate for the benefit of the holders and Beneficial Owners of the Certificates to provide Annual Reports, commencing with the report of Fiscal Year ending June 30, 2019, and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board through its Electronic Market Municipal Access (“EMMA”), located at [www.emma.msrb.com](http://www.emma.msrb.com). The information on such website is not incorporated herein by any reference. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in Appendix D - “FORM OF CONTINUING DISCLOSURE

CERTIFICATE” hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

**Prior Undertakings.** Within the past five years, the District has (i) failed to timely file a portion of the annual report for fiscal years 2014-15 and 2015-16 for one of its then-outstanding continuing disclosure undertakings, (ii) filed the annual report for fiscal years 2015-16 through 2017-18 for one of its then-outstanding continuing disclosure undertakings within a week of each respective due date, (iii) filed the annual report for fiscal year 2017-18 for one of its then-outstanding continuing disclosure undertakings 8 days late, and (iv) failed to file or failed to timely file certain notices of listed events as required by certain of its then-outstanding continuing disclosure undertakings.

#### **ABSENCE OF MATERIAL LITIGATION**

At the time of delivery of and payment for the Certificates, the District and the Corporation will each certify that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the District or the Corporation threatened, against the District or the Corporation in any material respect affecting the existence of the District or the Corporation or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Certificates or the payment of Lease Payments or challenging, directly or indirectly, the validity or enforceability of the proceedings to lease the Property back from the Corporation, the Trust Agreement, the Lease, the Assignment Agreement or the Site Lease.

There is no action, suit, or proceeding known to be pending or threatened, to restrain or enjoin the execution or delivery of the Certificates, or in any way contesting or affecting the validity of the Certificates or any proceedings of the District taken with respect thereto. The District is not aware of any litigation, pending or threatened, questioning the political existence of the District.

**North Park Lawsuits.** There are three lawsuits (collectively, the “North Park Lawsuits”) pending against the District arising from a shooting that occurred at the District’s North Park Elementary School (“North Park”) on April 10, 2017, which resulted in the deaths of a teacher employed by the District and a North Park student, as well as physical injuries to another North Park student. The assailant, who was not an employee of the District, died of a self-inflicted gunshot wound. The North Park Lawsuits were brought by multiple plaintiffs, including the parents of the deceased North Park student, as well as parents of other North Park students, seeking damages and expenses based on multiple claims, including but not limited to, negligence, breach of fiduciary duty, and wrongful death. The District believes that any potential damages arising from the North Park Lawsuits are within its insurance coverage limits. However, given the current stage of the litigation, the District cannot predict the outcome of the North Park Lawsuits or, if the outcome is adverse to the District, the amount of any potential damages, including damages a jury might award if any or all of the North Park Lawsuits proceed to trial. The District currently believes that the collective impact of the North Park Lawsuits, if ultimately found adverse to the District, will not materially adversely affect the financial condition or operations of the District.

## RATINGS

Moody's and S&P have assigned ratings of "A3" and "A", respectively, to the Certificates. 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, at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich, New York, New York 10007 and S&P, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal.

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.

The District has covenanted in a Continuing Disclosure Certificate to file on EMMA notices of any rating changes on the Certificates. See Appendix D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. Notwithstanding such covenant, information relating to rating changes on the Certificates may be publicly available from S&P and Moody's 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 Certificates are directed to S&P and Moody's, their websites and official media outlets for the most current rating changes with respect to the Certificates after the initial execution and delivery thereof.

## UNDERWRITING

***Purchase of Certificates.*** The Certificates are being purchased by Piper Jaffray & Co., as Underwriter. The Underwriter has agreed, pursuant to a purchase contract (the "Purchase Contract") by and between the District and the Underwriter, to purchase the Certificates at the purchase price of \$\_\_\_\_\_ (reflecting a principal amount of \$\_\_\_\_\_, plus original issue premium of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_). The Purchase Contract provides that the Underwriter will purchase all of the Certificates, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such Contract of Purchase.

The Underwriter may offer and sell the Certificates to dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

## MISCELLANEOUS

The references herein to the Lease, the Site Lease, the Trust Agreement and the Assignment Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents. Copies of the documents mentioned under this heading are available for inspection at the District and following delivery of the Certificates will be on file at the Principal Office of the Trustee in San Francisco, California.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive. Reference is made to such documents and reports for full and complete statements of the content thereof.

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

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

**SAN BERNARDINO CITY UNIFIED SCHOOL  
DISTRICT**

By: \_\_\_\_\_  
Jayne Christakos  
Associate Superintendent Business, Facilities, and  
Operations

**APPENDIX A**  
**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a brief summary of certain provisions of the legal documents related to the Certificates which are not described in the Official Statement to which this Appendix is attached. This summary is not intended to be definitive and is qualified in its entirety by reference to fully-executed Site Lease, Lease, Assignment Agreement and Trust Agreement for the complete terms thereof. Copies of the Site Lease, the Lease, the Assignment Agreement and the Trust Agreement are available upon request from the District.*

#### **DEFINITIONS**

The following are summaries of definitions of certain terms used in this Summary of Principal Legal Documents. All capitalized terms not defined therein or elsewhere in the Official Statement have the meanings set forth in the Lease or the Trust Agreement.

“Accountant” means a nationally recognized firm of certified public accountants.

“Additional Certificates” means certificates of participation authorized by a supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

“Additional Payments” means all amounts payable by the District as Additional Payments as defined in the Lease.

“Asbestos Containing Materials” means material in friable form containing more than one percent (1%) of the asbestiform varieties of (a) chrysotile (serpentine); (b) crocidolite (ricbeckite); (c) amosite (cummingtonite-grunerite); (d) anthophyllite; (e) tremolite; and (f) actinolite.

“Assignment Agreement” means the Assignment Agreement related to the Certificates, dated as of the date thereof, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

“Available Coverage” means the coverage then available for disbursement pursuant to the terms of any applicable Reserve Facility without regard to the legal or financial ability or willingness of the provider of such Reserve Facility to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

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

“Business Day” means any day other than (i) a Saturday or Sunday, or (ii) a day on which banking institutions in the State of New York or the State of California or the state in which the Principal Office of the Trustee is located are authorized or required by law or executive order to remain closed.

“Certificate” or “Certificates” means the San Bernardino City Unified School District, Certificates of Participation (2019 School Financing Project), and any Additional Certificates executed and delivered by the Trustee pursuant to the Trust Agreement.

“Certificate of Completion” means a certificate of the District Representative stating that all components of the Project have been completed or concluded in conformity with the requirements of the Lease.

“Certificate Payment Date” means April 1 and October 1 of each year commencing October 1, 2019 with respect to the interest payments evidenced by the Certificates and October 1 of each year commencing October 1, 2019 with respect to the principal payments evidenced by the Certificates.

“Certificate Year” will have the meaning assigned to such term in the Tax Certificate.

“Claim” means any claim or enforcement proceeding in connection an Insolvency Proceeding.

“Closing Date” means the date on which the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser thereof.

“Code” means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

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

“Contract of Purchase” means that certain contract for the purchase of the Certificates dated as of \_\_\_\_\_, 2019 by and between the District and the Original Purchaser, relating to the sale and delivery of the Certificates.

“Corporation” means the San Bernardino Schools Financing Corporation, a nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

“Corporation Representative” means the President, Vice President, Treasurer, Secretary or Executive Director of the Corporation, or any other person authorized to act on behalf of the Corporation under or with respect to the Lease.

“Defeasance Securities” means (i) Government Obligations, and (ii) evidences of ownership of proportionate interests in future interest and principal payments on Government Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Government Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“Delivery Costs” means and further includes all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the Project, including but not limited to costs provided in the Contract of Purchase with the Original Purchaser, the premium for any insurance policies purchased guaranteeing payment of the Certificates or to satisfy the Reserve Requirement, filing and recording costs, settlement costs, printing costs, word processing costs, reproduction and binding costs, initial fees and charges of the Trustee, including its first annual administration fee and the fees of its counsel, legal and financial advisory fees and charges, financing and other professional consultant fees, costs of rating agencies and costs of providing information to such rating agencies, any computer and other expenses incurred in connection with the Certificates, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

“Delivery Costs Requisition” means a written requisition for the payment of Delivery Costs substantially in the form attached as an exhibit to the Trust Agreement.

“Depository” means The Depository Trust Company, 55 Water Street, New York, New York 10041; or, in accordance with the then current guidelines of the Securities and Exchange Commission to such other addresses and/or such other securities depositories or to such depositories as the District may designate in writing to the Trustee, or any other securities depository acting as Depository pursuant to the Trust Agreement.

“District” means the San Bernardino City Unified School District, a school district organized and existing under the laws and Constitution of the State, and its successors and assigns.

“District Representative” means the Superintendent of the District, the Associate Superintendent Business, Facilities, and Operations of the District, or any other person authorized by the Superintendent or the Associate Superintendent Business, Facilities, and Operations of the District to act on behalf of the District with respect to the Lease or the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as initial Depository for the Certificates.

“Environmental Regulations” means all Laws and Regulations, now or hereafter in effect, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, et seq.) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, et seq.) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, et seq.) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321, et seq.) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, et seq.) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 et seq.) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar laws and regulations and any so-called local, state or federal “superfund” or “superlien” law.

“Event of Default” means an event of default under the Lease, as defined in the Lease.

“Fiscal Year” means the fiscal year of the District commencing July 1 and ending June 30 of the next year.

“Government Obligations” means non-callable (i) United States Treasury Obligations, (ii) obligations fully and unconditionally guaranteed as to payment of principal and interest by the United States of America, or (iii) obligations fully and unconditionally guaranteed as to payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America.

“Independent Counsel” means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the District.

“Independent Insurance Consultant” means a nationally recognized independent actuary, insurance company or broker that has actuarial personnel experienced in the area of insurance for which the District is to be self-insured, as may from time to time be designated by the District.

“Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System.

“Insolvency Proceeding” means, for purposes of the Trust Agreement, any proceeding by or against the Corporation or the District commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law.

“Laws and Regulations” means any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Properties.



“Lease” means the Lease/Purchase Agreement related to the Certificates, dated as of June 1, 2019, by and between the District and the Corporation, and any duly authorized and executed amendments thereto.

“Lease Payment” means any payment required to be paid by the District to the Corporation pursuant to the Lease.

“Lease Payment Date” means the fifteenth (15<sup>th</sup>) day of the month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Dates, as specified in the Lease..

“Lease Payment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Lease Proceeds” means any proceeds of re-letting or any other disposition of the Properties pursuant to the Lease.

“Lease Year” means the period extending from October 1 of each calendar year to September 30 of the subsequent calendar year (as applicable), provided that the first Lease Year will commence on the Closing Date and end on September 30, 2019.

“Lessor” means the San Bernardino Schools Financing Corporation, a nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

“Letter of Representations” means the letter of the District delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates making reference to the DTC Operational Arrangements, as it may be amended from time to time setting forth the basis on which the Depository serves as depository for such book-entry certificates, as such letters were originally executed or as they may be supplemented or revised or replaced by letters from the District and the Trustee delivered to and accepted by the Depository.

“Moody’s” means Moody’s Investors Service, or any successors or assigns thereto.

“Net Proceeds” means any proceeds of any insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Properties remaining after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof.

“Net Proceeds Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

“Opinion of Counsel” means a legal opinion issued by Special Counsel addressed to the District, the Corporation and the Trustee.

“Original Purchaser” means Piper Jaffray & Co., as original purchaser of the Certificates on the Closing Date.

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

- (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Certificates for the payment or prepayment of which funds or Defeasance Securities, together with interest earned thereon, in the necessary amount shall have theretofore been deposited with the Trustee (whether

upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

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

“Owner” or “Certificate Owner” or “Owner of a Certificate,” or any similar term, when used with respect to a Certificate means the person in whose name such Certificate is registered on the registration books maintained by the Trustee.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Certificate.

“Permitted Encumbrances” means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Lease, permit to remain unpaid; (ii) the Assignment Agreement; (iii) the Lease; (iv) the Site Lease; (v) any contested right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law to the extent permitted under the Lease; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the District certifies will not materially impair the use of the Properties by the District; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Lessor and the District consent in writing.

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

(a) For all purposes, including investments to accomplish a defeasance, Defeasance Securities.

(b) For all purposes other than investments to accomplish a defeasance, any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(i) Federal Housing Administration debentures.

(ii) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)
  - Participation certificates (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)
  - Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
  - Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)
  - Consolidated debt obligations
- Federal National Mortgage Association (FNMA)
  - Senior debt obligations
  - Mortgage-backed securities (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Financing Corporation (FICO)
  - Debt Obligations

-Resolution Funding Corporation (REFCORP)  
Debt Obligations

(iii) Unsecured certificates of deposit, time deposits, money-market deposits and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P or "Prime-1" by Moody's, which may include the Trustee and its affiliates.

(iv) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC) in banks which have capital and surplus of at least \$15 million.

(v) Commercial paper (having original maturities of not more than 30 days) rated at the time of purchase "A-1+" or better by S&P and "Prime-1" by Moody's.

(vi) Money market funds rated at least as high as direct and general obligations of the United States by S&P and Moody's, including funds for which the Trustee, its parent company, if any, or any affiliates or subsidiaries of the Trustee provide investment advising or other management services

(vii) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(viii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (vii) above and rated "A-1+" by S&P and "MIG-1" by Moody's.

(ix) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (vii) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

(x) Pre-refunded municipal obligations rated by S&P and Moody's at least as high as direct and general obligations of the United States of America, meeting the following requirements:

1. such municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for such municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

2. such municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

3. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on such municipal obligations ("Verification");

4. the cash or United States Treasury Obligations serving as security for such municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

5. no substitution of a United States Treasury Obligation will be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

6. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(xi) Repurchase agreements entered into with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “AA” by S&P and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “AA” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least “AA” by S&P or “Aa” by Moody’s (each an “Eligible Provider”), provided that:

1. the market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach);

2. the Trustee or a third party acting solely as agent therefor or for the District (the “Custodian”) has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books) and the collateral is marked to market;

3. the collateral will be marked to market on a daily basis and the provider or Custodian will send monthly reports to the Trustee, the District setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

4. the repurchase agreement will state that an opinion of counsel will be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Custodian is in possession);

5. all other requirements of each Rating Agency in respect of repurchase agreements are met;

6. the repurchase agreement will provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-” by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the District or Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the District or the Trustee.

Notwithstanding the above, if the repurchase agreement has a term of 270 days or less (with no evergreen provisions), collateral levels need not be as specified in (1) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by S&P and Moody’s, respectively.

(xii) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or in the case of a guaranteed corporation the long-term debt is rated at least “AA” (stable) by S&P and “Aa” (stable) by Moody’s; or in the case of monoline financial guaranty insurance company, claims paying ability of the guarantor is rated at least as high as direct and general obligations of the United States of America by S&P and Moody’s; provided that, by the terms of the investment agreement:

1. interest payments are to be made to the Trustee at times and in amounts as necessary to pay Lease Payments (or, if the investment agreement is for the construction fund, construction draws) with respect to the Certificates;

2. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days’ prior notice; the District and the Trustee have agreed to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

3. the provider will send monthly reports to the Trustee and the District setting forth the balance the District or Trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;

4. the investment agreement will state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel will state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

5. the District and the Trustee will receive an opinion of domestic counsel, addressed to the District to the effect that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;

6. the District and the Trustee will receive an opinion of foreign counsel to the provider (if applicable) (in a form and substance acceptable to, and addressed to the District and the Trustee), to the effect that (a) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (b) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law, and (c) any judgment rendered by a court in the United States of America would be recognized and enforceable in such country;

7. the investment agreement will provide that if during its term:

(i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3," respectively, the provider will, at its option, within ten (10) days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as an agent therefor (a "Custodian") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) repay the principal of and accrued but unpaid interest on the investment, and

(ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the District or the Trustee, within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee;

8. in the event the provider is required to collateralize, permitted collateral will include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations will be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral will be marked to market on a daily basis and the provider or Custodian will send monthly reports to the Trustee and the District setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

9. the investment agreement will state and an opinion of counsel will be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Custodian in possession) and;

10. the investment agreement must provide that if during its term: (i) the provider will default in its payment obligations, the provider's obligations under the investment agreement will, at the direction of the District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the District or Trustee, as appropriate, and (ii) the provider will become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations will automatically be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the District or Trustee, as appropriate; and

(xiii) Deposits in the Local Agency Investment Fund of the California State Treasurer, to the extent the Trustee is authorized to register such investments in its name.

"Policy Payments Account" means the special purpose trust account established by the Trustee pursuant to the Trust Agreement for the benefit of the Certificate Owners, and over which the Trustee shall have exclusive control and sole right of withdrawal.

"Prepayment" means any payment made by the District pursuant to the Lease as a prepayment of Lease Payments.

"Prepayment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Principal Office" means the principal corporate trust operations office of the Trustee in Los Angeles, California, or such other office as the Trustee may inform the District of, provided that for transfer, exchange, registration, surrender and payment of Certificates, such term means the office or agency of the Trustee in Los Angeles, California, or such other address as the Trustee may inform the District, or the principal office of any successor trustee pursuant to the Trust Agreement.

"Project" means the project described in the Lease and any and all substitutions thereto, as provided in the Lease.

"Project Cost Requisition" means a written requisition for the payment of Project Costs substantially in the form attached as an exhibit to the Trust agreement.

"Project Costs" means, with respect to any item or portion of the Project, the contract price paid or to be paid therefor upon acquisition, construction, procurement or improvement thereof, in accordance with a purchase order or contract therefor. Project Costs include, but are not limited to, the administrative, engineering, legal, financial and other costs incurred by the District and the Corporation in connection with the acquisition, construction, procurement, remodeling or improvement of the Project, all applicable sales taxes and other charges resulting from such construction, procurement, remodeling or improvement of the Project and the costs associated with making rebate calculations required by the Code.

"Project Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Properties" means the site or sites described in the Lease, and the school facilities located thereon.

"Rating Agency" means any nationally-recognized credit rating agency that maintains a current credit rating with respect to the Certificates.

"Record Date" means the close of business on the fifteenth day of the month preceding each Certificate Payment Date, whether or not such fifteenth day is a Business Day.

"Related Document" means each of the Lease, the Site Lease and the Assignment Agreement.

"Reserve Facility" means any line of credit, letter of credit, insurance policy, surety bond or other credit source, including the Reserve Policy, deposited with the Trustee pursuant to the Trust Agreement.

“Reserve Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Reserve Policy” means the municipal bond debt service reserve insurance policy to initially satisfy the Reserve Requirement.

“Reserve Replenishment Rent” means Reserve Replenishment Rent payable pursuant to the Lease.

“Reserve Requirement” means, as of any calculation date, the lesser of (1) the maximum aggregate annual Lease Payments (in any Fiscal Year) then payable under the Lease, (2) 125% of the average annual aggregate Lease Payments (in any Fiscal Year) then payable under the Lease, (3) 10% of the original face amount of the Certificates and/or the Additional Certificates, as applicable (less original issue discount if in excess of two percent (2%) of the stated prepayment amount at maturity).

“Responsible Officer” means, with respect to the Trustee, the president, every vice president, every assistant vice president, every trust officer and every officer and assistant officer of the Trustee, other than those specifically above mentioned, to whom any corporate trust matter relating to the Trust Agreement is referred because of his or her knowledge of and familiarity with, a particular subject.

“S&P” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, or any successors or assigns thereto.

“Site Lease” means the Site Lease related to the Certificates, dated as of June 1, 2019, by and between the Corporation and the District.

“Special Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the District.

“State” means the State of California.

“Tax Certificate” means the Tax Certificate of the District, dated as of the Closing Date, concerning matters pertaining to the use and investment of proceeds of the Certificates executed and delivered to the District on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

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

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, and any successor trustee.

“Trust Agreement” or “Agreement” means the Trust Agreement, together with any amendments thereof or supplements thereto permitted to be made thereunder.

“United States Treasury Obligations” means non-callable direct obligations of the United States of America (other than obligations subject to variation in principal repayment).

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## THE LEASE AGREEMENT

### ACQUISITION, CONSTRUCTION AND INSTALLATION OF THE PROJECT

**Deposit of Certificate Proceeds.** On the Closing Date, the Lessor has agreed to pay or cause to be paid to the District moneys to be deposited with the Trustee as provided in the Trust Agreement.

**Completion of the Project.** The District will arrange for, supervise and provide for, or cause to be supervised and provided for, the construction and completion of the Project. The District will enter into one or more contracts or purchase orders providing for completion of the Project.

**Payment of Project and Delivery Costs.** Payment of the Project Costs and Delivery Costs will be made from the moneys deposited with the Trustee in the Project Fund as provided in the Trust Agreement, which will be disbursed in accordance and upon compliance with the Trust Agreement.

**Completion Certification.** Upon completion of all portions of the Project to be financed with the Certificates, satisfactory to the District, the District will deliver to the Trustee a Certificate of Completion with respect thereto. On the date of filing the Certificate of Completion, as indicated therein, all excess moneys remaining in the Project Fund will be transferred by the Trustee in accordance with the Trust Agreement.

**Substitution of or Addition to the Project.** The District will have the right to substitute alternate items for any portion of the Project listed in the Lease or provide for additional components of the Project by providing the Trustee with a written certificate in the form contained in the Lease as an exhibit and so long as such substitution or addition does not cause, in and of itself, the interest represented by the Certificates to be included in gross income for federal income tax purposes.

#### **Compliance with Law.**

Public Bidding. The District will comply with all applicable provisions for bids and contracts prescribed by law, including, without limitation, the Public Contract Code, the Education Code, and the Government Code of the State.

Wage Rates and Working Hours. The District will comply with all applicable provisions relating to prevailing wage rates and working hours, as applicable, required by the Education Code of the State.

Field Act Compliance. If applicable, the District will acquire, construct and install the Project in such manner as to comply with the Field Act.

Plans and Specifications. If applicable, the District will prepare and adopt plans and specifications for the acquisition, construction and installation of the Project or portions thereof pursuant to the Education Code of the State.

Further Assurances and Corrective Instruments. The Lessor and the District have agreed that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements to the Lease and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Properties leased or intended so to be or for carrying out the expressed intention of the Lease.

### AGREEMENT TO LEASE; TERM OF LEASE; LEASE PAYMENTS

**Lease.** The Lessor has leased the Properties to the District, and the District has leased the Properties from the Lessor, upon the terms and conditions set forth in the Lease. The Lease will not operate as a merger of the District's leasehold estate in the Properties pursuant to the Lease and its fee estate in the Properties and will not cause the extinguishment of the leasehold interest granted to the Lessor under the Site Lease.



**Term.** The Term of the Lease will commence on the date of execution thereof and will end on October 1, 2038, unless extended pursuant to the Lease, or unless terminated prior thereto upon the earliest of any of the following events:

(a) Default and Termination. A default by the District and the election of the Lessor (or its assignee) to terminate the Lease under the Lease;

(b) Payment of All Lease Payments. The payment by the District of all Lease Payments and Reserve Replenishment Rent required under the Lease and any Additional Payments required under the Lease; or

(c) Prepayment. The deposit of funds or Government Obligations with the Trustee in amounts sufficient to pay all Lease Payments as the same will become due, as provided by the Lease and as provided by the Trust Agreement; or

(d) Purchase. Upon the exercise by the District of its option to purchase all of the Lessor's interest in the Properties as provided in the Lease; provided, however, that upon exercise by the District of its option to purchase the Lessor's interest in a portion of the Properties, as provided in the Lease, the Lease will be terminated only with respect to that portion of the Properties.

**Extension of Lease Term.** If on October 1, 2038, the Certificates shall not be fully paid, or if the Lease Payments thereunder shall have been abated at any time and for any reason, or amounts shall be due with respect to the Reserve Policy, respectively, then the Term will be extended until all such Certificates, Lease Payments or amounts due shall be fully paid, except that the Term will in no event be extended beyond October 1, 2048.

#### **Lease Payments.**

(a) Time and Amount. Subject to the provisions of the Lease regarding abatement in event of loss of use of any portion of the Properties, regarding option to purchase and regarding prepayment of Lease Payments, the District has agreed to pay to the Lessor, its successors and assigns, as annual rental for the use and possession of the Properties, the Lease Payments (denominated into components of principal and interest, the interest component being paid semiannually) in the amounts specified in the Lease, to be due and payable on the fifteenth (15th) day of the month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Dates as specified in the Lease (the "Lease Payment Date") which are sufficient in both time and amount to pay when due the annual principal and semiannual interest represented by the Certificates.

In the event the District does not pay a Lease Payment due on the respective Lease Payment Date, the Trustee will provide prompt written notice to the District of such failure to pay; provided, however, that failure to give such notice will not excuse any event of default under the Lease.

(b) Credits. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than accrued and capitalized interest, which will be credited as provided in the Trust Agreement, and other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of principal with respect to any Certificates not presented for payment or interest) will be credited towards the Lease Payment then due and payable. No Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid.

(c) Rate on Overdue Payments. In the event the District should fail to make any of the Lease Payments required in the Lease, the Lease Payment in default will continue as an obligation of the District until the amount in default will have been fully paid, and the District has agreed to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate then Outstanding.

(d) Reserve Replenishment Rent. In the event that:

(i) funds have been withdrawn from the Reserve Fund or there has been a draw on a Reserve Facility held therein in order to pay interest or principal represented by the Certificates or if there shall be a deficiency in the Reserve Fund resulting from a decrease of 10% or more in the market value of the Permitted Investments in the Reserve Fund determined as provided in the Trust Agreement, and

(ii) Lease Payments are not then in abatement pursuant to the Lease, and

(iii) the amount of such Lease Payments is less than the fair rental value of the Properties, and

(iv) the amount on deposit in the Reserve Fund is less than the Reserve Requirement, or the amount on deposit in the Lease Payment Fund is less than the amount required to be on deposit therein corresponding to the cumulative gross Lease Payments,

then the District will pay from its first legally available moneys after payment of Lease Payments, to the Trustee, Reserve Replenishment Rent in the amount of the deficiency, or, in the case of a draw on the Reserve Policy, in an amount necessary to reimburse the repayment of the amount drawn on the Reserve Policy, including interest thereon at the Late Payment Rate, consistent in each case with such fair rental value

(A) (1) over a period of not more than four months, in four (4) substantially equal payments, in the event of a deficiency from a decrease in the market value of the Permitted Investments on deposit in the Reserve Fund or the Lease Payment Fund; or (2) over a period extending not more than twelve months, in substantially equal monthly payments in the event of a deficiency from a withdrawal of amounts from the Reserve Fund to pay principal and interest with respect to the Certificates, or to repay any required amounts drawn from a Reserve Facility; and

(B) from the first moneys legally available therefor provided that such payment is consistent with the fair market rental value of the Properties, or

(C) if such payments summarized in clause (A) or (B) are inconsistent with fair market rental value, in such maximum amounts as shall be consistent with fair rental value on each Lease Payment Date until the amount of such Reserve Replenishment Rent paid equals the amount of funds withdrawn from the Reserve Fund or drawn upon the Reserve Policy (including in such amount interest in respect of such drawing at the Late Payment Rate) or upon any other Reserve Facility, to pay interest or principal represented by the Certificates or the decrease in value of Permitted Investments in the Reserve Fund or the Lease Payment Fund.

**No Withholding.** Notwithstanding any dispute between the Lessor and the District, including a dispute as to the failure of any portion of the Properties in use by or possession of the District to perform the task for which it is leased, the District will make all Lease Payments, Reserve Replenishment Rent and Additional Payments when due and will not withhold any Lease Payments, Reserve Replenishment Rent or Additional Payments pending the final resolution of such dispute.

**Fair Rental Value.** The Lease Payments will be paid by the District in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Properties during each such period for which said Lease Payments are to be paid. The parties thereto have agreed and determined that such total rental represents the fair rental value of the Properties. In making such determination, consideration has been given to the insured replacement value of the Properties, other obligation of the parties under the Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Properties and the benefits therefrom which will accrue to the District and the general public, and the transfer of the Lessor's leasehold interest in the Properties at the end of the Term. In the event that the District and the Trustee, as assignee of the Lessor, agree subsequent to the date thereof that Lease Payments thereunder are less than the fair rental value of the

Properties, the District and the Trustee may mutually agree that the District will increase the Lease Payments payable thereunder to reflect such fair rental value.

**Budget and Appropriation.** The District has covenanted to take such action as may be necessary to include in its annual budget and make all necessary annual appropriations for all Lease Payments, Reserve Replenishment Rent and Additional Payments (to the extent the amounts of such Reserve Replenishment Rent and Additional Payments are known to the District at the time its annual budget is proposed), and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year. To the extent the amount of such payments becomes known after the adoption of the annual budget, such amounts will be included and maintained in such budget as amended. During the Term of the Lease, the District will furnish annually, on or before June 30 of each year, to the Trustee a certificate of the District Representative stating that all Lease Payments, Reserve Replenishment Rent and Additional Payments due thereunder for the applicable Fiscal Year have been included in its annual budget and the amount so included. The covenants on the part of the District contained in the Lease will be deemed to be and will be construed to be duties imposed by law and it will be the ministerial duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the District.

**Assignment of Lease Payments.** Certain of the Lessor's rights under the Lease, including the right to receive and enforce payment of the Lease Payments, Reserve Replenishment Rent, Additional Payments, and Prepayments, to be made by the District thereunder, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the District consents. The Lessor directs the District, and the District has agreed, to pay to the Trustee at the Trustee's corporate trust office in St. Paul, Minnesota, or to the Trustee at such other place as the Trustee will direct in writing, all Lease Payments, Additional Payments, Reserve Replenishment Rent or Prepayments thereof payable by the District thereunder. The Lessor will not assign or pledge the Lease Payments or other amounts derived from the Properties and from its other rights under the Lease except as provided under the terms of the Lease, the Assignment Agreement and the Trust Agreement, or its duties and obligations except as provided under the Lease, and any assignments in contravention thereof will be void.

**Use and Possession.** The total Lease Payments due in any Fiscal Year will be for the District's right to use and possession of the Properties for such Fiscal Year.

**Abatement of Lease Payments in Event of Loss of Use.**

(a) Period. The obligation of the District to pay Lease Payments, Additional Payments and Reserve Replenishment Rent will be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation with respect to any portion of the Properties there is substantial interference with the District's right to use and possession of such portion of the Properties.

(b) Amount. The amount of such abatement will be determined by the District such that the resulting Lease Payments and Reserve Replenishment Rent represent fair consideration for the District's right to use and possession of the portion of the Properties not damaged, destroyed or taken. The District will calculate such abatement and will provide the Trustee with a certificate setting forth such calculations and the basis therefor. Such abatement will commence with such damage, destruction or taking and end with the substantial completion of the replacement or work or repair; provided, however, that during abatement, available moneys on deposit in the Reserve Fund and the Lease Payment Fund, and other special sources of money, including without limitation proceeds of rental interruption insurance, will be applied to pay the Lease Payments.

(c) Repair or Replacement. In the event of such abatement, the District will use its best efforts to repair or replace the damaged or destroyed or taken portion of the Properties, as the case may be, from Net Proceeds, subject to the requirements of the Lease, or special funds of the District or other moneys the application of which would, in the opinion of Special Counsel addressed to the Trustee, the District and the Lessor, not result in the obligations of the District thereunder constituting indebtedness of the District in contravention of the Constitution and laws of the State.

**Additional Payments.** In addition to the Lease Payments, the District will also pay such amounts (“Additional Payments”) as will be required for the payment of all administrative costs of the Lessor relating to the Properties or the Certificates, including all amounts due pursuant to the Trust Agreement (and excepting for Reserve Replenishment Rent due pursuant to provisions summarized under the heading “—Lease Payments – Reserve Replenishment Rent herein), all expenses, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, all fees and expenses owed to the Lessor under the Lease, taxes of any sort whatsoever payable by the Lessor as a result of its interest in the Properties or undertaking of the transactions contemplated therein or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, all other necessary administrative costs of the Lessor or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement including premiums or insurance maintained pursuant to the Lease or to indemnify the Lessor and its employees, officers and directors, the Corporation and its agents, successors and assigns and the Trustee.

**Net-Net-Net Lease.** The Lease will be deemed and construed to be a “net-net-net lease” and the District has agreed that the Lease Payments will be an absolute net return to the Lessor, free and clear of any expenses, charges or set-offs whatsoever, except as expressly provided therein.

## **INSURANCE**

### **Public Liability and Property Damage.**

(a) Coverage. The District will maintain or cause to be maintained, throughout the Term thereof, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the District, the Lessor and their officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of any District property or portion thereof.

(b) Limits. Said policy or policies will provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 (subject to a deductible clause of not to exceed \$50,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the liability limits set forth therein.

(c) Joint or Self-Insurance. Such liability insurance, including the deductible, may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the District.

(d) Payment of Net Proceeds. The Net Proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds will have been paid.

**Workers’ Compensation.** The District will also maintain workers’ compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Workers’ Compensation Insurance and Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto.

### **Casualty and Theft Insurance.**

(a) Casualty and Theft Insurance: Coverage. The District will procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, insurance against loss or damage to any portion of the Properties caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance, but excluding earthquake and flood insurance to the extent not commercially available at a reasonable cost in the judgment of the District. Said extended coverage insurance will, as nearly as practicable, cover loss or

damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance.

(b) Amount. Such insurance will be in an amount (except that such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss) not less than the greater of (i) replacement cost of the Properties and (ii) the aggregate principal amount of the Certificates at the time Outstanding.

(c) Joint or Self-Insurance. Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the District, and, subject to compliance with the Lease thereof, may be maintained in the form of self-insurance by the District.

(d) Payment of Net Proceeds. The Net Proceeds of such insurance will be paid to the Trustee and deposited in the Net Proceeds Fund and applied as provided in the Lease.

#### **Rental Interruption Insurance.**

(a) Coverage and Amount. The District will maintain or cause to be maintained rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of rental income from the Properties caused by perils covered by the insurance required to be maintained as provided in the Lease. Notwithstanding the foregoing, rental interruption insurance will not be provided in connection with earthquake or flood events unless commercially available at a reasonable cost in the judgment of the District. Such rental interruption insurance will name the Trustee and the Lessor as additionally secured parties and may not be provided in the form of self-insurance.

(b) Joint Insurance. Such insurance may be maintained as part of or in conjunction with any other rental income insurance carried by the District.

(c) Payment of Net Proceeds. The Net Proceeds of such rental interruption insurance will be paid to the Trustee and deposited (1) in the Reserve Fund to make up any deficiencies therein or to reimburse draws on a Reserve Policy, and (2) in the Lease Payment Fund, to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

**Title Insurance.** The District will obtain and, throughout the Term of the Lease, maintain or cause to be maintained title insurance on the Properties, in the form of a CLTA title policy, in an amount equal to the aggregate principal amount of the Certificates Outstanding, issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners, subject only to Permitted Encumbrances. Said policy or policies will insure (a) the fee interest of the District in the Properties, (b) the Lessor's ground leasehold estate in the Properties under the Site Lease, and (c) the District's leasehold estate thereunder in the Properties, subject only to Permitted Encumbrances. All Net Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Trust Agreement. So long as any of the Certificates remain Outstanding, each policy of the title insurance obtained pursuant thereto or required thereby will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Certificate Owners.

#### **General Insurance Provisions.**

(a) Form of Policies. All policies of insurance required to be procured and maintained pursuant to the Lease and any statements of self-insurance will be in a form certified by an insurance agent, broker or consultant to the District to comply with the provisions thereof. All such policies will provide that the District will give the Trustee thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby, and will be provided by carriers rated in the two highest rating categories without regard to modifiers by S&P or Moody's or at least "A" by A.M. Best Company, Inc. Each policy of insurance required to be procured and maintained pursuant to provisions of the Lease regarding casualty and theft insurance, regarding rental interruption insurance and regarding title insurance will provide that the Trustee and the Lessor are an additional insured and all proceeds thereunder will be payable to the Trustee for the benefit of the Owners.

(b) Payment of Premiums. The District will pay or cause to be paid when due the premiums for all insurance policies required by the Lease, and will promptly furnish or cause to be furnished to the Trustee a certificate to such effect, as described in paragraph (d) below.

(c) Protection of the Trustee. The Trustee will not be responsible for the sufficiency or adequacy of any insurance therein required and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the District.

(d) Evidence of Insurance. The District will cause to be delivered to the Trustee annually on or before September 1 a certificate stating that the insurance policies required by the Lease are in full force and effect.

(e) Self Insurance. The District may only elect to self-insure pursuant to the Lease and, only if and to the extent such self-insurance method or plan of protection will afford reasonable protection to the Lessor and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by other school districts in the State other than the District. Any self-insurance maintained by the District pursuant to the Lease will comply with the following terms:

(i) The self-insurance program will be approved in writing by an Independent Insurance Consultant;

(ii) The self-insurance program will include an actuarially sound claims reserve fund out of which each self-insured claim will be paid; the adequacy of such fund will be evaluated on an annual basis by an Independent Insurance Consultant; and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of such Independent Insurance Consultant;

(iii) The self-insured claims reserve fund will be held in a separate trust fund by an independent trustee, which may be the Trustee; and

(iv) In the event the self-insurance program will be discontinued, the actuarial soundness of its claims reserve fund, as determined by an Independent Insurance Consultant, will be maintained.

**Cooperation.** The Lessor will cooperate fully with the District at the expense of the District in filing any proof of loss with respect to any insurance policy maintained pursuant to the Lease and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Properties or any portion thereof.

## **DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS**

### **Application of Net Proceeds.**

(a) Deposit in Net Proceeds Fund. The District will remit promptly to the Trustee any Net Proceeds received by the District and the Trustee, pursuant to the Trust Agreement, will deposit such Net Proceeds of insurance which it receives in the Net Proceeds Fund as provided in sections the Lease regarding casualty and theft insurance or regarding title insurance, promptly upon receipt thereof. The District and/or the Lessor will transfer to the Trustee any other Net Proceeds received by the District and/or Lessor in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Properties, for deposit in the Net Proceeds Fund.

(b) Disbursement for Replacement or Repair of the Properties. Upon receipt of the certification described in paragraph (i) below, the requisition described in paragraph (ii) below, the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in the requisition as provided in the Trust Agreement.

(i) Certification. The District Representative must certify to the Lessor and the Trustee that:

(A) Sufficiency of Net Proceeds. The Net Proceeds available for such purpose, together with any other funds supplied by the District to the Trustee in a subaccount of the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair (B) Timely Completion. In the event that damage, destruction or taking results or is expected to result in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds, as described in the Lease together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in an attached reconstruction schedule.

(ii) Requisition. The District Representative must state with respect to each payment to be made (1) the requisition number, (2) the name and address of the person, firm or corporation to whom payment is due, (3) the amount to be paid and (4) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Each such requisition signed by the District Representative will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts.

Any balance of the Net Proceeds remaining after such replacement or repair has been completed and after payment or provision for payment of all Certificates as provided in the Trust Agreement will be paid to the District after payment of amounts due the Trustee pursuant to the Trust Agreement.

(c) Disbursement for Prepayment. If the District Representative notifies the Trustee in writing of the District's determination that the certification provided in the Lease cannot be made or that replacement or repair of any portion of the Properties is not economically feasible or in the best interest of the District, then the Trustee will promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of the Certificates as provided in the Trust Agreement and prepayment of Lease Payments as provided in the Lease; provided that in the event of damage or destruction in whole of the Properties and in the event such Net Proceeds, together with funds then on hand in the Lease Payment Fund and Reserve Fund are not sufficient to prepay all the Certificates then Outstanding, then the District will not be permitted to certify that repair, replacement or improvement of all of the Properties is not economically feasible or in the best interest of the District. In such event, the District will proceed to repair, replace or improve the Properties as described therein from legally available funds in the then-current Fiscal Year and will make the required notification to the Trustee pursuant to the Trust Agreement and the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm, or corporation named in the requisition as provided therein.

## COVENANTS WITH RESPECT TO THE PROPERTY

**Use of the Properties.** The District represents and warrants that it has an immediate need for, and expects to make immediate use of, all of the Properties, which need is not temporary or expected to diminish in the foreseeable future.

### **Interest in the Properties and the Lease.**

(a) Lessor Holds Leasehold Interest During Term. During the Term of the Lease, the Lessor does and will hold a leasehold interest in the Properties pursuant to the Site Lease. The District will take any and all actions reasonably required, including but not limited to executing and filing any and all documents reasonably required, to maintain and evidence such title and interest at all times during the Term of the Lease.

(b) Title Transferred to the District at End of Term. Upon expiration of the Term as provided in the Lease thereof, all right, title and interest of the Lessor in and to all of the Properties will be transferred to and vest in the District, without the necessity of any additional document of transfer.

**Option to Purchase.** The District may exercise an option to purchase the Lessor's interest under the Site Lease and the Lease in the Properties by depositing with the Trustee cash and/or Government Obligations as provided in the Trust Agreement. In such event, all or a portion of the obligations of the District under the Lease,

and the security provided by the Lease for said obligations or said portion of the obligations, will cease and terminate as provided in the Lease, excepting in the case all of the Lessor's interest has been purchased, only the obligation of the District to make, or cause to be made, such Lease Payments from such deposit. In the event Lease Payments, Reserve Replenishment Rent and Additional Payments under the Lease have been paid in full on the date of said deposit, the Lessor's interest in the Properties will revert and transfer to the District automatically and without further action by the District or the Lessor, and the Lessor will execute and deliver such further instruments and take such further action as may reasonably be requested by the District for carrying out the reversion and transfer of the Lessor's interests in the Properties. In the event Lease Payments under the Lease have been paid in part only, on the date of said deposit, the District will specify a discrete portion of the Lessor's interest in the Properties for reversion and transfer to the District and the Lessor will execute and deliver such further instruments and take such further action as may reasonably be requested by the District for carrying out the reversion and transfer of such portion of the Lessor's interest in the Properties; provided, that such portion will revert and transfer to the District only if the reduction in the fair rental value of the Properties effected by such reversion and transfer at the time of such reversion and transfer is proportionately less than or equal to the reduction in the maximum annual Lease Payments under the Lease effected by such purchase. Any such deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the Lease.

**Quiet Enjoyment.** During the Term, the Lessor will provide the District with quiet use and enjoyment of the Properties, and the District will during such Term peaceably and quietly have and hold and enjoy the Properties, without suit, trouble or hindrance from the Lessor, or any person or entity claiming under or through the Lessor except as expressly set forth in the Lease. The Lessor will, at the request of the District, join in any legal action in which the District asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor will have the right to inspect the Properties as provided in the Lease.

**Installation of the District's Personal Property.** The District may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon any portion of the Properties. All such items will remain the sole personal property of the District, regardless of the manner in which the same may be affixed to such portion of the Properties, in which neither the Lessor nor the Trustee will have any interest, and may be modified or removed by the District at any time; provided that the District will repair and restore any and all damage to such portion of the Properties resulting from the installation, modification or removal of any such items of equipment. Nothing in the Lease will prevent the District from purchasing items to be installed pursuant to the Lease, provided that no lien or security interest will attach to any part of the Properties.

**Access to the Properties.** The District has agreed that the Lessor, any Corporation Representative and the Lessor's successors, assigns or designees will have the right at all reasonable times to enter upon the Properties or any portion thereof to examine and inspect the Properties. The District has further agreed that the Lessor, any such Corporation Representative, and the Lessor's successors, assigns or designees will have such rights of access to the Properties as may be reasonably necessary to cause the proper maintenance of the Properties in the event of failure by the District to perform its obligations thereunder.

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

(a) Maintenance; Repair and Replacement. Throughout the Term of the Lease, as part of the consideration for the rental of the Properties, all repair and maintenance of the Properties will be the responsibility of the District, and the District will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Properties resulting from ordinary wear and tear or want of care on the part of the District or any sublessee thereof. In exchange for the Lease Payments therein provided, the Lessor has agreed to provide only the Properties, as thereinbefore more specifically set forth. The District waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver will not limit any of the rights of the District under the terms of the Lease.

(b) Tax and Assessments; Utility Charges. The District will also pay or cause to be paid all taxes and assessments, including but not limited to utility charges, of any type or nature charged to the Lessor or the District or levied, assessed or charged against any portion of the Properties or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in



installments over a period of years, the District will be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

(c) Contests. The District may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; provided that prior to such nonpayment it will furnish the Lessor and the Trustee with the opinion of an Independent Counsel acceptable to the Lessor and the Trustee, to the effect that, by nonpayment of any such items, the interest of the Lessor in such portion of the Properties will not be materially endangered and that the Properties will not be subject to loss or forfeiture. Otherwise, the District will promptly pay such taxes, assessments or charges or make provisions for the payment thereof in form satisfactory to the Lessor. The Lessor will cooperate fully in such contest, upon the request and at the expense of the District.

#### **Modification of the Properties.**

(a) Additions, Modifications and Improvements. Following the completion of the Project, the District will, at its own expense, have the right to make additions, modifications, and improvements to any portion of the Properties if such improvements are necessary or beneficial for the use of such portion of the Properties. Unless otherwise contracted for, all such additions, modifications and improvements will thereafter comprise part of the Properties and be subject to the provisions of the Lease. Such additions, modifications and improvements will not in any way damage any portion of the Properties or cause it to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest components of Lease Payments; and the Properties, upon completion of any additions, modifications and improvements made pursuant to the Lease, will be of a value which is not substantially less than the value of the Properties immediately prior to the making of such additions, modifications and improvements.

(b) No Liens. Except for Permitted Encumbrances, the District will not permit any mechanic's or other lien to be established or remain against the Properties for labor or materials furnished in connection with any additions, modifications or improvements made by the District pursuant to the Lease; provided that if any such lien is established and the District will first notify or cause to be notified the Lessor of the District's intention to do so, the District may in good faith contest any lien filed or established against the Properties, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Lessor with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Trustee (as assignee of the Lessor). The Lessor will cooperate fully in any such contest, upon the request and at the expense of the District.

(c) Replacements, Redevelopment and Renovation. Following completion of the Project, the District will, at its own expense, have the right to make replacements, or make additional redevelopments, replacements or renovations to all or a portion of the Properties if the conditions in the Trust Agreement, and summarized below, are satisfied:

(i) The District receives an opinion of Special Counsel, a copy of which the District will furnish to the Lessor and the Trustee, that (1) such replacement does not adversely affect the federal income tax exclusion or the State tax-exempt status of the interest components of the Lease Payments, and (2) the Lease will remain the legal, valid, binding and enforceable obligation of the District;

(ii) In the event such replacement, redevelopment or renovation would result in the temporary abatement of Lease Payments as provided in the Lease, the District shall deposit moneys with the Trustee in advance for payment of Lease Payments from special funds of the District or other moneys, the application of which would not, in the opinion of Special Counsel (a copy of which will have been delivered to the Trustee), result in such Lease Payments constituting indebtedness of the District in contravention of the Constitution and laws of the State;

(iii) The District will certify to the Trustee that it has sufficient funds to complete such replacement, redevelopment or renovation; and

(iv) In the case of replacement or redevelopment, the District certifies to the Trustee that the annual fair rental value of the replacements will be at least equal to the lesser of (1) the annual fair rental value of the Properties immediately prior to such replacement or redevelopment, or (2) 150% of the maximum annual Lease Payments under the Lease.

**Encumbrances; Alternative Financing Methods.**

(a) Encumbrances. Except as provided in the Lease, the District will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Properties, other than Permitted Encumbrances and other than the respective rights of the Lessor and the District as therein provided. Except as expressly provided in the Lease, the District will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time; provided that the District may contest such liens if it desires to do so. The District will reimburse the Lessor for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

(b) Alternative Financing Methods. Notwithstanding the foregoing, the District may create or suffer to create any mortgage, pledge, liens, charges, encumbrances or claims upon the Properties or any improvements thereto, provided that (1) any such mortgage, pledge, liens, charges, encumbrances or claims will at any time while any of the Certificates remain Outstanding be and remain subordinate in all respects to the Site Lease and Lease and any security interest given to the Trustee for the benefit of the Owners and (2) the District will have first delivered to the Trustee an opinion of Special Counsel substantially to the effect that such mortgage, pledge, liens, charges, encumbrances or claims would not, in and of themselves, result in the inclusion of the interest portion of any Lease Payments in the gross income of the owners of such Certificates for purposes of federal income taxation or impair the State tax-exempt status of such payments.

**Lessor's Disclaimer of Warranties.** THE LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE DISTRICT OF THE PROPERTY, OR ANY PORTION THEREOF. THE DISTRICT ACKNOWLEDGES THAT THE LESSOR IS NOT A MANUFACTURER OF PORTIONS OF THE PROPERTY, AND THAT THE DISTRICT IS LEASING THE PROPERTY AS IS. In no event will the Lessor be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease, the Site Lease, the Assignment Agreement or the Trust Agreement for the existence, furnishing, functioning or the District's use and possession of the Properties.

**District's Right to Enforce Warranties of Vendors or Contractors.** The Lessor has irrevocably appointed the District its agent and attorney-in-fact during the Term of the Lease, so long as the District will not be in default thereunder, to assert from time to time whatever claims and rights, including without limitation, warranty claims, claims for indemnification and claims for breach of any representations, respecting the Properties which the Lessor may have against any vendor or contractor. The District's sole remedy for the breach of any such warranty, indemnification or representation will be against the vendor or contractor with respect thereto, and not against the Lessor, nor will such matter have any effect whatsoever on the rights and obligations of the Lessor with respect to the Lease, including the right to receive full and timely Lease Payments and all other payments due thereunder. The District will be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Lessor will, upon the District's request and at the District's expense, do all things and take all such actions as the District may request in connection with the assertion of any such claims and rights.

**Substitution or Release of the Properties.** The District will have the right to substitute alternate real property for any portion of the Properties described in the Lease thereto or to release a portion of the Properties from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form attached thereto. All costs and expenses incurred in connection with such substitution or release will be borne by the District. Notwithstanding any substitution pursuant to the Lease, there will be no reduction in or abatement of the Lease Payments due from the District thereunder as a result of such substitution. No substitution or release will be permitted thereunder unless:

(a) the District finds that the substituted real property (i) has a fair rental value greater than or equal to the fair rental value of the Properties to be released so that the Lease Payments secured by the Properties to be released being payable by the District pursuant to the Lease will not be reduced and (ii) has an equivalent or greater useful life as the Properties to be released and that the useful life of the substituted real property exceeds the remaining term of the Lease Payments thereunder;

(b) the District obtains or causes to be obtained a CLTA title insurance policy with endorsement so as to be payable to the Trustee for the benefit of the Owners. Such policy will comply with the Lease, will be in a form satisfactory to the Lessor, will be in the amount equal to the principal component of Lease Payments attributable to the substituted real property, and will insure the leasehold interest or the fee simple interest of the Lessor or the District, as applicable, to the substituted real property;

(c) the District provides the Lessor and the Trustee with an opinion of Special Counsel that such substitution or release does not cause, in and of itself, the interest evidenced and represented by the Certificates to be included in gross income for federal income tax purposes;

(d) the District will give, or cause to be given, any notice of the occurrence of such substitution or release required to be given pursuant to the Continuing Disclosure Certificate;

(e) upon the substitution of any real property and improvements thereon for all or a portion of the Properties then existing, the District, the Lessor and the Trustee will execute and the District will record with the office of the County Recorder, San Bernardino County, California, any document necessary to reconvey to the District the portion of the Properties being substituted and to include the substituted real property and/or improvements thereon as all or a portion of the Properties;

(f) the District will certify to the Trustee that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Properties being replaced; and

(g) if the District releases a portion of the Properties, the District will certify that the remaining portion of the Properties has a sufficient fair rental value so that Lease Payments payable by the District pursuant to the Lease will not be reduced.

#### **Compliance with Law, Regulations, Etc.**

(a) The District has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Properties or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any Laws and Regulations. Without limiting the generality of the foregoing, neither the District nor to the best of its knowledge, after due inquiry, any prior or present owner, tenant or subtenant of the Properties has, other than as set forth in the Lease or as may have been remediated in accordance with Laws and Regulations, (i) used, treated, stored, transported or disposed of any material amount of flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the District, the Properties or the business operations conducted by the District thereon (collectively, "Hazardous Materials") on, from or beneath the Properties, (ii) pumped, spilled, leaked, disposed of, emptied, discharged or released (hereinafter collectively referred to as "Release") any material amount of Hazardous Materials on, from or beneath the Properties, or (iii) stored any material amount of petroleum products at the Properties in underground storage tanks.

(b) Excluded from the representations and warranties in the Lease with respect to Hazardous Materials are those Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance of school and school related buildings, the use, treatment, storage, transportation and disposal of which has been and will be in compliance with all Laws and Regulations.

(c) No portion of the Properties located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Properties.

#### **Environmental Compliance.**

(a) The District will not use or permit the Properties or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Properties and then, only in compliance with all Environmental Regulations, and any state equivalent laws and regulations, nor will it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee and agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Properties or onto any other property excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of a school district, the use, storage, treatment, transportation and disposal of which will be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the District will promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so released, on, from or beneath the Properties or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained therein, underground storage tanks will only be permitted subject to compliance with the Lease and only to the extent necessary to maintain the improvements on the Properties.

(b) The District will comply with, and will cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Properties to comply with, all Environmental Regulations, and will keep the Properties free and clear of any liens imposed pursuant thereto; provided, however, that notwithstanding that a portion of the covenant summarized in this subsection is limited to the District's use of its best efforts, the District will remain solely responsible for ensuring such compliance and such limitation will not diminish or affect in any way the District's obligations contained in the Lease. Upon receipt of any notice from any person with regard to the Release of Hazardous Materials on, from or beneath the Properties, the District will give prompt written notice thereof to the Trustee prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the Lease is not true or correct, the District will, to the extent permitted by law, defend, indemnify and hold harmless, the Lessor, the Trustee, the Owners, their partners, depositors and each of their respective employees, agents, officers, directors, trustees, successors and assigns, from and against any claims, demands, penalties, fines, attorneys' fees (including, without limitation, attorneys' fees incurred to enforce the indemnification contained in the Lease, consultants' fees, investigation and laboratory fees, liabilities, settlements (five Business Days' prior notice of which the Trustee shall have delivered to the District), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to, (i) the presence, disposal, release, threat of release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Properties, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Business Days' prior notice of which the Corporation or the Trustee, as appropriate, shall have delivered to the District), or governmental order relating to Hazardous Materials on, from or beneath the Properties, (iv) any violation of Environmental Regulations or the Lease by it or any of its agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that the District is strictly liable under any Environmental Regulation, its obligation to the Owners and the other indemnitees under the foregoing indemnification will likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under the Lease will survive the payment and satisfaction of all Certificates and the resignation and removal of the Trustee.

(d) The District will conform to and carry out a reasonable program of maintenance and inspection of all underground storage tanks, and will maintain, repair, and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

**Condemnation of Properties.** The District has covenanted and agreed, to the extent it may lawfully do so, that so long as any of the Certificates remain outstanding and unpaid, the District will not exercise the power of condemnation with respect to the Properties. The District has further covenanted and agreed, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the District will fail or refuse to abide by such covenant and condemns the Properties, then the appraised value of the Properties will not be less than the greater of: (i) if the Certificates are then subject to prepayment, the principal and interest components of the Certificates outstanding through the date of their prepayment, or (ii) if the Certificates are not then subject to prepayment, the amount necessary to defease the Certificates to the first available prepayment date in accordance with the Trust Agreement.

### ASSIGNMENT, SUBLEASING AND AMENDMENT

**Assignment by the Lessor.** Except as provided therein, in the Trust Agreement and the Assignment Agreement, the Lessor will not assign the Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in the Lease.

#### **Assignment and Subleasing by the District.**

(a) Assignment. The Lease may be assigned by the District so long as such assignment does not, in the opinion of Special Counsel, in and of itself, adversely affect the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest component of the Lease Payments or affect the validity of the Lease. In the event that the Lease is assigned by the District, the obligation to make Lease Payments under the Lease will remain the obligation of the District.

(b) Sublease. The District may sublease all or any portion of the Properties, with the consent of the Trustee (as assignee of the Lessor), subject to all of the following conditions:

(i) The Lease and the obligation of the District to make Lease Payments thereunder will remain obligations of the District; and

(ii) The District will, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Lessor, each Rating Agency and the Trustee a true and complete copy of such sublease;

(iii) No sublease by the District will cause the Properties to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; and

(iv) No sublease shall cause the interest component of the Lease Payments due with respect to the Properties to become includable in gross income for federal income tax purposes or subject to State personal income taxes.

**Amendments and Modifications.** The Lease may be amended or any of its terms modified in accordance with the Trust Agreement.

## EVENTS OF DEFAULT AND REMEDIES

**Events of Default Defined.** The following will be “events of default” under the Lease and the terms “events of default” and “default” means, whenever they are used in the Lease, any one or more of the following events:

(a) Payment Default.

(i) Lease Payments. Failure by the District to pay any Lease Payment (other than Reserve Replenishment Rent) required to be paid thereunder by the corresponding Lease Payment Date; and

(ii) Reserve Replenishment Rent: Failure by the District to timely pay any Reserve Replenishment Rent if and when required by the Lease.

(b) Covenant Default. Failure by the District to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed therein or otherwise with respect thereto or in the Trust Agreement or in the Site Lease, other than as described in clause (a) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Lessor, the Trustee or the Owners of not less than twenty percent (20%) in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Lessor or such Owners, as the case may be, will not unreasonably withhold their consent to an extension of such time, if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(c) Bankruptcy or Insolvency. The filing by the District of a case in bankruptcy, or the subjection of any right or interest of the District under the Lease to any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may hereafter be enacted.

**Remedies on Default.** Whenever any event of default referred to in the Lease shall have happened and be continuing, it will be lawful for the Lessor to exercise any and all remedies available pursuant to law or granted pursuant to the Lease, including writs of mandamus. Notwithstanding anything therein or in the Trust Agreement to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default thereunder, the District will surrender possession of the Properties to the Lessor, if requested to do so by the Lessor, the Trustee or the Owners, in accordance with the provisions of the Lease.

(a) No Termination: Repossession and Re-Lease on Behalf of the District. In the event the Lessor does not elect to terminate the Lease in the manner provided for in the Trust Agreement and described in paragraph (b) below, the Lessor may, with the consent of the District, which consent has been irrevocably given, repossess the Properties and re-lease it for the account of the District, in which event the District’s obligation will accrue from year to year in accordance with the Lease and the District will continue to receive the value of the use of the Properties from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the District will remain the same as prior to such default, to pay Lease Payments, Reserve Replenishment Rent and Additional Payments whether the Lessor re-enters or not. The District has agreed to and will remain liable for the payment of all Lease Payments, Reserve Replenishment Rent and Additional Payments and the performance of all conditions contained therein and will reimburse the Lessor for any deficiency arising out of the re-leasing of the Properties, or, in the event the Lessor is unable to re-lease the Properties, then for the full amount of all Lease Payments, Reserve Replenishment Rent and Additional Payments to the end of the Term of the Lease, but said Lease Payments, Reserve Replenishment Rent and Additional Payments and/or deficiency will be payable only at the same time and in the same manner as provided above for the payment of Lease Payments, Reserve Replenishment Rent and Additional Payments thereunder, notwithstanding such repossession by the Lessor or any

suit brought by the Lessor for the purpose of effecting such repossession of the Properties or the exercise of any other remedy by the Lessor.

The District has irrevocably appointed the Lessor as the agent and attorney-in-fact of the District to repossess and re-lease the Properties in the event of default by the District in the performance of any covenants contained therein to be performed by the District and to remove all personal property whatsoever situated upon the Properties, to place such property in storage or other suitable place in the San Bernardino County, for the account of and at the expense of the District, and the District has agreed to exempt and to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Properties. The District has waived any and all claims for damage caused or which may be caused by the Lessor in repossessing the Properties as provided therein and all claims for damages that may result from the destruction of or the injury to the Properties and all claims for damages to or loss of any property belonging to the District that may be in or upon the Properties.

The District has agreed that the terms of the Lease constitute full and sufficient notice of the right of the Lessor to re-lease the Properties in the event of such repossession without effecting a surrender of the Lease, and has further agreed that no acts of the Lessor in effecting such re-leasing will constitute a surrender or termination of the Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate the Lease will vest in the Lessor to be effected in the sole and exclusive manner provided for in subparagraph (b) below.

The District will retain the portion of rental obtained by the Trustee, as assignee of the Lessor, that is in excess of the Lease Payments, Reserve Replenishment Rent and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Properties, and all amounts payable by the District under the Lease and the Trust Agreement.

In the event that the liability of the District under the Lease is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Lessor, or the Trustee or the Owners, as assignees of the Lessor, will not exercise the remedies provided in the Lease.

(b) Termination: Repossession and Re-Lease. In the event of the termination of the Lease by the Lessor at its option and in the manner thereafter provided on account of default by the District (and notwithstanding any repossession of the Properties by the Lessor in any manner whatsoever or the re-leasing of the Properties), the District nevertheless has agreed to pay to the Lessor all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided therein in the case of payment of Lease Payments, Reserve Replenishment Rent and Additional Payments. Any proceeds of the re-lease or other disposition of the Properties by the Lessor will be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Trustee, as assignee of the Lessor, from such re-leasing over total Lease Payments, Reserve Replenishment Rent and Additional Payments that would have been due thereunder and the fees, expenses and costs of the Trustee as assignee of the Lessor on re-leasing the Properties will be remitted to the District. Neither notice to pay rent or to deliver up possession of the Properties given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Properties will of itself operate to terminate the Lease, and no termination of the Lease on account of default by the District will be or become effective by operation of law, or otherwise, unless and until the Lessor shall have given written notice to the District of the election on the part of the Lessor to terminate the Lease. The District has covenanted and agreed that no surrender of the Properties for the remainder of the Term thereof or any termination of the Lease will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Lessor by such written notice. No such termination will be effected either by operation of law or act of the parties thereto, except only in the manner therein expressly provided.

(c) The re-leasing of the Properties as provided in the Lease will be subject to the opinion of Special Counsel that such re-leasing will not, in and of itself, cause the interest component of the Lease Payments to be subject to State personal income tax or adversely affect the exclusion from gross income for federal income tax purposes.

**No Remedy Exclusive.** No remedy conferred in the Lease upon or reserved to the Lessor is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Lessor to exercise any remedy reserved to it in the Lease it will not be necessary to give any notice, other than such notice as may be required in the Lease or by law.

**Agreement to Pay Attorneys' Fees and Expenses.** In the event either party to the Lease should default under any of the provisions thereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party contained therein, the defaulting party agrees that it will pay on demand to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

**No Additional Waiver Implied by One Waiver.** In the event any agreement contained in the Lease should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach thereunder.

**Application of the Proceeds from the Re-Lease of the Properties.** All amounts received by the Lessor under the Lease will, subject to the Trust Agreement, be deposited by the Trustee in the Lease Payment Fund and credited towards the Lease Payments in order of Lease Payment Dates.

**Trustee and Owners to Exercise Rights.** Such rights and remedies as are given to the Lessor under the Lease have been assigned by the Lessor to the Trustee under the Assignment Agreement, to which assignment the District consents. Such rights and remedies will be exercised by the Trustee and the Owners as provided in the Trust Agreement. To the extent that the Lease confers upon or gives or grants to the Trustee any right, remedy or claim under or by reason of the Lease, the Trustee has been explicitly recognized as being a third-party beneficiary under the Lease and may enforce any such right, remedy or claim conferred, given or granted under the Lease.

#### MISCELLANEOUS

**Binding Effect.** The Lease will inure to the benefit of and will be binding upon the Lessor and the District and their respective successors and assigns.

**Severability.** In the event any provision of the Lease will be held invalid or unenforceable by a court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision thereof.

**Applicable Law.** The Lease will be governed by and construed in accordance with the laws of the State.

**Execution in Counterparts.** The Lease may be executed in any number of counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

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## THE TRUST AGREEMENT

### **Transfer and Exchange.**

(a) Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Trust Agreement by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Certificate for cancellation at the Principal Office accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee will execute and deliver a new Certificate or Certificates of the same maturity and interest rate, for like aggregate principal amount in authorized denominations. The cost of printing Certificates and any services rendered or expenses incurred by the Trustee in connection with any transfer will be paid by the District. The Trustee will require the payment by the Certificate Owner requesting such transfer of any tax or governmental charge required to be paid with respect to such transfer, and there will be no other charge to any Certificate Owner for any such transfer.

(b) Exchange of Certificates. Certificates may be exchanged at the Principal Office for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity and interest rate. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Certificates and any services rendered or expenses incurred by Trustee in connection with any transfer or exchange will be paid by the District. All Certificates surrendered pursuant to the provisions of the Trust Agreement summarized in this subsection will be cancelled and destroyed by the Trustee and will not be redelivered.

(c) Time for Transfer or Exchange. The Trustee will not be obligated to transfer or exchange any Certificate after a Record Date and before the following Certificate Payment Date, or during the period in which it is selecting Certificates for prepayment, or after notice of prepayment has been given as provided in the Trust Agreement.

**Certificates Mutilated, Lost, Destroyed or Stolen.** If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of said Certificate, will execute and deliver a new Certificate of like tenor and maturity in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee will be cancelled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and, if an indemnity, satisfactory to the Trustee indemnifying the Trustee, the Corporation and the District, will be given, the Trustee, at the expense of the Certificate Owner, will execute and deliver a new Certificate of like tenor and maturity and numbered as the Trustee will determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each new Certificate delivered under the provisions of the Trust Agreement summarized in this subsection and of the expenses which may be incurred by the Trustee in carrying out the duties under the Trust Agreement. Any Certificate executed under the provisions of the Trust Agreement summarized by this paragraph in lieu of any Certificate alleged to be lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. The Trustee will not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered under or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate will be treated as one and the same. Notwithstanding any other provision of the Trust Agreement summarized in this paragraph, in lieu of delivering a new Certificate in place of one which has been mutilated, lost, destroyed or stolen, and which has matured, or has been called for prepayment, the Trustee may make payment with respect to such Certificate upon receipt of the above-mentioned indemnity.

**Payment.** Subject to the provisions of the Letter of Representation, payment of interest with respect to any Certificate on any Certificate Payment Date or prepayment date will be made to the person appearing on the registration books of the Trustee as the Owner thereof as of the Record Date immediately preceding such Certificate Payment Date or prepayment date, as the case may be, such interest to be paid to such Owner on the Certificate Payment Date by wire transfer to the bank and account number within the United States of America on file with the

Trustee as of the Record Date. Payments of defaulted interest will be paid by wire transfer to the registered Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which will be given to the Owners not less than 15 days prior to such special record date. Subject to the provisions of the Letter of Representation, the principal payable upon maturity or prepayment with respect to the Certificates will be payable upon surrender at the Principal Office. Said amounts will be payable in lawful money of the United States of America. The Trustee has been authorized to pay or prepay the Certificates when duly presented for payment at maturity or on prepayment and to cancel all Certificates upon payment thereof.

**Additional Certificates.** Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee, will, upon written request or requests of the District Representative and the Corporation Representative, execute and deliver from time to time one or more series of Additional Certificates in such aggregate principal amount as may be set forth in such written request or requests, provided that there will have been compliance with all of the following conditions, which are made conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement will have executed a supplemental agreement setting forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, separate and apart from the funds and accounts established thereunder for the Certificates executed and delivered on the Closing Date, as will be necessary or appropriate, which supplemental agreement will require that prior to the delivery of such Additional Certificates the Reserve Requirement with respect to such Additional Certificates will be on deposit in the Reserve Fund established under the Trust Agreement, including amounts available under any Reserve Facilities or in a reserve fund established under such supplemental agreement;

(b) The principal and interest payable with respect to such Additional Certificates and any premium payable upon prepayment of such Additional Certificates will be payable only on Certificate Payment Dates applicable to the Certificates;

(c) The Lease shall have been amended by the parties thereto if necessary to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates, including all Additional Certificates as and when the same mature or become due and payable (except to the extent such principal, premium, and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with the Trust Agreement, (ii) if appropriate, amend the definition of "Properties" to include as part of the Properties all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Properties as such Properties is constituted as of the date of the Trust Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions will not prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement);

(d) There shall have been delivered to the Trustee a counterpart of the amendments required by the Trust Agreement;

(e) The Trustee shall have received a certificate of the Corporation Representative that there exists on the part of the Corporation no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(f) The Trustee shall have received a certificate of the District Representative that (i) there exists on the part of the District no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Properties (as such term is defined in the amended Lease);

(g) The Trustee will have received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease comply in all respects with the requirements of the Trust Agreement, (ii) said supplemental agreement and said amendments to the Lease have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in

rendering the opinions set forth in the Trust Agreement and summarized in this clause (ii), will be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease), (iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said supplemental agreement, and the Lease, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding, and by the limitations on legal remedies against public agencies in the State of California) and (iv) the execution of such supplemental agreement and said amendments to the Lease, and performance by the parties thereunder, will not in and of itself result in the inclusion of the interest portion of any Lease Payments payable with respect to the Certificates, including Additional Certificates, theretofore prepared, executed and delivered, in the gross income of the Owners of the Certificates for purposes of federal income taxation;

(h) The District shall have provided each Rating Agency written notice of the proposed execution and delivery of such Additional Certificates at the address indicated in the Trust Agreement.

(i) There shall have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the Lease providing that the insured amount is at least equal to the aggregate principal amount of all of the Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates;

(j) Upon the execution and delivery of such Additional Certificates, the amount on deposit in the Reserve Fund, together with any amounts available under Reserve Facilities on deposit therein, will be equal to the Reserve Requirement, taking into account the execution and delivery of the Additional Certificates; and

(k) Such other conditions shall have been satisfied, and such other instruments shall have been duly executed and delivered to the Trustee (with a copy to each Rating Agency), as the District or the Corporation shall have reasonably requested.

Upon delivery to the Trustee of the foregoing instruments, the Trustee will cause to be executed and delivered Additional Certificates representing the aggregate principal amount specified in such supplemental agreement, and such Additional Certificates will be equally and ratably secured with all Certificates, including any Additional Certificates, theretofore prepared, executed and delivered, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate, including Additional Certificates, over any other; provided, however, that no provision of the Trust Agreement will require the District to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the District to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, will be in the sole discretion of the District.

## **PROJECT FUND**

**Establishment of Project Fund.** The Trustee will establish a special fund designated as the "San Bernardino City Unified School District Certificates of Participation (2019 School Financing Project) Project Fund," referred to in the Trust Agreement as the "Project Fund"; will keep the Project Fund separate and apart from all other funds and moneys held by it; and will administer such fund as provided in the Trust Agreement. The Project Fund will be held and applied by the Trustee in accordance therewith.

**Purpose.** Moneys in the Project Fund will be expended for Project Costs and Delivery Costs.

**Deposit of Moneys; Payment of Project Costs and Delivery Costs.**

(a) Deposits. There will be credited to the Project Fund the following amounts: (1) the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement; (2) all investment earnings on moneys held in the Project Fund, which will remain in the Project Fund until expended or applied to the prepayment of Certificates, as described in the Trust Agreement; and (3) any other deposits made to the Project Fund by the District.

(b) Disbursements. The Trustee will disburse moneys in the Project Fund from time to time to pay Project Costs directly or to reimburse the District for payment of Project Costs, upon receipt (either by mail or by facsimile transmission) by the Trustee of a Project Cost Requisition signed by the District Representative. The Trustee will disburse moneys from the Project Fund to pay Delivery Costs or to reimburse the District for payment of such Delivery Costs upon receipt by the Trustee of a Delivery Cost Requisition signed by the District Representative. The Trustee will be absolutely protected in making any such disbursements in reliance upon a Project Cost Requisition or Delivery Cost Requisition, as applicable, signed by the District Representative. Each such Project Cost or Delivery Cost Requisition signed by the District Representative will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts.

Transfers of Unexpended Proceeds. Upon the filing with the Trustee of the Certificate of Completion pursuant to the Lease, the Trustee will withdraw all remaining moneys in the Project Fund (other than any moneys retained therein to pay Project Costs not then due and payable and certified by the District Representative) and will either transfer such moneys to the Lease Payment Fund to be applied to the payment of principal and interest evidenced by the Certificates as prescribed in the Trust Agreement, or at the written election of the District, will transfer such moneys to the Prepayment Fund to be applied to the prepayment of Certificates as described in the Trust Agreement or to the District for the purpose of capital expenditures of the District and, following final disbursement of any moneys retained in the Project Fund as described above, will close the Project Fund.

**LEASE PAYMENTS; LEASE PAYMENT FUND**

**Security Provisions.**

(a) Assignment of Rights in Lease and Site Lease. The Corporation has, pursuant to the Assignment Agreement, assigned and set over to the Trustee certain of its rights in the Lease and Site Lease, including but not limited to all of the Corporation's rights to receive and collect all of the Lease Payments, Reserve Replenishment Rent, Prepayments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease and the Site Lease or pursuant to the Trust Agreement. All such Lease Payments, Reserve Replenishment Rent, Prepayments and such other amounts to which the Corporation may at any time be entitled (other than amounts due to the Corporation under the Lease) will be paid directly to the Trustee, and all of the Lease Payments, Reserve Replenishment Rent and Prepayments collected or received by the Corporation will be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee and if received by the Corporation at any time will be deposited by the Corporation with the Trustee within five Business Days after the receipt thereof, and all such Lease Payments will be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund, and all such Prepayments will be forthwith deposited by the Trustee upon the receipt thereof in the Prepayment Fund, and all such Reserve Replenishment Rent will be forthwith deposited by the Trustee upon receipt thereof in the Reserve Fund.

(b) Security Interest in Moneys and Funds. The Corporation and the District, as their interests may appear, have granted to the Trustee for the benefit of the Owners a lien on and a security interest in all moneys in the funds held by the Trustee under the Trust Agreement (excepting only the Project Fund and the Rebate Fund), including without limitation, the Lease Payment Fund, the Reserve Fund (including payments of Reserve Replenishment Rent pursuant to the Trust Agreement), the Prepayment Fund, the Net Proceeds Fund, and all such moneys will be held by the Trustee in trust and applied to the respective purposes specified therein and in the Lease.

(c) Pledge of Lease Payments and Lease Proceeds. The Lease Payments and any Lease Proceeds are have been irrevocably pledged pursuant to the Trust Agreement to and will be used for the punctual payment of the interest and principal represented by the Certificates and the Lease Payments and Lease Proceeds will not be used

for any other purpose while any of the Certificates remain Outstanding. The pledge contained in the Trust Agreement and summarized in this subsection will constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms thereof, subject to the Lease.

**Establishment of Lease Payment Fund.** The Trustee will establish a special fund designated as the “San Bernardino City Unified School District Certificates of Participation (2019 School Financing Project) Lease Payment Fund.” All moneys at any time, from whatever sources deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as thereafter set forth.

**Deposits.** There will be deposited in the Lease Payment Fund all Lease Payments and in the Prepayment Fund all Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Lease, and any other moneys required to be deposited therein pursuant to the Lease, including without limitation provisions of the Lease regarding proceeds of rental interruption insurance or pursuant to the Trust Agreement, which moneys will be applied as a credit towards any Lease Payment then due.

**Application of Moneys.** Except as provided in the Trust Agreement, all amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates as the same will become due and payable, in accordance with the provisions of the Trust Agreement, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund, as provided in the Trust Agreement.

On each Certificate Payment Date, the Trustee first will set aside in the Lease Payment Fund an amount sufficient to pay the interest evidenced by the Certificates becoming due and payable on such date, and wire such amount to the Owners; and second will set aside an amount sufficient to pay the principal evidenced by the Certificates becoming due and payable on such Certificate Payment Date.

**Surplus.** Any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including payment of any applicable fees, expenses or other amounts owed to the Trustee pursuant to the Trust Agreement, and any other Additional Payments due under the Lease, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the District.

## **RESERVE FUND**

**Establishment of Reserve Fund.** The Trustee will establish a special fund designated as the “San Bernardino City Unified School District Certificates of Participation (2019 School Financing Project) Reserve Fund,” referred to therein as the “Reserve Fund.” All moneys at any time on deposit in the Reserve Fund (including any Reserve Facility thereafter provided to satisfy the Reserve Requirement in whole or in part) will be held by the Trustee in trust for the benefit of the Owners of the Certificates, as a reserve for the payment when due of all the Lease Payments to be paid pursuant to the Lease and of all payments with respect to the Certificates and applied solely as provided therein.

### **Funding.**

(a) **Reserve Requirement.** There will be maintained in the Reserve Fund an amount equal to the Reserve Requirement. Notwithstanding the foregoing, in the event of a partial prepayment or defeasance of the Certificates, the Reserve Requirement will thereafter be determined by the District and communicated to the Trustee in writing and any funds in excess of such redetermined Reserve Requirement shall be utilized as set forth in the Trust Agreement. On the Closing Date, there will be deposited in the Reserve Fund the Reserve Policy, making an amount available thereunder and in the Reserve Fund equal to the Reserve Requirement. The Reserve Requirement may thereafter be satisfied by the District crediting to the Reserve Fund moneys or, with notice to each Rating Agency, another Reserve Facility or Facilities, or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement; provided, however, the long-term

unsecured debt or claim-paying ability or financial strength, as the case may be, of the provider of any such Reserve Facility, must be rated by any Rating Agency, at the time of deposit, no lower than that of the District.

The term of any Reserve Facility will either be equal to the term of the Lease or a rollover of the Reserve Facility or other equivalent replacement will be required such that the aggregate term of all Reserve Facilities will equal the term of the Lease.

(b) Reserve Facility. Any amounts paid pursuant to the Reserve Policy and any other amounts paid pursuant to any other Reserve Facility will be deposited in the Reserve Fund. The District may substitute moneys for all or part of the amount available to be drawn under a Reserve Facility so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities (taking into account any reduction in the amount available under such Reserve Facility to be made in connection with said substitution) will be at least equal to the Reserve Requirement.

Amounts on deposit in the Reserve Fund which are not derived from payments under the Reserve Policy or any other Reserve Facility credited to the Reserve Fund to satisfy a portion of the Reserve Requirement will be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under the Reserve Policy or any such Reserve Facility. In order to accomplish such use and withdrawal of such amounts not derived from payments under the Reserve Facility, the Trustee will, as and to the extent necessary, liquidate any investments purchased with such amounts.

(c) Delinquent Lease Payments. If there are no amounts currently due in connection with the Reserve Policy, and the sum of the amount on deposit in the Reserve Fund, plus the amount available under the Reserve Policy and any other Reserve Facilities, shall be reduced below the Reserve Requirement, the first payments of Lease Payments thereafter payable by the District and not needed to pay interest and principal components of Lease Payments payable to the Certificate Owners on the next Certificate Payment Date will be used to first, reimburse the provider of any Reserve Facility for any payment or repayment obligation owing thereto for any draw on such other Reserve Facility to the Reserve Fund and second, to increase the balance in the Reserve Fund to an amount which, when added to the amount available under the Reserve Policy and any other Reserve Facilities, is equal to the Reserve Requirement.

(d) Certain Net Proceeds. Net Proceeds of rental interruption insurance will be deposited as provided in the Lease and the Trust Agreement.

(e) Reserve Replenishment Rent. Any Reserve Replenishment Rent payable pursuant to the Lease will be deposited in the Reserve Fund, or paid to the provider of a Reserve Facility, as applicable.

**Transfers of Excess.** The Trustee will, on or before March 15 and September 15 of each year, provide written notice to the District of any moneys which are estimated to be on hand in the Reserve Fund (including investment earnings) in excess of the Reserve Requirement on the next succeeding April 1 or October 1, as the case may be, and three (3) Business Days immediately preceding any Lease Payment Date, the Trustee will transfer such excess moneys to the Lease Payment Fund to be applied to the Lease Payment then due from the District. In the event of a partial prepayment or defeasance of Certificates, a proportionate amount in the Reserve Fund (determined on the basis of the principal evidenced by Certificates to be prepaid or defeased, and the original aggregate principal evidenced by the Certificates, but not in excess of the amount of funds available as a result of the re-determination of the Reserve Requirement as summarized in “—Reserve Requirement” above) will, at the direction of the District, be applied to the prepayment or defeasance of Certificates as provided in the Trust Agreement.

The transfers described above are in each case subject to the requirement that if the Certificate proceeds will have become subject to the arbitrage rebate provisions of Section 148(f) of the Code as described in the Trust Agreement then certain investment earnings are to be transferred to the Rebate Fund at the direction of the District as provided in the Trust Agreement.

**Application of Reserve Fund in the Event of Delinquency in Lease Payment Fund.**

(a) At least five (5) Business Days immediately preceding any Certificate Payment Date, the Trustee will ascertain the necessity for a claim under the Reserve Policy in accordance with the terms thereof.

(b) Whether or not Lease Payments are then in abatement, if three (3) Business Days immediately preceding any Certificate Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest with respect to the Certificates then coming due and payable, the Trustee first will apply the moneys available in the Reserve Fund to make delinquent Lease Payments on behalf of the District by transferring the amount necessary for such purpose to the Lease Payment Fund. All cash and investments in the Reserve Fund will be transferred to the Lease Payment Fund before any drawing will be made on the Reserve Policy or any other Reserve Facility. The Trustee will take whatever action is necessary to liquidate or draw upon investments of funds held in the Reserve Fund or draw upon the Reserve Facility securing the Reserve Fund to make such funds available for application as provided thereunder on the Certificate Payment Date.

(c) Draws on all Reserve Facilities (including the Reserve Policy) on which there is Available Coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund.

(d) The Trustee will repay any draws under the Reserve Policy (including interest accrued thereon at the Late Payment Rate) from Reserve Replenishment Rent paid by the District pursuant to the Lease. If the interest provisions of the Trust Agreement summarized in this subparagraph (d) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Trust Agreement, then all sums in excess of those lawfully collectible as interest for the period in question will, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding under the Trust Agreement to the extent that interest otherwise due under the Trust Agreement for such periods plus such additional interest would not exceed the limit of the usury or such other laws. In no event will any agreed-to or actual exaction as consideration for the indebtedness created in the Trust Agreement exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

(e) Payment of any reimbursements of amounts with respect to other Reserve Facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund.

(f) As and to the extent that payments are made of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

**Trustee to Make All Lease Payments.** If on any Certificate Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal or interest with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the written direction of the District Representative, transfer all amounts in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments or Prepayments on behalf of the District and such moneys will be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates and the Trustee's fees and expenses pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or upon provision for such payments as provided in the Trust Agreement and provisions for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will at the written direction of the District, be withdrawn by the Trustee and paid to the District.

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## NET PROCEEDS FUND

**Establishment of Net Proceeds Fund; Deposits.** The Trustee will establish when required a special fund designated as the "San Bernardino City Unified School District Certificates of Participation (2019 School Financing Project) Net Proceeds Fund," referred to therein as the "Net Proceeds Fund," to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided therein. The Trustee will deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease.

### Disbursements.

(a) **Casualty Insurance.** The Trustee will disburse Net Proceeds for replacement or repair of the Properties as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the District Representative as provided in the Lease. Pending such application, such Net Proceeds may be invested by the Trustee as directed by the District in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement. After all of the Certificates have been paid and the entire amount of principal and interest with respect to the Certificates has been paid in full, or provision made for payment satisfactory to the Trustee, including provision for all amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, the Trustee will pay any remaining moneys in the Net Proceeds Fund to the District after payment of any amounts due to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease.

(b) **Title Insurance.** Proceeds of any policy of title insurance received by the Trustee with respect to the Properties will be applied and disbursed by the Trustee upon the written request of the District as follows:

(i) If the District determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Properties and will not result in an abatement of Lease Payments and Additional Payments payable by the District under the Lease (such determination to be certified by the District in writing), such proceeds will be remitted to the District and used for any lawful purpose thereof; or

(ii) If the District determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Properties and will result in an abatement of Lease Payments and Additional Payments payable by the District under the Lease, then the Trustee will immediately deposit such proceeds in the Prepayment Fund and such proceeds will be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

**Cooperation.** The Corporation and the Trustee will cooperate fully with the District at the expense of the District in filing any proof of loss with respect to any insurance policy maintained pursuant to the Lease and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Properties or any item or portion thereof; provided, however, the Trustee will not be obligated to take any action thereunder if it is not indemnified to its satisfaction from and against any liability or expense arising therefrom.

## MONEYS IN FUNDS; INVESTMENT

**Held in Trust.** The moneys and investments held by the Trustee under the Trust Agreement (other than the Project Fund and the Rebate Fund) are irrevocably held in trust for the benefit of the Owners and, in the case of the Rebate Fund, for payment as required to the United States Treasury, and for the purposes therein specified, and any such moneys held by the Trustee, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the District, or any of them.



### **Investments Authorized.**

(a) By Trustee. Subject to the further provisions of the Trust Agreement, moneys held by the Trustee thereunder will be invested and reinvested on maturity by the Trustee pursuant to the Trust Agreement. The Trustee will report any such investments to the District on a monthly basis in its regular statements. Such investments and reinvestments will be made giving full consideration for the time at which funds are required to be available based upon information supplied by the District.

Investments purchased with funds on deposit in the Lease Payment Fund and Prepayment Fund will mature not later than the Certificate Payment Date or prepayment date, as appropriate, immediately succeeding the investment. Investments purchased with funds on deposit in the Project Fund will not mature later than the dates upon which such funds will be needed to be expended for the payment of Delivery Costs or Project Costs, as applicable.

(b) Upon Direction of the District. The District Representative will direct by facsimile or electronic mail such investment in specific Permitted Investments not less than two Business Days prior to the date that such Permitted Investment is to take effect, confirmed by written order filed with the Trustee. In the event that the District Representative does not so direct the Trustee, the Trustee will invest in the Permitted Investments described in paragraph (b)(vi) of the definition thereof contained in the Trust Agreement and summarized under the heading "DEFINITIONS – Permitted Investments" herein.

(c) Registration. Such investments, if registerable, will be registered in the name of the Trustee for the benefit of the Owners and held by the Trustee or its nominee.

(d) Trustee as Purchaser or Agent. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment. The Trustee or any of its affiliates may act as a sponsor of, or as an advisor to any provider of, Permitted Investments thereunder. The District has acknowledged that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee thereunder.

(e) Trustee Standard of Care. Except as otherwise provided in the Trust Agreement, the Trustee will not be responsible or liable for any loss suffered in connection with any investment of funds or sale of such investment made by it in accordance with the Trust Agreement or disposition made by it in accordance with the Trust Agreement.

**Disposition of Investments.** Any income, profit or loss on the investment of moneys held by the Trustee thereunder will be credited to the respective fund for which it is held, except as otherwise provided in the Trust Agreement.

**Accounting.** The Trustee will furnish to the District, not less than monthly, an accounting (which may be in the form of its regular statements) of all investments made by the Trustee and all funds and amounts held by the Trustee; provided, that the Trustee will not be obligated to deliver an accounting for any fund or account that (i) has a balance of zero and (ii) has not had any activity since the last reporting date. The Trustee will keep accurate records of all funds administered by it and of all Certificates paid and discharged.

### **Valuation and Disposition of Investments.**

(a) Valuation. Subject to the provisions of the Trust Agreement, for the purpose of determining the amount in any fund, all Permitted Investments (except investment agreements) credited to such fund will be valued at the lower of the cost or the market price, exclusive of accrued interest. With respect to all funds and accounts, investments will be valued by the Trustee (i) not less often than annually, and as otherwise directed by the District, and (ii) upon a draw on the Reserve Fund. In making any such valuations, the Trustee may utilize, and conclusively

rely upon, such valuation services as may be available to the Trustee, including those within its regular accounting system.

(b) Disposition. Subject to the provisions of the Trust Agreement, the Trustee will, upon the direction in writing by the District, sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it will be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited.

**Commingling of Moneys in Funds.** The Trustee may, and upon the written request of the District Representative will, commingle any of the funds held by it pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee thereunder will be accounted for separately notwithstanding such commingling by the Trustee. The District will ensure that any such commingling complies with Section 1.148-4 of the Treasury Regulations, and will provide direction to the Trustee accordingly.

## THE TRUSTEE

### Appointment of Trustee.

(a) Appointment. U.S. Bank National Association, a national banking association organized under the laws of the United States of America, has been appointed as Trustee by the Corporation and the District.

(b) Qualifications. The Corporation and the District have agreed that they will maintain a Trustee having a corporate trust office in New York, New York, San Francisco, California or Los Angeles, California capable of exercising trust powers in the State of California, with a combined capital (exclusive of borrowed capital) and a surplus of at least Seventy-Five Million Dollars (\$75,000,000), or be a member of a bank holding company system, which will have a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination by federal or state authority, so long as any Certificates are Outstanding. If such bank, national banking association or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to then for the purpose of the Trust Agreement the combined capital and surplus of such bank, national banking association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(c) Removal. So long as there is no Event of Default then in effect, the District may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto.

(d) Resignation. The Trustee may, upon prior written notice to the District and the Corporation, resign; provided that such resignation will not take effect until the successor Trustee is appointed as provided in the Trust Agreement. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee. In the event the District does not name a successor Trustee within thirty (30) days of receipt of notice of the Trustee's resignation, then the Trustee may petition a court of suitable jurisdiction to seek the immediate appointment of a successor Trustee.

(e) Successor. Any successor Trustee will be a bank, national banking association or trust company meeting the qualifications as set forth in the Trust Agreement. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee will mail notice thereof to the Owners at their respective addresses set forth on the Certificate registration books maintained pursuant to the Trust Agreement.

**Merger or Consolidation.** Any company or banking association into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company will be eligible under the Trust Agreement, will be the successor to the Trustee without the execution or filing of any paper or further act, anything therein to the contrary notwithstanding.

### **Protection of the Trustee.**

(a) Reliance Upon Papers or Documents. The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, facsimile transmission, electronic mail, request, consent, direction, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it will in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may, in the absence of bad faith on its part, accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements.

The Trustee has agreed to accept and act upon instructions or directions pursuant to the Trust Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District has agreed to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(b) Reliance Upon Opinions of Counsel. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it thereunder in good faith in accordance therewith. Before being required to take any action, the Trustee may require an opinion of Independent Counsel which opinion will be made available to the other parties thereto upon request, which counsel may be counsel to any of the parties thereto, or a verified certificate of any party thereto, or both, concerning the proposed action. If it does so in good faith, Trustee will be absolutely protected in relying thereon.

(c) Reliance Upon Requested Certificates. Whenever in the administration of its duties under the Trust Agreement, the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed), in the absence of bad faith on its part, will be deemed to be conclusively proved and established by the certificate of the District Representative or the Corporation Representative and such certificate will be full warranty to the Trustee, in the absence of bad faith on its part, for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

### **Rights of the Trustee.**

(a) Ownership of Certificates. The Trustee may become the Owner with the same rights it would have if it were not Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the District with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee will represent the Owners of the majority in principal amount of the Certificates then Outstanding.

(b) Attorneys, Agents, Receivers. The Trustee may execute any of the trusts or powers thereof and perform the duties required of it thereunder by or through attorneys, agents, employees or receivers, will not be responsible for the actions or omissions of such attorneys, agents or receivers if appointed by it with reasonable care, and will be entitled to advice of counsel concerning all matters of trust and its duty thereunder; provided that the Trustee will not assign any of its trust responsibilities without the prior written consent of the District.

(c) Funds and Accounts. In addition to the funds and accounts established or required to be established pursuant to the Trust Agreement, the Trustee may establish such additional funds and accounts as it deems necessary or appropriate to perform its duties thereunder.

**Standard of Care.** So long as there is no Event of Default, (a) the Trustee will not be liable in connection with the performance of its duties thereunder, except for its own negligence or willful misconduct, and (b) the Trustee will only perform those duties specifically set forth therein and no implied duties, covenants or obligations will be read into the Trust Agreement. In the event of and during the continuance of an Event of Default, the Trustee will exercise such care in performing its duties thereunder as a prudent person would exercise in the conduct of his or her affairs.

**Compensation of the Trustee.** As an Additional Payment under the Lease, the District will from time to time on demand, pay to the Trustee reasonable compensation for its services and the services of any accountants, consultants, attorneys and other experts as may be engaged by the Trustee to provide services under the Trust Agreement pursuant to a written agreement between the District and the Trustee, and the reimbursement for all expenses incurred in and about the performance of its powers and duties under the Trust Agreement. The District's obligation thereunder will remain valid and binding notwithstanding maturity and payment of the Certificates and resignation or removal of the Trustee.

**Indemnification of Trustee.** The District will, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents, and employees harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition, construction or management of, or from any work or thing done on the Properties or the Project by the District, (ii) any breach or default on the part of the District in the performance of any of its obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Properties or the Project, (iii) any act of negligence of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Properties or the Project, (iv) any act of negligence of any assignee of, or purchaser from, the District or of any of its or their agents, contractors, servants, employees or licensees with respect to the Properties or the Project, (v) the expenditure of Delivery Costs, or (vi) the exercise and performance by the Trustee of its powers and duties thereunder or any related document, (vii) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates or the Trust Agreement or (viii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made in light of the circumstances in which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Certificates. The indemnification set forth in the Trust Agreement will extend to the Trustee's officers, agents, employees, successors and assigns. No indemnification will be made under the Trust Agreement or elsewhere in the Trust Agreement or other agreements for willful misconduct or negligence by the Trustee, its officers, directors, agents, employees, successors or assigns. The District's obligations thereunder will remain valid and binding notwithstanding maturity and payment of the Certificates, or the resignation or removal of the Trustee.

In accepting the trust created by the Trust Agreement, the Trustee acts solely as Trustee for the Owners and not in its individual capacity, and all persons, including, without limitation, the Owners, Corporation and the District, having any claim against the Trustee arising from the Trust Agreement will look only to the funds and accounts held by the Trustee thereunder for payment, except as otherwise provided therein or where the Trustee has breached its standard of care as described in the Trust Agreement. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

No provision of the Trust Agreement will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder or in the exercise of any of its rights or powers.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or in the exercise of any right thereunder.

The Trustee is authorized and directed to execute in its capacity as Trustee the Assignment Agreement.

Every provision of the Trust Agreement, the Lease, the Site Lease and the Assignment Agreement relating to the conduct or liability of the Trustee will be subject to the provisions of the Trust Agreement.

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

The Trustee will not to be deemed to have knowledge of any Event of Default thereunder or under the Lease unless a Responsible Officer of the Trustee has actual knowledge thereof at its Principal Office.

The Trustee will not be considered in breach of or in default in its obligations under the Trust Agreement or progress in respect thereto in the event of an unavoidable delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request, order or direction of any of the Owners pursuant to the provisions of the Trust Agreement unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein.

The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance with the Trust Agreement.

## **MODIFICATION OR AMENDMENT OF AGREEMENTS**

### **Amendments Permitted.**

(a) With Consent. The Trust Agreement, the Lease and the Site Lease, and the rights and obligations of the Corporation, the District, and the Owners thereunder, may be modified or amended at any time, by a supplemental agreement or amendment thereto which will become effective, with the prior written consent of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, and with notice to each Rating Agency, exclusive of Certificates disqualified as provided in the Trust Agreement. No such modification or amendment will:

(i) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, or

(ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or

(iii) modify any of the rights or obligations of the Trustee without its written assent thereto, or

(iv) amend the provisions summarized under the subheading "MODIFICATION OR AMENDMENT OF AGREEMENTS – Amendments Permitted" above, without the prior written consent of the Owners of all Certificates then outstanding.

The Trustee will be furnished such Opinions of Counsel as it deems necessary concerning (i) the lack of material adverse effect of the amendment on Owners and (ii) that the amendment will not, in and of itself, affect the tax status of interest with respect to the Certificates. Any such supplemental agreement or amendments thereto shall become effective as provided in the Trust Agreement. The Trustee may rely on an Opinion of Counsel that each such amendment is authorized or permitted pursuant hereto.

(b) Without Consent. The Trust Agreement, the Lease and the Site Lease, and the rights and obligations of the Corporation, the District and the Owners thereunder, may be modified or amended at any time by a supplemental agreement or amendments thereto, with notice to each Rating Agency, and without the consent of any such Owners, only to the extent permitted by law, and only:

- (i) to add to the covenants and agreements of the District and the Corporation thereunder,
- (ii) to cure, correct or supplement any ambiguous or defective provision contained therein,
- (iii) in regard to matters arising thereunder, as the parties thereto may deem necessary or desirable (which may be based upon opinions as provided in the Trust Agreement), will not adversely affect the interest of the Owners,
- (iv) to substitute the Properties, or a portion thereof, in accordance with the Lease,
- (v) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates,
- (vi) to add to the rights of the Trustee,
- (vii) to maintain the rating or ratings assigned to the Certificates, or
- (viii) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement.

No such modification or amendment, however, will modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement will become effective upon execution and delivery by the parties thereto as the case may be. The Trustee may rely upon an opinion of counsel that each amendment is authorized or permitted by the Trust Agreement

**Procedure for Amendment with Written Consent of the Owners.** The Trust Agreement, the Site Lease or the Lease may be amended by supplemental agreement as provided in the Trust Agreement in the event the consent of the Owners is required pursuant to the Trust Agreement. Such supplemental agreement, together with a request to the Owners for their consent thereto, will be mailed by the Trustee to each Owner of a Certificate at his address as set forth in the Certificate registration books maintained pursuant to the Trust Agreement, but failure to receive copies of such supplemental agreement and request so mailed will not affect the validity of the supplemental agreement when assented to as in the Trust Agreement provided.

Such supplemental agreement will not become effective unless there will be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement) and notices will be mailed as thereafter in the Trust Agreement provided. Any such consent will be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice thereafter in the Trust Agreement provided for has been mailed.

After the Owners of the required percentage of Certificates shall have filed their consent to such supplemental agreement, the Trustee will mail a notice to the Owners of the Certificates in the manner provided in the Trust Agreement for the mailing of such supplemental agreement, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in the Trust Agreement (but failure to mail copies of said notice will not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by the Trust Agreement to be filed with the Trustee, will be proof of the matters therein stated until the contrary is proved. The Trustee may obtain and conclusively rely on an opinion of counsel with regard to such matters.

**Disqualified Certificates.** Certificates owned or held by or for the account of the District or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the District or the Corporation (except any Certificates held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement. Upon request of the Trustee, the District and the Corporation will specify in a certificate to the Trustee those Certificates disqualified pursuant to the Trust Agreement and the Trustee may conclusively rely on such certificate.

The District or the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement will be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

**Effect of Supplemental Agreement.** From and after the time any supplemental agreement becomes effective pursuant to the Trust Agreement, the Trust Agreement, the Lease or the Site Lease, as the case may be, will be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties thereto and all Owners of Certificates Outstanding, as the case may be, will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement will be deemed to be part of the terms and conditions of the Trust Agreement or the Lease, as the case may be, for any and all purposes.

**Endorsement or Replacement of Certificates Delivered After Amendments.** The Trustee may determine that Certificates delivered after the effective date of any action taken as provided in the Trust Agreement will bear a notation, by endorsement, in form approved by the District, as to such action. In that case, upon demand of the Owner of any Outstanding Certificate at such effective date and presentation of his Certificate for such purpose at the Principal Office, a suitable notation will be made on such Certificate. The District may determine that new Certificates, so modified as in the opinion of the District is necessary to conform to such Owner's action, will be prepared, executed and delivered. In that case, upon demand of the Owner of any Certificate then Outstanding, such new Certificate will be exchanged in the Principal Office without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Certificate.

**Amendatory Endorsement of Certificates.** Subject to the Trust Agreement, the provisions of the Trust Agreement will not prevent an Owner from accepting any amendment as to the particular Certificates held by him, provided that due notification thereof is made on such Certificates.

**Copies of Amendments Delivered to Moody's and S&P.** Copies of any modifications or amendments to the Trust Agreement, the Lease, the Site Lease or the Assignment Agreement will be delivered by the District to Moody's and S&P at least 10 days prior to the effective date thereof.

## COVENANTS; NOTICES

**Compliance With and Enforcement of the Lease.** The District has covenanted and agreed with the Owners to perform all obligations and duties imposed on it under the Lease. The Corporation has covenanted and agreed with the Owners to perform all obligations and duties imposed on it under the Lease.

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

**Payment of Taxes.** The District will pay all taxes as provided in the Lease.

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

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

**District Budgets.** In accordance with the Lease, the District Representative will certify to the Trustee on or before July 1 of each year that the District has included all Lease Payments (other than Lease Payments of advance rental), Reserve Replenishment Rent and Additional Payments due under the Lease in the Fiscal Year covered by its annual budget and the amount so included. If the District fails to certify that it has included all such Lease Payments, Reserve Replenishment Rent and Additional Payments in such annual budget, the Trustee will promptly provide the District written notice specifying that the District has failed to observe and perform its covenant and agreement in the Lease and requesting that such failure be remedied within 30 days, or such failure will constitute an Event of Default under the Lease. The Trustee will forward a copy of such notice to the Corporation. Upon receipt of such notice, the District will notify the Trustee of the proceedings proposed to be taken by the District, and will keep the Trustee advised of all proceedings thereafter taken by the District.

**Further Assurances.** The Corporation and the District will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming unto the Owners the rights and benefits provided therein.

**Continuing Disclosure.** The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default or an event of default thereunder; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under the Trust Agreement and the Continuing Disclosure Certificate.

## **LIMITATION OF LIABILITY**

**Limited Liability of the District.** Except for the payment of Lease Payments, Reserve Replenishment Rent, Additional Payments and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the District contained therein and in the Lease, the District will have no obligation or liability to any of the other parties or to the Owners with respect to the Trust Agreement or the terms,



execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

**No Liability of the District or Corporation for Trustee Performance.** Except as expressly provided therein, neither the District nor the Corporation will have any obligation or liability to any other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

**Limited Liability of Trustee.**

(a) No Investment Advice. The Trustee will have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates.

(b) Sufficiency of the Trust Agreement or Lease Payments. The Trustee makes no representations as to the validity or sufficiency of the Certificates, will incur no responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Certificates assigned to or imposed upon it. The Trustee will not be responsible for the sufficiency or enforceability of the Lease, the Site Lease or the Assignment Agreement. The Trustee will not be liable for the sufficiency or collection of any Lease Payments or other moneys required to be paid to it under the Lease (except as provided in the Trust Agreement), its right to receive moneys pursuant to said Lease, or the value of or title to the Properties.

(c) Actions of Corporation and the District. The Trustee will have no obligation or liability to any of the other parties or the Owners with respect to the Trust Agreement or failure or refusal of any other party to perform any covenant or agreement made by any of them under the Trust Agreement or the Lease, but will be responsible solely for the performance of the duties and obligations expressly imposed upon it thereunder as provided in the Trust Agreement.

(d) Recitals and Agreements of Corporation and the District. The recitals of facts, covenants and agreements therein and in the Certificates contained will be taken as statements, covenants and agreements of the District or the Corporation (as the case may be), and the Trustee assumes no responsibility for the correctness of the same.

**Limitation of Rights to Parties and Certificate Owners.** Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or will be construed to give any person other than the District, the Corporation, the Trustee and the Owners, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision thereof; and all such covenants, conditions and provisions are and will be for the sole and exclusive benefit of the District, the Corporation, the Trustee and the Owners.

**No Liability of the Corporation to the Owners.** Except as expressly provided therein, the Corporation will not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the District or with respect to the observance or performance by the District of the other agreements, conditions, and covenants imposed upon the District by the Lease or by the Trust Agreement.

**EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS**

**Assignment of Rights.** The parties thereto acknowledge that pursuant to the Assignment Agreement the Corporation has transferred, assigned and set over to the Trustee for the benefit of the Owners, certain of the Corporation's rights under the Lease and the Site Lease.

**Events of Default.**

(a) Remedies. If an Event of Default will happen, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease, including writs of mandamus; provided, however, that notwithstanding anything therein or in the Lease to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO

ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. The Lease has been incorporated by reference.

(b) Actual Knowledge. The Trustee will not be deemed to have knowledge of any Event of Default unless and until a Responsible Officer shall have actual knowledge thereof, or shall have received written notice thereof at its Principal Office.

(c) Action on Default. If an Event of Default (within the meaning of the Lease) will happen, then such Event of Default will constitute an Event of Default thereunder. The Trustee may give notice, as assignee of the Corporation, of an Event of Default under the Lease or under the Trust Agreement to the District, and will do so if directed to do so by the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding. In each and every case during the continuance of an Event of Default, the Trustee (a) may, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding, and (b) will upon notice in writing to the District and the Corporation, exercise any of the remedies granted to the Corporation under the Lease and may, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

**Application of Funds.** All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Lease, will be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable under the Trust Agreement and the Lease in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, Costs and Expenses: to the payment of the costs, fees and expenses of the Trustee in declaring such Event of Default and in performing its duties thereunder, including reasonable compensation to its or their agents, attorneys and counsel;

Second, Interest: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal with respect to any Certificates which will have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

**Institution of Legal Proceedings.** If one or more Events of Default will happen and be continuing, the Trustee may, and, upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or the Lease, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties thereunder; provided that such written request will not be otherwise than in accordance with provisions of law and the Trust Agreement and that the Trustee will have the right to decline to follow any such written request if the Trustee will be advised by counsel that the action or proceeding so requested may not be taken lawfully or if the Trustee in good faith will determine that the action or proceeding so requested would be unjustly prejudicial to the Certificate Owners not a party to such written request or expose the Trustee to liability.

**Non Waiver.** Nothing in the Trust Agreement or in the Certificates will affect or impair the obligation of the District which is absolute and unconditional, to pay or prepay the Lease Payments or Additional Payments as provided in the Lease. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time and as often as will be deemed expedient by the Trustee or the Owners.

**Remedies Not Exclusive.** No remedy therein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given thereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

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

**Limitation on Certificate Owners' Right to Sue.** No Owner of any Certificate executed thereunder will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers thereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) there shall have been a default in the payment of such Owner's proportionate interest in the Lease Payments as the same become due.

Such notification, request, tender of indemnity, refusal or omission, and default are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy thereunder; it being understood and intended that no one or more Owners will have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner therein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of the Trust Agreement or any other provision of the Trust Agreement.

**Agreement to Pay Attorneys' Fees and Expenses.** In the event any party to the Trust Agreement should default under any of the provisions thereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or observance of any obligation or agreement on the part of the defaulting party contained therein, the defaulting party has agreed that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

## MISCELLANEOUS

### Defeasance.

(a) Methods. If and when any Outstanding Certificates will be paid and discharged in any one or more of the following ways -

(i) Payment or Prepayment: by well and truly paying or causing to be paid the principal, interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(ii) Cash: prior to maturity, by depositing with the Trustee (or such other independent escrow agent as the District shall select), in trust, an amount of cash which (including cash then on deposit in the Lease Payment Fund in the event of prepayment or provision for payment of all Outstanding Certificates, and cash then on deposit Reserve Fund (in the event of prepayment or provision for payment of all Outstanding Certificates or as otherwise provided in the Trust Agreement) is fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date; or

(iii) Defeasance Securities: prior to maturity, by irrevocably depositing with the Trustee (or such other independent escrow agent as the District shall select), in trust, Defeasance Securities together with cash, if required (including cash then on deposit in the Lease Payment Fund in the event of prepayment or provision for payment of all Outstanding Certificates, and cash then on deposit Reserve Fund (in the event of prepayment or provision for payment of all Outstanding Certificates or as otherwise provided in the Trust Agreement), in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon, be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date;

and all other amounts due thereunder have been paid in full, then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to such Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited pursuant to provisions of the Trust Agreement summarized in (i) and (iii) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to the provisions of the Trust Agreement summarized in (ii) and (iii) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease.

(b) Surplus Moneys. Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to the one of the procedures of the Trust Agreement described in paragraphs (a)(i) through (a)(iii) above, which are not required for the payment to be made to Owners, will be paid over to the District, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement, and any other Additional Payments due under the Lease.

(c) Surviving Provisions. Notwithstanding the satisfaction and discharge thereof, the Trustee will retain such rights, powers and privileges thereunder as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, with respect to the Certificates and for the registration, transfer and exchange of the Certificates.

(d) Opinions and Reports. Prior to any defeasance becoming effective under the Trust Agreement, the District will cause to be delivered (i) an executed copy of a report, addressed to the Trustee and the District, in form and substance acceptable to the District of an Accountant, verifying that the Defeasance Securities and cash, if any, satisfy the requirements of the Trust Agreement, (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, (iii) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee and the District, in form and substance acceptable to the District, covering the validity and

enforceability of the escrow agreement and substantially to the effect that such Certificates are no longer Outstanding under the Trust Agreement, and (iv) a certificate of discharge of the Certificates from the Trustee.

**Non-Presentation of Certificates.** In the event any Certificate will not be presented for payment when the principal with respect thereto becomes due, either at maturity, or at the date fixed for prepayment thereof, if moneys sufficient to pay such Certificate shall have been deposited in the Prepayment Fund or Lease Payment Fund, as applicable, all liability of the District to the Owner thereof for payment of such Certificate will forthwith cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Certificate who will thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on, or with respect to, said Certificate.

Any moneys so deposited with and held by the Trustee not so applied to the payment of interest or principal with respect to Certificates within two (2) years after the date on which the same shall have become due will be paid by the Trustee to the District, free from the trusts created by the Trust Agreement. In addition, Trustee will be indemnified from and against any and all liabilities to third parties resulting from its actions under the Trust Agreement. Thereafter, Owners will be entitled to look only to the District for payment, and then only to the extent of the amount so repaid by the Trustee. The District will not be liable for any interest on the sums paid to it pursuant to the provisions of the Trust Agreement summarized in this paragraph and will not be regarded as a trustee or trustees of such money.

**Acquisition of Certificates by District.** All Certificates acquired by the District, whether by purchase, gift or otherwise, will be surrendered by the District to the Trustee for cancellation.

**Records.** The Trustee will keep complete and accurate records of all moneys received and disbursed by it under the Trust Agreement, which will be available for inspection by the District, the Corporation and any Owner, or the agent of any of them, at any time during regular business hours upon reasonable prior notice.

**Waiver of Notice.** Whenever in the Trust Agreement the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

**Separability of Invalid Provisions.** In case any one or more of the provisions contained in the Trust Agreement or in the Certificates will for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability will not affect any other provision of the Trust Agreement, and the Trust Agreement will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The parties thereto declare that they would have entered into the Trust Agreement and each and every other section, paragraph, sentence, clause or phrase thereof and authorized the delivery of the Certificates pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Trust Agreement may be held illegal, invalid or unenforceable.

#### **Interested Parties.**

Parties Interested therein. Nothing in the Trust Agreement expressed or implied is intended or will be construed to confer upon, or to give grant to any person or entity, other than the District, the Trustee, and the Owners of the Certificates, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the District will be for the sole and exclusive benefit of the District, the Corporation, the Trustee, and the registered owners of the Certificates.

### **THE ASSIGNMENT AGREEMENT**

The Assignment Agreement provides for the transfer, assignment and setting over by the Corporation to the Trustee, for the benefit of the Owners of Certificates, all of the Corporation's rights under the Lease (excepting only the Corporation's rights to recover attorneys' fees and expenses in the event the Corporation is a non-defaulting party to the Lease after a default), including, without limitation, (1) the right to receive and collect all of the Lease Payments, Additional Payments and Prepayments from the District under the Lease; (2) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease, or any condemnation award rendered with respect to the Properties or any lease of the Properties in the event of a default by the District under the Lease; (3) the right to take all actions and give all consents under the Lease; (4) the right to exercise such rights and remedies conferred on the Corporation under the Lease as may be necessary or convenient (a) to enforce payment of the Lease Payments, Additional Payments, Prepayments and any other amounts required to be deposited in the Lease Payment Fund, the Prepayment Fund, the Net Proceeds Fund or any other fund established under the Trust Agreement, or (b) otherwise to protect the interests of the Corporation in the event of a default by the District under the Lease; and (5) the right of the Corporation to receive rentals in excess of Lease Payments as compensation for re-letting the Properties upon events of default under the Lease. The Trustee accepts such assignment for the benefit of the Owners of the Certificates, subject to the provisions of the Trust Agreement.

### **THE SITE LEASE**

Pursuant to the Site Lease, the District, as lessor, leases to the Corporation, as lessee, all of its right, title and interest in the Properties. The term of the Site Lease will commence as of the date of the Lease and will remain in effect until the expiration of the term of such Lease. The Properties will be simultaneously leased back to the District under the Lease, and title will remain in the District.

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**APPENDIX B**

**PROPOSED FORM OF OPINION OF SPECIAL COUNSEL  
FOR THE CERTIFICATES**

\_\_\_\_\_, 2019

Board of Education  
San Bernardino City Unified School District

**§ \_\_\_\_\_  
SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
Certificates of Participation  
(2019 School Financing Project)  
Evidencing the Fractional Interests of the  
Owners Thereof in Lease Payments to be  
Made by the  
SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

Members of the Board of Education:

We have examined a certified copy of the record of the proceedings relative to the execution and delivery of \$ \_\_\_\_\_ principal amount of San Bernardino City Unified School District Certificates of Participation (2019 School Financing Project) and dated the Date of Delivery (the "Certificates"), evidencing the fractional interests of the registered owners thereof in the right to receive certain Lease Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Lease/Purchase Agreement (the "Lease"), dated as of June 1, 2019, between the San Bernardino City Unified School District (the "District") and the San Bernardino Schools Financing Corporation, a nonprofit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), all of which right to receive such Lease Payments has been assigned without recourse by the Corporation to U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), pursuant to the Trust Agreement, dated as of June 1, 2019, by and among the District, the Corporation and the Trustee (the "Trust Agreement"), which Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement.

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 certify the same by independent investigation.

In our opinion, such proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement and the Lease under the laws of the State of California now in force, and the Lease and the Trust Agreement have been duly authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Trustee and the Corporation as appropriate, are

valid and binding obligations of the District, enforceable against the District in accordance with their respective terms. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the District to make the Lease Payments under the Lease does not constitute a debt of the District or the State of California, or of any political subdivision thereof, within the meaning of any constitutional debt limit or restriction, does not violate any statutory debt limitation, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

We are further of the opinion that under existing statutes, regulations, rulings and judicial decisions, the portion of each Lease Payment constituting interest with respect to the Certificates 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.

We are further of the opinion that the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates is exempt from State of California personal income tax.

We are further of the opinion that the difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificates constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues to the Certificate owner 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.

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 Trust Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special 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 Certificate 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 Certificates.

The opinions expressed herein as to the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates 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 Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that such portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the Certificates 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 Certificates or the market value of the Certificates. No assurance can be given that subsequent to the issuance of the Certificates such changes or interpretations will not occur.

With respect to the opinions expressed herein, the rights and obligations under the Certificates, the Lease and the Trust Agreement are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

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**APPENDIX C**

**2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2018**

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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JUNE 30, 2018

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***FINANCIAL SECTION***

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

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
San Bernardino City Unified School District  
San Bernardino, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter - Change in Accounting Principles***

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

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 81, schedule of changes in the District's net OPEB liability and related ratios on page 82, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 83, schedule of the District's proportionate share of the net pension liability on page 84, and the schedule of District contributions on page 86, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the San Bernardino City Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of San Bernardino City Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Bernardino City Unified School District's internal control over financial reporting and compliance.

*Varvink, Inc., Day & Co., LLP*

Rancho Cucamonga, California  
December 17, 2018

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the District-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term*, as well as what remains for future spending.
- *Proprietary funds* statements offer *short* and *long-term* financial information about the activities the District operates like *businesses*, such as food services.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### District-Wide Financial Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration should be given to additional non-financial factors such as changes in the District's condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

#### Governmental Activities

Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

#### Business-Type Activities

The District charges fees to help it cover the costs of certain services it provides. The District's food services are included here.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### Fund Financial Statements

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

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

The District has three kinds of funds:

**Governmental Funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide financial statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

**Proprietary Funds** - Services for which the District charges a fee is generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements.

- The District's Enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use Internal Service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund - the Self-Insurance Fund.

**Fiduciary Funds** - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### Net Position

The District's *combined* net position was less than they were the year before - decreasing 9.44 percent or \$41,079,580. Most of this decrease in the District's financial position came from its governmental activities, the net position of which decreased by \$41,669,931 to \$384,835,870. The net position of the District's business-type activities increased by \$590,351 to \$9,234,350.

**Table A-1**

	Governmental Activities		Business-Type Activities		School District Activities	
	(as Restated)		(as Restated)		(as Restated)	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current and other assets	\$ 383,186,099	\$ 340,173,822	\$ 18,730,253	\$ 16,462,742	\$ 401,916,352	\$ 356,636,564
Capital assets	975,255,642	982,927,479	3,174,285	3,612,077	978,429,927	986,539,556
<b>Total Assets</b>	<b>1,358,441,741</b>	<b>1,323,101,301</b>	<b>21,904,538</b>	<b>20,074,819</b>	<b>1,380,346,279</b>	<b>1,343,176,120</b>
<b>Deferred Outflows of Resources</b>	<b>229,154,030</b>	<b>147,228,914</b>	<b>5,994,646</b>	<b>4,676,600</b>	<b>235,148,676</b>	<b>151,905,514</b>
<b>Liabilities</b>						
Current liabilities	90,739,854	81,591,123	1,001,532	655,583	91,741,386	82,246,706
Long-term obligations	460,949,937	409,880,122	1,928,254	1,778,652	462,878,191	411,658,774
Aggregate net pension liability	626,285,335	534,174,941	15,372,575	12,902,419	641,657,910	547,077,360
<b>Total Liabilities</b>	<b>1,177,975,126</b>	<b>1,025,646,186</b>	<b>18,302,361</b>	<b>15,336,654</b>	<b>1,196,277,487</b>	<b>1,040,982,840</b>
<b>Deferred Inflows of Resources</b>	<b>24,784,775</b>	<b>18,178,228</b>	<b>362,473</b>	<b>770,766</b>	<b>25,147,248</b>	<b>18,948,994</b>
<b>Net Position</b>						
Net investment in capital assets	743,825,823	763,941,674	3,174,285	3,612,077	747,000,108	767,553,751
Restricted	126,638,424	122,604,675	6,060,065	5,031,922	132,698,489	127,636,597
Unrestricted	(485,628,377)	(460,040,548)	-	-	(485,628,377)	(460,040,548)
<b>Total Net Position</b>	<b>\$ 384,835,870</b>	<b>\$ 426,505,801</b>	<b>\$ 9,234,350</b>	<b>\$ 8,643,999</b>	<b>\$ 394,070,220</b>	<b>\$ 435,149,800</b>

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

### Changes in Net Position

The District's total revenues increased by \$29,434,870 (see Table A-2). State and Federal aid for specific programs contributed about 22.5 cents of every dollar raised. Another 73.7 cents of every dollar raised came from property taxes and State and Federal formula aid, and the remainder from fees charged for services and miscellaneous sources.

**Table A-2**

	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 8,020,435	\$ 12,212,728	\$ 1,339,920	\$ 1,398,048	\$ 9,360,355	\$ 13,610,776
Operating grants and contributions	137,381,266	121,000,239	31,392,621	30,267,889	168,773,887	151,268,128
Capital grants and contributions	345,739	(169,763)	-	-	345,739	(169,763)
General revenues:						
Federal and State unrestricted	489,155,205	481,572,513	-	-	489,155,205	481,572,513
Property taxes	63,293,069	59,389,428	-	-	63,293,069	59,389,428
Other general revenues	18,955,618	14,661,444	155,738	272,215	19,111,356	14,933,659
<b>Total Revenues</b>	<b>717,151,332</b>	<b>688,666,589</b>	<b>32,888,279</b>	<b>31,938,152</b>	<b>750,039,611</b>	<b>720,604,741</b>
<b>Expenses</b>						
Instruction-related	542,489,072	501,186,123	-	-	542,489,072	501,186,123
Pupil services	76,533,509	68,334,826	-	-	76,533,509	68,334,826
Administration	31,708,524	28,807,808	-	-	31,708,524	28,807,808
Plant services	80,244,996	67,319,415	-	-	80,244,996	67,319,415
Other	27,845,162	24,678,744	32,297,928	31,388,502	60,143,090	56,067,246
<b>Total Expenses</b>	<b>758,821,263</b>	<b>690,326,916</b>	<b>32,297,928</b>	<b>31,388,502</b>	<b>791,119,191</b>	<b>721,715,418</b>
<b>Change in Net Position</b>	<b>\$ (41,669,931)</b>	<b>\$ (1,660,327)</b>	<b>\$ 590,351</b>	<b>\$ 549,650</b>	<b>\$ (41,079,580)</b>	<b>\$ (1,110,677)</b>

The total cost of all programs and services increased by \$69,403,773. The District's expenses are predominantly related to educating and caring for students (78.2 percent). The purely administrative activities of the District accounted for just 4.0 percent of total costs.

Total expenses were more than revenues, decreasing net position by \$41,079,580 over last year. The governmental activities contributed to the District's decrease in net position.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### Governmental Activities

Revenues for the District's governmental activities were \$717,151,332, whereas total expenses were \$758,821,263. The decrease in net position for governmental activities occurred due to an overall increase in expenses.

- Some of the District's activities (\$8,020,435) were financed by the users of the District's programs. See Table A-2.
- The Federal and State governments subsidized certain programs with grants and contributions (\$137,727,005). See Table A-2.

### Business-Type Activities

Revenues of the District's business-type activities were \$32,888,279, and expenses were \$32,297,928. (Refer to Table A-2)

### Net Cost of Services

Table A-3 presents the costs of major District governmental activities: instruction, instruction-related activities, other pupil services (guidance, counseling, and evaluation), general administration, plant services, and all other activities. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- Most of the District's governmental activity net costs (\$613,073,813) million were financed by District taxpayers and the taxpayers of our State.
- This portion of governmental activities was financed with \$63,293,069 in property taxes, and \$489,155,205 of unrestricted State and Federal aid based on the State-wide education aid formula. See Table A-2.

**Table A-3**

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction-related	\$ 542,489,072	\$ 501,186,123	\$ 424,217,222	\$ 394,940,546
Pupil services	76,533,509	68,334,826	64,149,939	57,426,808
Administration	31,708,524	28,807,808	28,052,475	24,973,381
Plant services	80,244,996	67,319,415	79,205,354	66,448,381
Other	27,845,162	24,678,744	17,448,823	13,494,596
<b>Total</b>	<b>\$ 758,821,263</b>	<b>\$ 690,326,916</b>	<b>\$ 613,073,813</b>	<b>\$ 557,283,712</b>

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported *combined* fund balances of \$239,168,398, an increase of 12.9 percent from the previous year.

The business-type activities remained financially stable. In addition to the District-wide financial statements, Food Service activity is reported in greater detail in the enterprise fund statements.

The District's General Fund increased in fund balance by \$1,371,213. The District continues to meet the State required two percent fund balance reserve for Economic Uncertainties.

**Table A-4**

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 104,743,185	\$ 671,656,542	\$ 670,285,329	\$ 106,114,398
Building Fund	40,085,055	56,039,449	25,295,491	70,829,013
Adult Education Fund	918,296	8,822,576	8,903,274	837,598
Child Development Fund	18,934	12,678,748	12,280,467	417,215
Capital Facilities Fund	15,447,326	593,192	12,511,039	3,529,479
County School Facilities Fund	30,293,977	457,138	3,164,297	27,586,818
Special Reserve Fund for Capital Outlay Projects	3,338,467	8,158,153	1,603,802	9,892,818
Capital Projects Fund for Blended Component Units	64	-	64	-
Bond Interest and Redemption	16,959,744	19,025,294	16,023,979	19,961,059
<b>Total</b>	<b>\$ 211,805,048</b>	<b>\$ 777,431,092</b>	<b>\$ 750,067,742</b>	<b>\$ 239,168,398</b>

### General Fund Budgetary Highlights

The District revises the annual operating budget on an ongoing basis throughout the year.

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$38,761,112 and the actual results for the year show revenues exceeding expenditures by \$3,492,880.

- Actual revenues were \$21,478,170 lower than expected, due primarily to lower federal and state sources.
- The actual expenditures were \$63,732,162 under budget, due primarily to less spending on Books and supplies, Services and operating expenditures and Capital outlay.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of 2018, the District had invested \$978,429,927 in a broad range of capital assets, including school facilities and equipment. Total depreciation expense for the year was \$32,270,935. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

**Table A-5**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land and construction in process	\$ 49,048,939	\$ 53,477,150	\$ -	\$ -	\$ 49,048,939	\$ 53,477,150
Buildings and improvements	911,715,919	915,372,233	2,485,532	2,928,922	914,201,451	918,301,155
Equipment	14,490,784	14,078,096	688,753	683,155	15,179,537	14,761,251
<b>Total</b>	<b>\$ 975,255,642</b>	<b>\$ 982,927,479</b>	<b>\$ 3,174,285</b>	<b>\$ 3,612,077</b>	<b>\$ 978,429,927</b>	<b>\$ 986,539,556</b>

#### Long-Term Obligations

At year-end, the District had \$462,878,191 in long-term obligations increasing last year's balance by \$51,219,416.

**Table A-6**

	Governmental Activities		Business-Type Activities		Total	
	(as Restated)		(as Restated)		(as Restated)	
	2018	2017	2018	2017	2018	2017
General obligation bonds - net (financed with property taxes)	\$ 301,211,104	\$ 251,137,619	\$ -	\$ -	\$ 301,211,104	\$ 251,137,619
Certificates of participation	47,750,000	53,080,000	-	-	47,750,000	53,080,000
Discount on issuance	(306,231)	(346,175)	-	-	(306,231)	(346,175)
Capital lease obligations	153,339	262,805	-	-	153,339	262,805
Accumulated vacation	3,848,348	3,151,648	-	-	3,848,348	3,151,648
Claims liability	21,741,424	21,741,424	-	-	21,741,424	21,741,424
SELF assessment	1,506,650	1,807,966	-	-	1,506,650	1,807,966
Net other postemployment benefits (OPEB) liability	85,045,303	79,044,836	1,928,254	1,778,652	86,973,557	80,823,488
<b>Total</b>	<b>\$ 460,949,937</b>	<b>\$ 409,880,123</b>	<b>\$ 1,928,254</b>	<b>\$ 1,778,652</b>	<b>\$ 462,878,191</b>	<b>\$ 411,658,775</b>

More detailed information about the District's long-term obligations is presented in Note 9 to the financial statements.

# **SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

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### **Net Pension Liability - NPL**

At year-end, the District had a net pension liability of \$626,285,335 in governmental activities and \$15,372,575 in business-type activities. The District has also recorded its proportionate share of the related deferred inflows and outflows. See Note 12 for additional information about the net pension liability.

### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

1. Since the Local Control Funding Formula is based on an improved or slow/no growth in the economy of the State of California, any volatility in revenues will impact the District's financial condition.
2. The District anticipates that its enrollment or Average Daily Attendance (four tenths (.4) of one percent decrease in 2017-2018) will decline during fiscal year 2018-2019.
3. Collective bargaining.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, 777 North F Street, San Bernardino, California 92410.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

	<b>Governmental</b>	<b>Business-Type</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	
<b>ASSETS</b>			
Deposits and investments	\$ 356,275,085	\$ 12,507,246	\$ 368,782,331
Receivables	24,890,153	6,972,697	31,862,850
Internal balances	1,764,433	(1,764,433)	-
Prepaid expenses	207,966	-	207,966
Stores inventories	48,462	1,014,743	1,063,205
Capital assets			
Land and construction in process	49,048,939	-	49,048,939
Other capital assets	1,212,759,818	16,677,967	1,229,437,785
Less: Accumulated depreciation	(286,553,115)	(13,503,682)	(300,056,797)
Total Capital Assets	<u>975,255,642</u>	<u>3,174,285</u>	<u>978,429,927</u>
<b>Total Assets</b>	<u>1,358,441,741</u>	<u>21,904,538</u>	<u>1,380,346,279</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	6,202,447	-	6,202,447
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	8,095,589	192,279	8,287,868
Deferred outflows of resources related to pensions	214,855,994	5,802,367	220,658,361
<b>Total Deferred Outflows of Resources</b>	<u>229,154,030</u>	<u>5,994,646</u>	<u>235,148,676</u>
<b>LIABILITIES</b>			
Accounts payable	76,838,415	960,824	77,799,239
Accrued interest payable	5,642,378	-	5,642,378
Unearned revenue	8,259,062	40,708	8,299,770
Long-term obligations:			
Current portion of long-term obligations other than pensions	18,453,941	-	18,453,941
Noncurrent portion of long-term obligations other than pensions	442,495,995	1,928,254	444,424,249
Total Long-Term Obligations	<u>460,949,936</u>	<u>1,928,254</u>	<u>462,878,190</u>
Aggregate net pension liability	<u>626,285,335</u>	<u>15,372,575</u>	<u>641,657,910</u>
<b>Total Liabilities</b>	<u>1,177,975,126</u>	<u>18,302,361</u>	<u>1,196,277,487</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	24,784,775	362,473	25,147,248
<b>NET POSITION</b>			
Net investment in capital assets	743,825,823	3,174,285	747,000,108
Restricted for:			
Debt service	14,318,681	-	14,318,681
Capital projects	31,116,297	-	31,116,297
Educational programs	44,446,339	-	44,446,339
Other activities	36,757,107	6,060,065	42,817,172
Unrestricted	(485,628,377)	-	(485,628,377)
<b>Total Net Position</b>	<u>\$ 384,835,870</u>	<u>\$ 9,234,350</u>	<u>\$ 394,070,220</u>

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 443,389,775	\$ 3,917,831	\$ 90,379,737	\$ 345,739
Instruction-related activities:				
Supervision of instruction	38,288,247	132,816	16,430,105	-
Instructional library, media, and technology	4,125,794	-	363,339	-
School site administration	56,685,256	2,219,916	4,482,367	-
Pupil services:				
Home-to-school transportation	21,164,053	-	-	-
Food services	454,426	-	-	-
All other pupil services	54,915,030	443,175	11,940,395	-
Administration:				
Data processing	8,552,270	-	-	-
All other administration	23,156,254	284,648	3,371,401	-
Plant services	80,244,996	690,610	349,032	-
Community services	11,960,491	71,877	9,235,176	-
Enterprise services	(1,582,530)	-	-	-
Interest on long-term obligations	16,820,367	-	-	-
Other outgo	646,834	259,562	829,714	-
<b>Total Governmental Activities</b>	<b>758,821,263</b>	<b>8,020,435</b>	<b>137,381,266</b>	<b>345,739</b>
<b>Business-Type Activities</b>				
Food services	32,297,928	1,339,920	31,392,621	-
<b>Total School District</b>	<b>\$ 791,119,191</b>	<b>\$ 9,360,355</b>	<b>\$ 168,773,887</b>	<b>\$ 345,739</b>

**General revenues and subventions:**

Property taxes, levied for general purposes  
Property taxes, levied for debt service  
Taxes levied for other specific purposes  
Federal and State aid not restricted to specific purposes  
Interest and investment earnings  
Miscellaneous

**Subtotal, General Revenues**

**Change in Net Position**

Net Position - Beginning, as restated  
Net Position - Ending

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



**Net (Expenses) Revenues and  
Changes in Net Position**

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (348,746,468)	\$ -	\$ (348,746,468)
(21,725,326)	-	(21,725,326)
(3,762,455)	-	(3,762,455)
(49,982,973)	-	(49,982,973)
(21,164,053)	-	(21,164,053)
(454,426)	-	(454,426)
(42,531,460)	-	(42,531,460)
(8,552,270)	-	(8,552,270)
(19,500,205)	-	(19,500,205)
(79,205,354)	-	(79,205,354)
(2,653,438)	-	(2,653,438)
1,582,530	-	1,582,530
(16,820,367)	-	(16,820,367)
442,442	-	442,442
(613,073,823)	-	(613,073,823)
-	434,613	434,613
(613,073,823)	434,613	(612,639,210)
42,023,339	-	42,023,339
16,188,764	-	16,188,764
5,080,966	-	5,080,966
489,155,205	-	489,155,205
2,245,567	134,913	2,380,480
16,710,051	20,825	16,730,876
571,403,892	155,738	571,559,630
(41,669,931)	590,351	(41,079,580)
426,505,801	8,643,999	435,149,800
\$ 384,835,870	\$ 9,234,350	\$ 394,070,220

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Deposits and investments	\$ 162,137,656	\$ 72,472,748	\$ 64,313,632	\$ 298,924,036
Receivables	22,431,191	294,031	1,969,135	24,694,357
Due from other funds	3,424,514	8,160	2,149,306	5,581,980
Prepaid expenditures	207,966	-	-	207,966
Stores inventories	48,462	-	-	48,462
<b>Total Assets</b>	<b>\$ 188,249,789</b>	<b>\$ 72,774,939</b>	<b>\$ 68,432,073</b>	<b>\$ 329,456,801</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 70,429,104	\$ 1,945,278	\$ 4,156,022	\$ 76,530,404
Due to other funds	3,784,015	648	1,714,274	5,498,937
Unearned revenue	7,922,272	-	336,790	8,259,062
<b>Total Liabilities</b>	<b>82,135,391</b>	<b>1,945,926</b>	<b>6,207,086</b>	<b>90,288,403</b>
<b>Fund Balances:</b>				
Nonspendable	467,428	-	-	467,428
Restricted	44,446,339	70,829,013	52,162,312	167,437,664
Assigned	46,324,513	-	10,062,675	56,387,188
Unassigned	14,876,118	-	-	14,876,118
<b>Total Fund Balances</b>	<b>106,114,398</b>	<b>70,829,013</b>	<b>62,224,987</b>	<b>239,168,398</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 188,249,789</b>	<b>\$ 72,774,939</b>	<b>\$ 68,432,073</b>	<b>\$ 329,456,801</b>

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

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<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 239,168,398</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 1,261,808,757
Accumulated depreciation is:	<u>(286,553,115)</u>
Net Capital Assets	975,255,642
The District has refunded various debt obligations. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2018.	
	6,202,447
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.	
	35,672,151
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	
	(5,642,378)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:	
Pension contributions subsequent to measurement date	51,600,692
Net change in proportionate share of net pension liability	40,632,036
Differences between projected and actual earnings on pension plan investments	5,343,171
Differences between expected and actual experience in the measurement of the total pension liability	7,027,429
Changes of assumptions	<u>110,252,666</u>
Total Deferred Outflows of Resources Related to Pensions	214,855,994

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

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Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

Net change in proportionate share of net pension liability	\$ (1,993,881)	
Differences between projected and actual earnings on pension plan investments	(12,698,907)	
Differences between expected and actual experience in the measurement of the total pension liability	(8,327,792)	
Changes of assumptions	(1,764,195)	
Total Deferred Inflows of Resources Related to Pensions		\$ (24,784,775)

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of amounts paid for OPEB as benefits come due subsequent to measurement date.

8,095,589

Net pension liability is not due and payable in the current period, and is not reported as a liability in the fund.

(626,285,335)

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

Long-term obligations at year-end consist of:

Bonds payable	251,368,577
Unamortized premium on issuance	19,817,156
Certificates of participation	47,750,000
Unamortized discount on issuance	(306,231)
Capital lease obligations	153,339
Compensated absences (vacations)	3,848,348
Net other postemployment benefits (OPEB) liability	85,045,303

In addition, the District issues "capital appreciation" general obligation bonds. The accretion of interest on unmaturred general obligation bonds to date is:

30,025,371

Total Long-Term Obligations		(437,701,863)
Total Net Position - Governmental Activities		<b>\$ 384,835,870</b>

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Control Funding Formula	\$ 511,267,773	\$ -	\$ -	\$ 511,267,773
Federal sources	57,321,301	2,613,101	1,531,148	61,465,550
Other State sources	93,273,229	-	17,318,902	110,592,131
Other local sources	9,794,239	791,343	18,094,683	28,680,265
<b>Total Revenues</b>	<b>671,656,542</b>	<b>3,404,444</b>	<b>36,944,733</b>	<b>712,005,719</b>
<b>EXPENDITURES</b>				
Current				
Instruction	396,078,054	-	5,113,570	401,191,624
Instruction-related activities:				
Supervision of instruction	36,672,756	-	524,824	37,197,580
Instructional library, media, and technology	3,981,203	-	-	3,981,203
School site administration	52,633,377	-	2,611,394	55,244,771
Pupil services:				
Home-to-school transportation	21,118,489	-	-	21,118,489
Food services	34,048	-	-	34,048
All other pupil services	52,037,709	-	368,048	52,405,757
Administration:				
Data processing	8,409,292	-	-	8,409,292
All other administration	20,375,595	-	733,017	21,108,612
Plant services	67,579,073	-	992,643	68,571,716
Community services	786,390	-	10,826,981	11,613,371
Other outgo	646,770	-	64	646,834
Facility acquisition and construction	7,685,595	15,343,365	9,117,320	32,146,280
Debt service				
Principal	109,466	5,330,000	7,655,000	13,094,466
Interest and other	15,845	4,622,126	8,368,979	13,006,950
<b>Total Expenditures</b>	<b>668,163,662</b>	<b>25,295,491</b>	<b>46,311,840</b>	<b>739,770,993</b>
<b>Deficiency of Revenues Over Expenditures</b>	<b>3,492,880</b>	<b>(21,891,047)</b>	<b>(9,367,107)</b>	<b>(27,765,274)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	5	10,296,744	10,296,749
Other sources - proceeds from issuance of general obligation bonds	-	52,635,000	-	52,635,000
Other sources - premium on issuance of general obligation bonds	-	-	2,493,624	2,493,624
Transfers out	(2,121,667)	-	(8,175,082)	(10,296,749)
<b>Net Financing Sources (Uses)</b>	<b>(2,121,667)</b>	<b>52,635,005</b>	<b>4,615,286</b>	<b>55,128,624</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,371,213</b>	<b>30,743,958</b>	<b>(4,751,821)</b>	<b>27,363,350</b>
<b>Fund Balances - Beginning</b>	<b>104,743,185</b>	<b>40,085,055</b>	<b>66,976,808</b>	<b>211,805,048</b>
<b>Fund Balances - Ending</b>	<b>\$ 106,114,398</b>	<b>\$ 70,829,013</b>	<b>\$ 62,224,987</b>	<b>\$ 239,168,398</b>

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 27,363,350</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which depreciation exceeds capital outlays in the period.	
Depreciation expense	\$ (31,520,379)
Capital outlays	<u>24,769,433</u>
Net Expense Adjustment	(6,750,946)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.	(920,891)
In the Statement of Activities, certain operating expenses - compensated absences (vacation) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item is measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used by \$696,700.	(696,700)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	(24,262,039)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.	2,095,122
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. This year the District issued the following:	
General obligation bonds	(52,635,000)
Governmental funds report the effects of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This is the net effect of these related items:	
Premium on issuance	(2,493,624)

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

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

General obligation bonds	\$ 7,655,000
Certificate of participations	5,330,000
Capital lease obligations	109,466

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	\$ 1,619,523	
Amortization of debt discount	(39,944)	
Amortization of deferred charges on refunding	<u>(625,375)</u>	
Combined Adjustment		954,204

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds increased \$548,237, and second, \$4,219,384 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(4,767,621)

An Internal Service Fund is used by the District's management to charge the costs of the workers compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

7,349,748

**Change in Net Position of Governmental Activities**

**\$ (41,669,931)**

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<b>Business-Type Activities Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Food Service</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Deposits and investments	\$ 12,507,246	\$ 57,351,049
Receivables	6,972,698	195,796
Due from other funds	-	1,684,907
Stores inventories	1,014,743	-
<b>Total Current Assets</b>	<b>20,494,687</b>	<b>59,231,752</b>
<b>Noncurrent Assets</b>		
Capital assets	16,677,967	-
Less: accumulated depreciation	(13,503,682)	-
<b>Total Noncurrent Assets</b>	<b>3,174,285</b>	<b>-</b>
<b>Total Assets</b>	<b>23,668,972</b>	<b>59,231,752</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to OPEB	192,279	-
Deferred outflows of resources related to pensions	5,802,367	-
<b>Total Deferred Outflows</b>	<b>\$ 5,994,646</b>	<b>\$ -</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 960,824	\$ 308,011
Due to other funds	1,764,434	3,516
Unearned revenue	40,708	-
Current portion of claims liability	-	4,248,434
Current portion of SELF assessment	-	301,316
<b>Total Current Liabilities</b>	<b>2,765,966</b>	<b>4,861,277</b>
<b>Noncurrent Liabilities</b>		
Noncurrent portion of claims liability and SELF assessment	-	18,698,324
Total OPEB liability	1,928,254	-
Aggregate net pension liability	15,372,575	-
<b>Total Noncurrent Liabilities</b>	<b>17,300,829</b>	<b>18,698,324</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pensions	362,473	-
<b>NET POSITION</b>		
Net investment in capital assets	3,174,285	-
Restricted	6,060,065	35,672,151
<b>Total Net Position</b>	<b>\$ 9,234,350</b>	<b>\$ 35,672,151</b>

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



**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Business-Type Activities Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Food Service</b>	
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,339,920	\$ -
Charges to other funds and miscellaneous revenues	20,825	15,327,437
<b>Total Operating Revenues</b>	<b>1,360,745</b>	<b>15,327,437</b>
<b>OPERATING EXPENSES</b>		
Payroll costs	15,598,740	679,942
Professional and contract services	(266,818)	-
Supplies and materials	14,970,494	32,160
Facility rental	57,894	(51)
Other operating cost	1,187,062	7,876,623
Depreciation	750,556	-
<b>Total Operating Expenses</b>	<b>32,297,928</b>	<b>8,588,674</b>
<b>Operating Income (Loss)</b>	<b>(30,937,183)</b>	<b>6,738,763</b>
<b>NONOPERATING REVENUES</b>		
Interest income	134,913	610,985
Federal grants	29,376,990	-
State grants	2,015,631	-
<b>Total Nonoperating Revenues</b>	<b>31,527,534</b>	<b>610,985</b>
<b>Change in Net Position</b>	<b>590,351</b>	<b>7,349,748</b>
<b>Total Net Position - Beginning, as restated</b>	<b>8,643,999</b>	<b>28,322,403</b>
<b>Total Net Position - Ending</b>	<b>\$ 9,234,350</b>	<b>\$ 35,672,151</b>

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	<b>Business-Type Activities Enterprise Fund Food Service</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from user charges	\$ 1,217,249	\$ -
Cash receipts from interfund services provided	-	14,790,858
Other operating cash receipts	20,825	(198,683)
Cash payments to other suppliers of goods or services	(14,739,446)	-
Cash payments to employees for services	(14,705,321)	(679,942)
Cash payments for insurance claims	-	(8,177,939)
Other operating cash payments	(1,244,956)	-
Net Cash Provided (Used) by Operating Activities	<u>(29,451,649)</u>	<u>5,734,294</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating grants received	<u>31,392,621</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	<u>(312,764)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	<u>134,913</u>	<u>610,985</u>
Net Increase in Cash and Cash Equivalents	1,763,121	6,345,279
Cash and Cash Equivalents - Beginning	10,744,125	51,005,770
Cash and Cash Equivalents - Ending	<u>\$ 12,507,246</u>	<u>\$ 57,351,049</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (30,937,183)	\$ 6,738,763
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:		
Depreciation	750,556	-
Changes in assets and liabilities:		
Receivables	(118,651)	(59,819)
Due from other fund	-	(537,862)
Inventories	(271,223)	-
Deferred outflows	(1,318,046)	-
Accounts payables	349,969	(106,755)
Due to other fund	(114,516)	1,283
Unearned revenue	(4,020)	-
Deferred inflows	(408,293)	-
Net pension liability	2,470,156	-
Net other postemployment benefits (OPEB) liability	149,602	-
Claims liability and assessment	-	(301,316)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (29,451,649)</u>	<u>\$ 5,734,294</u>
<b>NONCASH, NONCAPITAL FINANCING ACTIVITIES</b>		

During the year, the District received \$2,033,234 of food commodities from the U.S. Department of Agriculture.

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

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	<u>Scholarship Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Deposits and investments	\$ 400,648	\$ 1,439,788
Receivables	1,571	122,330
Stores inventories	-	4,407
<b>Total Assets</b>	<u>402,219</u>	<u>\$ 1,566,525</u>
<b>LIABILITIES</b>		
Accounts payable	-	\$ 9,747
Due to student groups	-	1,556,778
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 1,566,525</u>
<b>NET POSITION</b>		
Held in reserve for scholarships	<u>402,219</u>	
<b>Total Net Position</b>	<u>\$ 402,219</u>	

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET POSITION  
JUNE 30, 2018**

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	<u>Scholarship Trust</u>
<b>ADDITIONS</b>	
Interest	\$ 4,958
<b>Change in Net Position</b>	4,958
<b>Net Position - Beginning</b>	<u>397,261</u>
<b>Net Position - Ending</b>	<u>\$ 402,219</u>

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The San Bernardino City Unified School District (the District) was unified on July 1, 1964, under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates forty-nine elementary schools, ten middle schools, a K-8 school, a middle college, six comprehensive high schools, one alternative education school, two continuation high schools, two community day schools, an adult education school, and two special education schools.

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

#### Component Units

Component units are legally separate organization for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

The San Bernardino City Unified School District and San Bernardino Schools Financing Corporation (the Corporation), as represented by the 2011 Certifications of Participation, has a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Corporation as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District. The financial statements present the Corporation's financial activity within the Capital Project Fund for Blended Component Units. All debt instruments issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

#### Other Related Entities

**Charter School** The District has approved Charters for PAL Academy (Charter Number 0335), Public Safety Academy (Charter Number 0731), ASA Charter (Charter Number 0677), Options for Youth - San Bernardino (Charter Number 1132), New Vision Middle (Charter Number 1089), Hardy Brown College Prep (Charter Number 1155), Excel Prep Charter (Charter Number 1153), SOAR Charter Academy (Charter Number 0982), Taft T. Newman Leadership Academy (Charter Number 1437), Ballington Academy for the Arts and Science – San Bernardino (1795), and Woodward Leadership Academy (Charter Number 1438) pursuant to *Education Code* Section 47605. The Charter Schools are operated independently and are not considered component units of the District.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Basis of Presentation - Fund Accounting**

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

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

### **Major Governmental Funds**

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in revenues, expenditures, and fund balance of \$2,019,207, \$1,883,500, and \$149,405, respectively.

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

### **Non-Major Governmental Funds**

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

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

**Capital Project Fund for Blended Component Units Fund** The Capital Project Fund for Blended Component Units Fund are used to account for capital projects financed by the San Bernardino Schools Financing Corporation and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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

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

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

**Enterprise Fund** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The enterprise major fund of the District accounts for the financial transactions related to the food service operations of the District.

**Internal Service Fund** Internal service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insured workers' compensation program that is accounted for in an internal service fund. In addition, net other Postemployment Benefits (OPEB) liability is accounted for within this fund.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. The District's Private Purpose Trust Funds are the Bradley Rogers and Jeffords Trust Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

### **Basis of Accounting - Measurement Focus**

**Government - Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

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

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

### **Investments**

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

### **Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures during the benefiting period.

### **Stores Inventories**

Inventories are stated at the lower of cost or market, utilizing the weighted average method. The costs of inventory items are recorded as expenditures in the governmental-type funds and expenses in the proprietary-type and fiduciary-type funds when used.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Capital Assets and Depreciation

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

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the capital assets of governmental funds.

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

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### Compensated Absences

Compensated absences are accrued as a liability on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

### **Debt Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

### **Deferred Outflows/Inflows of Resources**

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

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

### **Pensions**

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Postemployment Benefits Other Than Pensions (OPEB)

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

### Fund Balances - Governmental Funds

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

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

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

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the chief business and financial officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Minimum Fund Balance Policy

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$126,638,424 of restricted net position, which is restricted by enabling legislation.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are food sales in the cafeteria, and charges to other funds for self-insurance activity. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the Statement of Activities, except for the net residual amounts transferred between governmental and business-type activities.

### Estimates

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

### Property Tax

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Change in Accounting Principles

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

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

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

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

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

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

### **New Accounting Pronouncements**

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

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

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

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

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

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



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

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

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

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

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

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

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

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

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

Governmental activities	\$ 356,275,085
Business-type activities	12,507,246
Fiduciary funds	1,840,436
Total Deposits and Investments	<u>\$ 370,622,767</u>

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

Cash on hand and in banks	\$ 3,585,616
Cash in revolving	820,630
Investments	366,216,521
Total Deposits and Investments	<u>\$ 370,622,767</u>

#### Policies and Practices

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

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### General Authorizations

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

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

### Interest Rate Risk

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Specific Identification

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

Investment Type	Reported Amount	Average Maturity in Days
San Bernardino County Treasury Investment Pool	\$ 353,761,348	353
Wells Fargo Advantage Cash Investment Money Market Funds	3,121,819	17
Wells Fargo Advantage Repurchase Agreement		
Overland Express Sweep Account	9,333,354	1
Total	\$ 366,216,521	

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments with the San Bernardino County Investment Pool is rated AAA/V1 by Fitch Ratings and the Wells Fargo Advantage Money Market Mutual Funds are rated Aaa by Moody's Investor Service. The Wells Fargo Advantage Repurchase Agreement Overland Express Sweep Account is not rated.

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$709,617 held by Bank of America was exposed to custodial credit risk because it was uninsured and collateralized by securities held by pledging financial institution's trust department or agent but not in the name of the District. The remaining bank balance of \$1,049,126 held by other financial institutions was exposed to custodial credit risk because it was uninsured and uncollateralized.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Uncategorized
San Bernardino County Treasury Investment Pool	\$ 353,761,348	\$ 353,761,348

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 4 - RECEIVABLES**

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund
Federal Government				
Categorical aid	\$ 14,279,841	\$ -	\$ 258,309	\$ -
State Government				
Categorical aid	2,984,054	-	1,357,109	-
Lottery	2,161,740	-	-	-
Special Education	893,172	-	-	-
Local Government				
Interest	544,987	293,505	186,698	195,111
Other Local Sources				
Other	1,567,397	526	167,019	685
Total	<u>\$ 22,431,191</u>	<u>\$ 294,031</u>	<u>\$ 1,969,135</u>	<u>\$ 195,796</u>

	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Federal Government			
Categorical aid	\$ 14,538,150	\$ 6,446,863	\$ -
State Government			
Categorical aid	4,341,163	469,656	-
Lottery	2,161,740	-	-
Special Education	893,172	-	-
Local Government			
Interest	1,220,301	-	1,571
Other Local Sources			
Other	1,735,627	56,179	122,330
Total	<u>\$ 24,890,153</u>	<u>\$ 6,972,698</u>	<u>\$ 123,901</u>

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 32,151,833	\$ -	\$ -	\$ 32,151,833
Construction in process	21,325,317	22,616,150	27,044,361	16,897,106
Total Capital Assets Not Being Depreciated	53,477,150	22,616,150	27,044,361	49,048,939
Capital Assets Being Depreciated				
Land improvements	53,327,518	2,520,375	-	55,847,893
Buildings and improvements	1,090,197,958	23,560,351	1,253,500	1,112,504,809
Furniture and equipment	42,668,786	3,116,918	1,378,588	44,407,116
Total Capital Assets Being Depreciated	1,186,194,262	29,197,644	2,632,088	1,212,759,818
Less Accumulated Depreciation				
Land improvements	37,184,980	1,456,448	-	38,641,428
Buildings and improvements	190,968,263	27,555,522	528,430	217,995,355
Furniture and equipment	28,590,690	2,508,409	1,182,767	29,916,332
Total Accumulated Depreciation	256,743,933	31,520,379	1,711,197	286,553,115
Governmental Activities Capital Assets, Net	\$ 982,927,479	\$ 20,293,415	\$ 27,965,252	\$ 975,255,642
<b>Business-Type Activities</b>				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 8,841,937	\$ -	\$ -	\$ 8,841,937
Furniture and equipment	7,627,900	312,764	104,634	7,836,030
Total Capital Assets Being Depreciated	16,469,837	312,764	104,634	16,677,967
Less Accumulated Depreciation				
Buildings and improvements	5,913,015	443,390	-	6,356,405
Furniture and equipment	6,944,745	307,166	104,634	7,147,277
Total Accumulated Depreciation	12,857,760	750,556	104,634	13,503,682
Business-Type Activities Capital Assets, Net	\$ 3,612,077	\$ (437,792)	\$ -	\$ 3,174,285

Depreciation expense was charged to governmental and business-type functions as follows:

<b>Governmental Activities</b>		
Instruction		\$ 28,368,341
All other pupil services		630,408
All other general administration		315,204
Plant services		2,206,426
Total Depreciation Expenses Governmental Activities		31,520,379
<b>Business-Type Activities</b>		
Food services		750,556
Total Depreciation Expenses All Activities		\$ 32,270,935

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 6 - INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, enterprise funds, and internal service funds, are as follows:

Due To	Due From					Total
	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Food Service Enterprise	
General Fund	\$ -	\$ 458	\$ 1,656,106	\$ 3,516	\$ 1,764,434	\$ 3,424,514
Building Fund	-	-	8,160	-	-	8,160
Non-Major Governmental Funds	2,149,306	-	-	-	-	2,149,306
Internal Service Fund	1,634,709	190	50,008	-	-	1,684,907
Total	<u>\$ 3,784,015</u>	<u>\$ 648</u>	<u>\$ 1,714,274</u>	<u>\$ 3,516</u>	<u>\$ 1,764,434</u>	<u>\$ 7,266,887</u>

The balance of \$1,764,434 due to the General Fund from the Food Service Major Enterprise Fund resulted from payroll, indirect costs, benefits, and other operating costs.

A balance of \$831,663 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from payroll, indirect costs, benefits and other operating costs.

A balance of \$824,443 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from indirect costs, benefits, and other operating costs.

A balance of \$27,639 due to the Adult Education Non-Major Governmental Fund from the General Fund resulted from operating contributions.

A balance of \$2,121,667 due to the Child Development Non-Major Governmental Fund from the General Fund resulted from operating contributions.

The balance of \$1,634,709 due to the Internal Service Fund from the General Fund was for worker's compensation and other postemployment benefit charges.

All remaining balances resulted for the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.



**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2018, consisted of the following:

Transfer To	Transfer From		
	General Fund	Non-Major Governmental Funds	Total
Building Fund	\$ -	\$ 5	\$ 5
Non-Major Governmental Funds	2,121,667	8,175,077	10,296,744
Total	<u>\$ 2,121,667</u>	<u>\$ 8,175,082</u>	<u>\$ 10,296,749</u>

The General Fund transferred to the Child Development Non-Major Governmental Fund for an operating contribution.	\$ 2,121,667
The County Schools Facilities Non-Major Fund transferred qualified capital outlay expenditures to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund.	3,164,297
The Capital Facilities Non-Major Governmental Fund transferred qualified capital outlay expenditures to the following funds:	
Building Fund	5
Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund	4,900,000
The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund transferred qualified capital outlay expenditures to the following fund:	
County School Facilities Non-Major Governmental Fund	110,780
Total	<u>\$ 10,296,749</u>

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 7 - ACCOUNTS PAYABLE**

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund
Accrued salaries and benefits	\$ 39,959,123	\$ -	\$ 1,124,755	\$ 2,001
LCFF apportionment	3,302,470	-	-	-
Books and supplies	7,765,879	-	279,187	3,003
Services and other operating	16,435,912	219,378	212,867	302,434
Construction	2,464,608	1,725,900	2,536,037	-
Other vendor payables	501,112	-	3,176	573
Total	<u>\$ 70,429,104</u>	<u>\$ 1,945,278</u>	<u>\$ 4,156,022</u>	<u>\$ 308,011</u>

	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Accrued salaries and benefits	\$ 41,085,879	\$ -	\$ -
LCFF apportionment	3,302,470	-	-
Books and supplies	8,048,069	455,924	-
Services and other operating	17,170,591	91,056	-
Construction	6,726,545	-	-
Other vendor payables	504,861	413,844	9,747
Total	<u>\$ 76,838,415</u>	<u>\$ 960,824</u>	<u>\$ 9,747</u>

**NOTE 8 - UNEARNED REVENUE**

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Food Service Enterprise Fund
Federal financial assistance	\$ 985,740	\$ -	\$ 985,740	\$ -
State categorical aid	6,553,079	8,927	6,562,006	-
Other local	383,453	327,863	711,316	40,708
Total	<u>\$ 7,922,272</u>	<u>\$ 336,790</u>	<u>\$ 8,259,062</u>	<u>\$ 40,708</u>

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	(as Restated)			Balance June 30, 2018	Due in One Year
	Balance July 1, 2017	Additions	Deductions		
<b>Governmental Activities</b>					
General obligation bonds	\$ 232,194,564	\$ 56,854,384	\$ 7,655,000	\$ 281,393,948	\$ 8,330,000
Premium on issuance	18,943,055	2,493,624	1,619,523	19,817,156	-
2011 Certificates of Participation	53,080,000	-	5,330,000	47,750,000	5,460,000
Discount on issuance	(346,175)	-	(39,944)	(306,231)	-
Capital lease obligations	262,805	-	109,466	153,339	114,191
Accumulated vacation - net	3,151,648	696,700	-	3,848,348	-
Claims liability	21,741,424	4,248,434	4,248,434	21,741,424	4,248,434
SELF assessment	1,807,966	-	301,316	1,506,650	301,316
Net other postemployment benefits (OPEB) liability	79,044,836	9,438,165	3,437,698	85,045,303	-
Total Governmental Activities	<u>\$ 409,880,123</u>	<u>\$ 73,731,307</u>	<u>\$ 22,661,493</u>	<u>\$ 460,949,937</u>	<u>\$ 18,453,941</u>
<b>Business-Type Activities</b>					
Net other postemployment benefits (OPEB) liability	\$ 1,778,652	\$ 205,408	\$ 55,806	\$ 1,928,254	\$ -
District Total	<u>\$ 411,658,775</u>	<u>\$ 73,936,715</u>	<u>\$ 22,717,299</u>	<u>\$ 462,878,191</u>	<u>\$ 18,453,941</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Certificates of Participation are paid from the Capital Projects Fund for Blended Component Units. The capital lease obligations will be paid the General Fund. The accumulated vacation will be paid by the fund for which the employee worked. Claims liability and SELF assessment are paid by the Internal Service Fund. Net other postemployment benefits (OPEB) liability is paid by the Internal Service Fund.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

### General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2018	
				Outstanding July 1, 2017	Issued	Accreted		Redeemed
5/1/03	8/1/27	1.10 - 5.46%	15,000,000	\$ 16,107,543	\$ -	\$ 877,980	\$ -	\$ 16,985,523
9/16/04	8/1/29	1.25 - 5.46%	44,999,498	1,324,552	-	119,881	-	1,444,433
5/18/06	8/1/30	4.50 - 5.15%	67,999,967	4,090,192	-	344,401	-	4,434,593
3/14/07	8/1/30	3.77 - 4.74%	9,997,217	12,454,338	-	514,678	20,000	12,949,016
3/3/11	8/1/42	7.41 - 7.50%	11,525,419	19,203,364	-	1,462,092	-	20,665,456
3/3/11	8/1/35	7.41 - 7.50%	5,477,434	9,924,575	-	900,352	-	10,824,927
5/22/13	8/1/28	2.00 - 5.00%	86,000,000	78,620,000	-	-	4,590,000	74,030,000
6/12/13	8/1/37	2.00 - 4.00%	30,150,000	29,800,000	-	-	-	29,800,000
6/12/13	8/1/27	0.99 - 4.66%	12,515,000	8,395,000	-	-	325,000	8,070,000
8/7/14	8/1/28	2.00-5.00%	24,705,000	21,130,000	-	-	1,970,000	19,160,000
7/15/15	8/1/40	2.00-5.00%	32,495,000	31,145,000	-	-	750,000	30,395,000
10/31/17	8/1/42	3.00-5.00%	31,550,000	-	31,550,000	-	-	31,550,000
10/31/17	8/1/42	4.00-5.00%	21,085,000	-	21,085,000	-	-	21,085,000
				<u>\$ 232,194,564</u>	<u>\$ 52,635,000</u>	<u>\$ 4,219,384</u>	<u>\$ 7,655,000</u>	<u>\$ 281,393,948</u>

### 1999 General Obligation Bonds, Series C

On May 1, 2003, the District issued the \$15,000,000 1999 General Obligations Bonds, Series C. The Series C bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$16,775,000, and an aggregate principal debt service balance of \$31,775,000. The bonds have a final maturity which occurs on August 1, 2027, and yield interest rates of 1.10 to 5.46 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation, and repair of certain school facilities.

On September 16, 2004, the San Bernardino City Unified School District issued the 2004 General Obligation Refunding Bonds in the amount of \$37,055,000. Bond proceeds from this issuance were used to refund \$7,160,000 of the outstanding San Bernardino City Unified School District 1999 General Obligation Bonds, Series C. At June 30, 2018, 1999 General Obligation Bonds, Series C totaling \$16,985,523 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$185,073.

### 2004 General Obligation Bonds, Series A

On September 16, 2004, the San Bernardino City Unified School District issued the 2004 General Obligation Bonds, Series A, in the amount of \$44,999,498. The Series A bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$3,910,000, and an aggregate principal debt service balance of \$48,415,000. The bonds were issued at an aggregate price of \$45,972,569, (representing the principal amount of \$44,999,498 plus an original issue premium of \$1,946,303 less cost of issuance of \$973,232). The bonds have a final maturity which occurs on August 1, 2029, and yield interest rates of 1.25 to 5.46 percent. The bonds were issued to fund the construction, renovation, and repair of certain District facilities and the prepayment of \$57,000,000 of the District's outstanding Certificates of Participation (School Facility Bridge Funding Program).

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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During the 2014-2015 fiscal year, proceeds from the District's 2014 General Obligation Refunding Bonds were used to provide advance refunding of all outstanding current interest bonds, leaving only the capital appreciation bonds outstanding. At June 30, 2018, 2004 General Obligation Bonds, Series A, totaling \$1,444,433 (including accretion) were still outstanding.

### **2004 General Obligation Bonds, Series B**

On May 18, 2006, the District issued \$67,999,967 of 2004 General Obligation Bonds, Series B. The Series B represents the second series of the authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$14,480,033, and an aggregate principal debt service balance of \$82,480,000. The bonds were issued at an aggregate price of \$71,995,896, (representing the principal amount of \$67,999,967 plus an original issue premium of \$5,604,225 less cost of issuance of \$1,608,296). In 2013, \$59,995,000 was refunded using proceeds from the 2013 Refunding General Obligation Bonds.

The bonds have a final maturity which occurs on August 1, 2030, with interest yields of 4.50 to 5.15 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2018, the principal balance outstanding (including accretion) was \$4,434,593. Unamortized premium received on issuance amounted to \$2,914,197.

### **2004 General Obligation Bonds, Series C**

On March 14, 2007, the District issued \$9,997,217 of 2004 General Obligation Bonds, Series C. The Series C represents the third series of the authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$13,802,783, and an aggregate principal debt service balance of \$23,800,000. The bonds were issued at an aggregate price of \$9,997,217, (representing the principal amount of \$9,997,217 plus an original issue premium of \$306,344 less cost of issuance of \$306,344).

The bonds have a final maturity which occurs on August 1, 2030, and yield interest rates of 3.77 to 4.74 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2018, the principal balance outstanding (including accretion) was \$12,949,016. Unamortized premium received on issuance amounted to \$171,551.

### **2004 General Obligation Bonds, Series D**

On March 3, 2011, the San Bernardino City Unified School District issues the 2004 General Obligation Bonds, Series D, in the amount of \$11,525,419. The Series D represents the fourth series of authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The Series D bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting to \$79,784,581, and an aggregate principal debt service balance of \$91,310,000. The bonds were issued at an aggregate price of \$11,550,483 (representing the principal amount of \$11,525,419 plus an original issue premium of \$505,866 less cost of issuance of \$480,802).

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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The bonds have a final maturity which occurs on August 1, 2042, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2018, the principal balance outstanding (including accretion) was \$20,665,456. Unamortized premium received on issuance amounted to \$389,940.

### **2004 General Obligation Bonds, Series E**

On March 3, 2011, the San Bernardino City Unified School District issues the 2004 General Obligation Bonds, Series E, in the amount of \$5,477,434. The Series E represents the fifth series of authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The Series E bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$35,157,566, and an aggregate principal debt service balance of \$40,635,000. The bonds were issued at an aggregate price of \$4,603,168 (representing the principal amount of \$5,477,434 plus an original issue premium of \$229,502 less cost of issuance of \$1,103,768).

The bonds have a final maturity which occurs on August 1, 2035, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds will be used to fund capitalized interest and to pay the premiums of bond insurance and a reserve surety bond for the 2011 Certificates of Participation Series A. At June 30, 2018, the principal balance outstanding (including accretion) was \$10,824,927. Unamortized premium on issuance amounted to \$162,182.

### **2013 Refunding General Obligation Bonds**

On May 22, 2013, the San Bernardino City Unified School District issued 2013 Refunding General Obligation Bonds in the amount of \$86,000,000. The refunding bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$99,134,891 (representing the principal amount of \$86,000,000 and premium of \$13,864,035, less cost of issuance of \$729,144). The bonds have a final maturity which occurs on August 1, 2028, with interest rate ranging from 2.0 to 5.0 percent. Proceeds from the sale of bonds were used to provide current refunding of \$13,730,000, \$16,175,000, and \$59,995,000 for the 2004 Refunding General Obligation Bonds, 2004 General Obligation Bonds, Series A, and 2004 General Obligation Bonds, Series B, respectively. The refunding resulted in a cumulative cash flow savings of \$7,894,614 over the life of the new debt and an economic gain of \$6,343,785 based on the difference between the present value of the existing debt service requirements and new debt service requirements discounted at 1.50 percent. As of June 30, 2018, the principal balance outstanding was \$74,030,000. Unamortized premium received on issuance and deferred charge on refunding were \$9,165,668 and \$6,105,291, respectively.

### **2012 General Obligation Bonds, Series A**

On June 12, 2013, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series A in the amount of \$30,150,000. The Series A represents the first series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$30,769,060, representing the principal amount of \$30,150,000 plus an original issue premium of \$897,269 less cost of issuance of \$278,209. The bonds have a final maturity which occurs on August 1, 2037, and yield interest rates of 2.00 to 4.00 percent. The bonds will be used to fund the construction, renovation, and repair of certain District facilities. At June 30, 2018, 2012 General Obligation Bonds, Series A, totaling \$29,800,000 were still outstanding. Unamortized premium received on issuance amounted to \$707,223.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **2012 General Obligation Bonds, Series B**

On June 12, 2013, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series B in the amount of \$12,515,000. The Series B represents the second series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$12,406,730, representing the principal amount of \$12,515,000 less cost of issuance of \$108,270. The bonds have a final maturity which occurs on August 1, 2027, and yield interest rates of 0.99 to 4.66 percent. The bonds were issued to fund the construction, renovation, and repair of certain District facilities. At June 30, 2018, 2012 General Obligation Bonds, Series B, totaling \$8,070,000 were still outstanding.

### **2014 Refunding General Obligation Bonds**

On August 7, 2014, the San Bernardino City Unified School District issued 2014 Refunding General Obligation Bonds in the amount of \$24,705,000. The refunding bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$27,311,511 (representing the principal amount of \$24,705,000 and premium of \$2,791,906, less cost of issuance of \$185,395). The bonds have a final maturity which occurs on August 1, 2028 with interest rates of 2.0 to 5.0 percent. Proceeds from the sale of the bonds were used to provide advance refunding of the District's 2004 General Obligation Bonds, Series A and 2004 General Obligation Refunding Bonds in the amount of \$14,685,000 and \$12,470,000, respectively. The refunding resulted in a cumulative cash flow saving of \$4,307,072 over the life of the new debt and an economic gain of \$3,608,895 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.48 percent. As of June 30, 2018, the principal balance outstanding was \$19,160,000, and unamortized premium received on issuance deferred charge on refunding were \$1,994,218 and \$97,156, respectively.

### **2012 General Obligation Bonds, Series C**

On July 15, 2015, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series C in the amount of \$32,495,000. The Series C represents the third series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$34,464,574, representing the principal amount of \$32,495,000 plus a premium of \$1,969,574. The bonds have a final maturity which occurs on August 1, 2040, and yield interest rates of 2.00 to 5.00 percent. The bonds were issued to fund the construction, renovation, and repair of certain District facilities. At June 30, 2018, 2012 General Obligation Bonds, Series C, totaling \$30,395,000 were still outstanding. Unamortized premium received on issuance was \$1,733,225.

### **2012 General Obligation Bonds, Series D**

On October 31, 2017, the District issued \$31,550,000 General Obligation Bonds. The bonds were issued as current interest bonds. The bonds issued at an aggregate price of \$32,861,241 (representing the principal amount of \$31,550,000 and premium of 1,701,920, less cost of issuance of \$390,679). The bonds have a final maturity to occur on August 1, 2042, with interest rates from 3.00 to 5.00 percent. Proceeds from sale of bonds will be used to finance the acquisition, construction, modernization and equipping of District sites and facilities and pay the cost of issuing the Bonds. At June 30, 2018, 2012 General Obligation Bonds, Series D, totaling \$31,550,000 were still outstanding. Unamortized premium received on issuance was \$1,633,843.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### 2012 General Obligation Bonds, Series E

On October 31, 2017, the District issued \$21,085,000 General Obligation Bonds. The bonds were issued as current interest bonds. The bonds issued at an aggregate price of \$21,623,286 (representing the principal amount of \$21,085,000 and premium of 791,704, less cost of issuance of \$253,418). The bonds have a final maturity to occur on August 1, 2042, with interest rates from 4.00 to 5.00 percent. Proceeds from sale of bonds will be used to pay certain lease payments with respect to the District's outstanding Taxable Certificates of Participation, 2011 Series A (Direct Subsidy Qualified School Construction Bonds) and to pay the cost of issuing the Bonds. At June 30, 2018, 2012 General Obligation Bonds, Series E, totaling \$21,085,000 were still outstanding. Unamortized premium received on issuance was \$760,036.

### Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2019	\$ 8,330,000	\$ -	\$ 9,549,684	\$ 17,879,684
2020	10,713,026	1,974	9,136,595	19,851,595
2021	10,800,816	199,184	8,706,979	19,706,979
2022	11,965,150	294,850	8,261,512	20,521,512
2023	11,847,871	402,129	7,774,890	20,024,890
2024-2028	69,633,577	6,766,423	30,887,342	107,287,342
2029-2033	52,263,689	26,806,311	19,297,253	98,367,253
2034-2038	50,339,102	45,880,898	13,146,994	109,366,994
2039-2043	55,500,717	46,469,283	4,386,997	106,356,997
Total	\$ 281,393,948	\$ 126,821,052	\$ 111,148,246	\$ 519,363,246

### 2011 Certificates of Participation, Series A

On March 3, 2011, the San Bernardino City Unified School District issued the 2011 Certificates of Participation Series A in the amount of \$53,080,000. The certificates were issued at an aggregate price of \$52,092,198 (representing the principal amount of \$53,080,000 less an original issue discount of \$599,154 and cost of issuance of \$388,648). The certificates have a final maturity date of February 1, 2026, with interest rates ranging from 7.903 to 8.403 percent. Proceeds from the sale of certificates will be used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2018, the principal balance outstanding was \$47,750,000. Unamortized discount on issuance amounted to \$306,231.



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The certificates mature through 2026 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2019	\$ 5,460,000	\$ 3,809,803	\$ 9,269,803
2020	5,590,000	3,389,219	8,979,219
2021	5,725,000	2,958,621	8,683,621
2022	5,865,000	2,517,624	8,382,624
2023	6,015,000	2,054,113	8,069,113
2024-2026	19,095,000	3,175,759	22,270,759
Total	<u>\$ 47,750,000</u>	<u>\$ 17,905,139</u>	<u>\$ 65,655,139</u>

### Capital Leases

The District has entered into agreements to lease various equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2017	\$ 276,467
Payments	(118,486)
Balance, June 30, 2018	<u>\$ 157,981</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	\$ 118,486
2020	39,495
	<u>157,981</u>
Less: Amount Representing Interest	(4,642)
Present Value of Minimum Lease Payments	<u>\$ 153,339</u>

### Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$3,848,348.

### Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2018, amounted to \$21,741,424, using a discount factor of 1.5 percent. See Note 11 for additional details.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**SELF Assessment**

The District is a member of School Excess Liability Fund (SELF), a cost sharing Joint Powers Authority (JPA) for the purpose of providing the District workers' compensation insurance. The SELF board of directors declared an equity assessment to the member districts. At June 30, 2018 the District's outstanding obligation on their pro-rata share of equity assessed was \$1,506,650.

**Net Other Postemployment Benefits (OPEB) Liability**

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

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 83,046,533	\$ 8,287,868	\$ 6,441,919
Medicare Premium Payment (MPP) Program	3,927,024	-	(291,850)
Total	<u>\$ 86,973,557</u>	<u>\$ 8,287,868</u>	<u>\$ 6,150,069</u>

The details of each plan are as follows:

**District Plan**

**Plan Administration**

The California Public Employees' Retirement System (CalPERS) administers the San Bernardino City Unified School District's Postemployment Benefits Plan (the Plan) by maintaining the assets provided and payment at the direction of the District. The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. Financial information for CalPERS can be found on the CalPERS website at: <https://calpers.ca.gov/pages/formspublications>.

*Plan Membership*

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	299
Active employees	4,347
	<u>4,646</u>

*Benefits Provided*

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### *Contributions*

The contribution requirements of the Plan members and the District are established and may be amended by the District, the San Bernardino Teachers Association (SBTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, SBTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed \$8,287,868 to the Plan, which was used for current premiums and to fund the OPEB trust.

### **Net OPEB Liability of the District**

The District's net OPEB liability of \$83,046,533 was measured as of June 30, 2017, and the total OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2017, were as follows:

Total OPEB liability	\$ 83,114,433
Plan fiduciary net position	(67,900)
District's net OPEB liability	<u>\$ 83,046,533</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.08%</u>

### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.50 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2017

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

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2016	\$ 76,666,053	\$ 61,439	\$ 76,604,614
Service cost	6,898,715	-	6,898,715
Interest	2,744,804	-	2,744,804
Contributions-employer	-	3,195,139	(3,195,139)
Net investment income	-	6,515	(6,515)
Benefit payments	(3,195,139)	(3,195,139)	-
Administrative expense	-	(54)	54
Net change in total OPEB liability	6,448,380	6,461	6,441,919
Balance at June 30, 2017	<u>\$ 83,114,433</u>	<u>\$ 67,900</u>	<u>\$ 83,046,533</u>

No changes of benefit terms noted.

Changes of assumptions and other inputs reflect a change in the discount rate from 4.6 percent in 2016 to 3.5 percent in 2017.

#### *Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

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

Discount Rate	Net OPEB Liability
1% decrease (2.50%)	\$ 88,621,216
Current discount rate (3.50%)	83,046,533
1% increase (4.50%)	77,712,035

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

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

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (3.00%)	\$ 79,307,158
Current healthcare cost trend rate (4.00%)	83,046,533
1% increase (5.00%)	85,616,532

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **OPEB Expense and Deferred Outflows of Resources related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$6,441,919. At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$8,287,868, which will be reported as a reduction to the net OPEB liability in the subsequent fiscal year.

### **Medicare Premium Payment (MPP) Program**

#### **Plan Description**

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

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

#### **Benefits Provided**

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

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

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

#### **Net OPEB Liability and OPEB Expense**

At June 30, 2018, the District reported a liability of \$3,927,024 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.9334 percent, and 0.9014 percent, resulting in a net increase in the proportionate share of 0.0320 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(291,850).

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Actuarial Methods and Assumptions

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

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

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

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

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**Discount Rate**

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 4,347,489
Current discount rate (3.58%)	3,927,024
1% increase (4.58%)	3,518,032

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 3,548,667
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	3,927,024
1% increase (4.7% Part A and 5.1% Part B)	4,301,602

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 211,000	\$ -	\$ -	\$ 211,000
Stores inventories	48,462	-	-	48,462
Prepaid expenditures	207,966	-	-	207,966
Total Nonspendable	<u>467,428</u>	<u>-</u>	<u>-</u>	<u>467,428</u>
<b>Restricted</b>				
Legally restricted programs	44,446,339	-	1,084,956	45,531,295
Capital projects	-	70,829,013	31,116,297	101,945,310
Debt services	-	-	19,961,059	19,961,059
Total Restricted	<u>44,446,339</u>	<u>70,829,013</u>	<u>52,162,312</u>	<u>167,437,664</u>
<b>Assigned</b>				
Deferred maintenance	149,405	-	-	149,405
Textbooks	14,000,000	-	-	14,000,000
Deficit spending	20,990,075	-	-	20,990,075
Targeted schools support plan	7,600,000	-	-	7,600,000
One-time expenditures	3,585,033	-	-	3,585,033
Adult education	-	-	169,857	169,857
Future capital projects	-	-	9,892,818	9,892,818
Total Assigned	<u>46,324,513</u>	<u>-</u>	<u>10,062,675</u>	<u>56,387,188</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	13,400,000	-	-	13,400,000
Remaining unassigned	1,476,118	-	-	1,476,118
Total Unassigned	<u>14,876,118</u>	<u>-</u>	<u>-</u>	<u>14,876,118</u>
Total	<u>\$ 106,114,398</u>	<u>\$ 70,829,013</u>	<u>\$ 62,224,987</u>	<u>\$ 239,168,398</u>



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 11 - RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District participated in the Southern California Schools Risk Management (SCSRM) public risk entity pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2018, the District was self-funded for workers' compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

#### Employee Medical Benefits

The District has contracted with Kaiser and Health Net to provide employee medical and surgical benefits, and Delta Care and Met Life for dental benefits. Additional dental benefits and basic life insurance benefits are provided through the Southern California Schools Employee Benefits Association (SCSEBA) public risk entity pool.

#### Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

#### Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	\$ 17,062,244
Claims and changes in estimates	8,171,291
Claims payments	(3,492,111)
Liability Balance, June 30, 2017	21,741,424
Claims and changes in estimates	4,248,434
Claims payments	(4,248,434)
Liability Balance, June 30, 2018	\$ 21,741,424
Assets available to pay claims at June 30, 2018	\$ 59,231,752

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS**

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 476,814,851	\$ 155,432,185	\$ 21,015,325	\$ 54,204,428
CalPERS	161,091,171	62,793,494	3,868,877	23,364,184
CalPERS - Safety Risk Pool	3,751,888	2,432,682	263,046	(126,003)
Total	\$ 641,657,910	\$ 220,658,361	\$ 25,147,248	\$ 77,442,609

The details of each plan are as follows:

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

**Plan Description**

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

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### 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.

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

	STRP Defined Benefit Program	
	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	14.430%	14.430%
Required State contribution rate	9.328%	9.328%

### Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$37,799,152.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 476,814,851
State's proportionate share of the net pension liability associated with the District	282,079,638
Total	<u>\$ 758,894,489</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.5156 percent and 0.5069 percent, resulting in a net increase in the proportionate share of 0.0087 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$54,204,428. In addition, the District recognized pension expense and revenue of \$28,394,024 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 37,799,152	\$ -
Net change in proportionate share of net pension liability	27,534,206	-
Differences between projected and actual earnings on pension plan investments	-	12,698,907
Differences between expected and actual experience in the measurement of the total pension liability	1,763,308	8,316,418
Changes of assumptions	88,335,519	
Total	<u>\$ 155,432,185</u>	<u>\$ 21,015,325</u>

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (10,557,072)
2020	7,988,591
2021	1,151,907
2022	(11,282,333)
Total	<u>\$ (12,698,907)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 19,563,946
2020	19,563,946
2021	19,563,946
2022	19,563,946
2023	15,091,554
Thereafter	15,969,277
Total	<u>\$ 109,316,615</u>

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Actuarial Methods and Assumptions

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

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

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

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

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 700,115,577
Current discount rate (7.10%)	476,814,851
1% increase (8.10%)	295,591,179

### 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 the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension 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 reports 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>.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**Benefits Provided**

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

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	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	15.531%	15.531%

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

	Safety Risk Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	3% at 55	2.7% at 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	57
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	9.000%	15.250%
Required employer contribution rate	26.481%	14.856%



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions for CalPERS and CalPERS Safety Risk Pool were \$14,445,322 and \$703,070, respectively.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS and CalPERS Safety Risk Pool net pension liabilities totaling \$161,091,171 and \$3,751,888, respectively. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.6748 percent and 0.6771 percent, resulting in a net decrease in the proportionate share of 0.0023 percent for CalPERS. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0628 percent and 0.0657 percent, resulting in a net decrease in the proportionate share of 0.0029 percent for CalPERS Safety Risk Pool.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

For the year ended June 30, 2018, the District recognized pension expense of \$23,364,184 for CalPERS and \$(126,003) for CalPERS Safety Risk Pool. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		CalPERS	
		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date		\$ 14,445,322	\$ -
Net change in proportionate share of net pension liability		13,474,388	1,972,228
Differences between projected and actual earnings on pension plan investments		5,572,652	-
Differences between expected and actual experience in the measurement of the total pension liability		5,771,233	-
Changes of assumptions		23,529,899	1,896,649
	Total	<u>\$ 62,793,494</u>	<u>\$ 3,868,877</u>

		CalPERS Safety Risk Pool	
		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date		\$ 703,070	\$ -
Net change in proportionate share of net pension liability		915,390	203,133
Differences between projected and actual earnings on pension plan investments		137,944	-
Differences between expected and actual experience in the measurement of the total pension liability		43,624	11,374
Changes of assumptions		632,654	48,539
	Total	<u>\$ 2,432,682</u>	<u>\$ 263,046</u>

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (151,000)
2020	6,429,633
2021	2,345,603
2022	(3,051,584)
Total	<u>\$ 5,572,652</u>

Year Ended June 30,	CalPERS Safety Risk Pool Deferred Outflows/(Inflows) of Resources
2019	\$ (4,965)
2020	164,657
2021	58,966
2022	(80,714)
Total	<u>\$ 137,944</u>

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 13,323,198
2020	15,054,936
2021	10,528,509
Total	<u>\$ 38,906,643</u>

Year Ended June 30,	CalPERS Safety Risk Pool Deferred Outflows/(Inflows) of Resources
2019	748,284
2020	149,794
2021	430,544
Total	<u>\$ 1,328,622</u>

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Actuarial Methods and Assumptions

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

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

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

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

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

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**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:

<u>Discount Rate</u>	<u>CalPERS Net Pension Liability</u>
1% decrease (6.15%)	\$ 237,016,735
Current discount rate (7.15%)	161,091,171
1% increase (8.15%)	98,104,559

<u>Discount Rate</u>	<u>CalPERS Safety Risk Pool Net Pension Liability</u>
1% decrease (6.15%)	\$ 5,609,570
Current discount rate (7.15%)	3,751,888
1% increase (8.15%)	2,233,326

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$22,939,117 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

# **SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **Public Agency Retirement System**

The District also contributes to the Public Agency Retirement System (PARS), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by Federal law, all public sector employees who are not members of their employee's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes one percent of an employee's gross earnings. An employee is required to contribute 6.5 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$94,560, which was one percent of its current-year covered payroll. Employee contributions amounted to \$615,903.

### **NOTE 13 - COMMITMENTS AND CONTINGENCIES**

#### **Grants**

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

#### **Litigation**

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Construction Commitments

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

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Security Site Upgrades	\$ 1,792,132	08/31/18
Indian Springs High School - Performing Arts Center	1,630,969	08/31/18
Athletic Complex Upgrades-Phase II- San Gorgorio High School	708,529	08/15/18
BOE Renovation	9,056,168	04/30/19
San Andreas High School - Growing Hope - Classroom G-2	777,355	08/15/18
Richardson Prep Snack Shack HVAC Replacement	86,268	07/31/18
Hillside ES Parking Lot & Shade Shelter	235,000	09/30/18
Indian Springs HS Canopy Repairs	388,225	08/15/18
Smart Solar Projects (10 Sites)	1,246	11/30/18
	\$ 14,675,892	

### NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Southern California School's Risk Management (SCSRM), Southern California School's Employees Benefit Association (SCSEBA), and the Schools' Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to each entity for its property liability coverage, dental and life insurance coverage, and excess liability coverage, respectively. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made payments of \$2,886,068, \$467,441, and \$301,316 to SCSRM, SCSEBA, and SELF, respectively, for the coverage noted above.



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

#### **Business-Type Activities**

Net Position - Beginning	\$ 10,422,651
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(1,778,652)</u>
Net Position - Beginning as Restated	<u><u>\$ 8,643,999</u></u>

#### **Government-Wide Financial Statements**

Net Position - Beginning	\$ 481,335,247
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(54,829,446)</u>
Net Position - Beginning as Restated	<u><u>\$ 426,505,801</u></u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive</b>
				<b>(Negative)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 510,210,430	\$ 516,416,859	\$ 511,267,773	\$ (5,149,086)
Federal sources	44,503,620	64,417,079	57,321,301	(7,095,778)
Other State sources	68,092,912	100,830,622	93,273,229	(7,557,393)
Other local sources	6,071,311	11,470,152	9,794,239	(1,675,913)
<b>Total Revenues</b> <sup>1</sup>	<b>628,878,273</b>	<b>693,134,712</b>	<b>671,656,542</b>	<b>(21,478,170)</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	275,600,921	289,255,670	285,876,385	3,379,285
Classified salaries	82,565,651	89,219,068	84,698,050	4,521,018
Employee benefits	152,664,231	162,924,496	156,318,083	6,606,413
Books and supplies	38,006,755	53,287,580	34,971,824	18,315,756
Services and operating expenditures	96,352,844	113,186,497	99,088,694	14,097,803
Capital outlay	4,061,635	25,700,905	8,233,314	17,467,591
Other outgo	(1,574,004)	(1,678,392)	(1,147,999)	(530,393)
Debt service - principal	-	-	109,466	(109,466)
Debt service - interest	-	-	15,845	(15,845)
<b>Total Expenditures</b> <sup>1</sup>	<b>647,678,033</b>	<b>731,895,824</b>	<b>668,163,662</b>	<b>63,732,162</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(18,799,760)</b>	<b>(38,761,112)</b>	<b>3,492,880</b>	<b>42,253,992</b>
<b>Other Financing Uses</b>				
Transfers out	(3,508,495)	(1,501,324)	(2,121,667)	(620,343)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(22,308,255)</b>	<b>(40,262,436)</b>	<b>1,371,213</b>	<b>41,633,649</b>
<b>Fund Balance - Beginning</b>	<b>104,743,185</b>	<b>104,743,185</b>	<b>104,743,185</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 82,434,930</b>	<b>\$ 64,480,749</b>	<b>\$ 106,114,398</b>	<b>\$ 41,633,649</b>

<sup>1</sup> As Fund 14, Deferred Maintenance Fund, for reporting purposes has been consolidated into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 6,898,715
Interest	2,744,804
Benefit payments	<u>(3,195,139)</u>
<b>Net change in total OPEB liability</b>	6,448,380
<b>Total OPEB liability - beginning</b>	<u>76,666,053</u>
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 83,114,433</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 3,195,139
Net investment income	6,515
Benefit payments	(3,195,139)
Administrative expense	<u>(54)</u>
<b>Net change in plan fiduciary net position</b>	6,461
<b>Plan fiduciary net position - beginning</b>	61,439
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 67,900</u></u>
 <b>District's net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 83,046,533</u></u>
 <b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<u>0.08%</u>
 <b>Covered-employee payroll</b>	<u>\$ 366,519,389</u>
 <b>District's net OPEB liability as a percentage of covered-employee payroll</b>	<u>22.66%</u>

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

See accompanying note to required supplementary information.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

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Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.9334%</u>
District's proportionate share of the net OPEB liability	<u>\$ 3,927,024</u>
District's covered-employee payroll	<u>N/A<sup>1</sup></u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	0.5156%	0.5069%
District's proportionate share of the net pension liability	\$ 476,814,851	\$ 409,953,840
State's proportionate share of the net pension liability associated with the District	282,079,638	233,379,408
Total	<u>\$ 758,894,489</u>	<u>\$ 643,333,248</u>
District's covered - employee payroll	<u>\$ 271,078,657</u>	<u>\$ 256,558,229</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	175.90%	159.79%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
<b>CalPERS</b>		
District's proportion of the net pension liability	0.6748%	0.6771%
District's proportionate share of the net pension liability	\$ 161,091,171	\$ 133,720,804
District's covered - employee payroll	\$ 87,645,191	\$ 81,804,735
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	183.80%	163.46%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%
<b>CalPERS- SAFETY RISK POOL</b>		
District's proportion of the net pension liability	0.0628%	0.0657%
District's proportionate share of the net pension liability	\$ 3,751,888	\$ 3,402,716
District's covered - employee payroll	\$ 1,853,036	\$ 1,545,625
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	202.47%	220.15%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.5067%</u>	<u>0.4545%</u>
\$ 341,161,128	\$ 265,575,937
<u>180,436,628</u>	<u>160,366,217</u>
<u>\$ 521,597,756</u>	<u>\$ 425,942,154</u>
<u>\$ 235,204,155</u>	<u>\$ 224,057,629</u>
<u>145.05%</u>	<u>118.53%</u>
<u>74%</u>	<u>77%</u>
<u>0.6606%</u>	<u>0.7166%</u>
<u>\$ 97,352,351</u>	<u>\$ 81,354,671</u>
<u>\$ 79,747,749</u>	<u>\$ 69,703,855</u>
<u>122.08%</u>	<u>116.71%</u>
<u>79%</u>	<u>83%</u>
<u>0.0713%</u>	<u>0.0473%</u>
<u>\$ 2,937,502</u>	<u>\$ 2,941,679</u>
<u>\$ 1,192,863</u>	<u>\$ 1,158,119</u>
<u>246.26%</u>	<u>254.00%</u>
<u>78%</u>	<u>79%</u>

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

	2018	2017
<b>CalSTRS</b>		
Contractually required contribution	\$ 37,799,152	\$ 34,101,695
Contributions in relation to the contractually required contribution	37,799,152	34,101,695
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 261,948,385	\$ 271,078,657
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
<b>CalPERS</b>		
Contractually required contribution	\$ 14,445,322	\$ 12,173,917
Contributions in relation to the contractually required contribution	14,445,322	12,173,917
Contribution deficiency (excess)	\$ 28,890,644	\$ 24,347,834
District's covered - employee payroll	\$ 93,009,607	\$ 87,645,191
Contributions as a percentage of covered - employee payroll	15.53%	13.89%
<b>CalPERS - SAFETY RISK POOL</b>		
Contractually required contribution	\$ 703,070	\$ 790,628
Contributions in relation to the contractually required contribution	703,070	790,628
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 2,074,975	\$ 1,853,036
Contributions as a percentage of covered - employee payroll	33.88%	42.67%

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

See accompanying note to required supplementary information.



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<u>2016</u>	<u>2015</u>
\$ 27,528,698	\$ 20,886,129
<u>27,528,698</u>	<u>20,886,129</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 256,558,229</u>	<u>\$ 235,204,155</u>
<u>10.73%</u>	<u>8.88%</u>

\$ 9,691,407	\$ 9,386,310
<u>(9,691,407)</u>	<u>(9,386,310)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 81,804,735</u>	<u>\$ 79,747,749</u>
<u>11.85%</u>	<u>11.77%</u>

\$ 934,869	\$ 729,241
<u>934,869</u>	<u>729,241</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 1,545,625</u>	<u>\$ 1,192,863</u>
<u>60.48%</u>	<u>61.13%</u>

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

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

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

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

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

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

*Changes in Benefit Terms* – No changes noted in benefit terms.

*Changes of Assumptions* – Changes of assumptions and other inputs reflect a change in the discount rate from 4.6 percent in 2016 to 3.5 percent in 2017.

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

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

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

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

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

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

### **Schedule of District Contributions**

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

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*SUPPLEMENTARY INFORMATION*

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**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Indian Education	84.060A	[1]	\$ 42,168
Safe and Drug-Free Schools and Communities	84.184M	[1]	800,521
School Emergency Response to Violence	84.148S	[1]	69,651
Passed through California Department of Education (CDE)			
Adult Education - Basic Grants to States:			
Adult Basic Education and ELA	84.002A	14508	511,163
Adult Secondary Education	84.002	13978	300,865
Adult English Literacy and Civics Education	84.002A	14109	159,996
Subtotal Adult Education - Basic Grants to States			<u>972,024</u>
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	33,369,525
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.330	14831	26,466
Title II, Part A - Supporting Effective Instruction	84.367	14341	2,219,650
English Language Acquisition Grants:			
Title III - Immigrant Student Program	84.365	15146	42,976
Title III - English Learner Student Program	84.365	14346	1,552,871
Subtotal English Language Acquisition Grants			<u>1,595,847</u>
Title X - McKinney-Vento Homeless Assistance Grants	84.196	14332	164,827
Title IV, Part B - 21st Century Community Learning Centers	84.287	14349	2,221,900
Special Education Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	10,954,937
Preschool Grants, Part B, Sec 619	84.173	13430	161,128
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	537,342
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	566,330
Preschool Staff Development, Part B, Sec 619	84.173A	13431	1,939
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	3,666
Subtotal Special Education Cluster			<u>12,225,342</u>
Early Intervention Grants	84.181	23761	59,697
Secondary Education	84.048	14894	648,015
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.126A	10006	339,601
Vocational Rehabilitation Services Program	84.126A	[2]	31,980
Subtotal Vocational Grants			<u>371,581</u>
PROMISE Grant	84.U01	[2]	160,569
Total U.S. Department of Education			<u>54,947,783</u>

[1] Direct award funded program, no PCA number.

[2] PCA number not available

See accompanying note to supplementary information.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Care Services			
Medi-Cal Assistance Program:			
Medi-Cal Billing Option	93.778	10013	\$ 474,340
Medi-Cal Administrative Activities	93.778	10060	2,879,391
Subtotal Medi-Cal Assistance Program			<u>3,353,731</u>
Youth Risk Behavior Program	93.079	01031	3,000
Passed through CDE			
Child Care and Development Fund (CCDF) Cluster			
Child Care and Development Block Grant	93.575	15136	176,073
Child Care Mandatory and Matching Funds of Child Care and Development Fund	93.596	13609	383,051
Subtotal CCDF Cluster			<u>559,124</u>
Total U.S. Department of Health and Human Services			<u>3,915,855</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	20,969,674
Basic School Breakfast Program	10.553	13390	4,779
Especially Needy Breakfast Program	10.553	13526	4,695,923
Meal Supplements	10.556	13392	551,584
Seamless Summer Food Program	10.559	13004	123,599
Commodities	10.555	13396	2,033,234
Subtotal Child Nutrition Cluster			<u>28,378,793</u>
Child & Adult Care Food Program	10.558	13393	998,197
Total U.S. Department of Agriculture			<u>29,376,990</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Junior Reserve Office Training Corps	12.000	[1]	110,011
Total U.S. Department of Defense			<u>110,011</u>
Total Expenditure of Federal Awards			<u>\$ 88,350,639</u>

[1] Direct award funded program, no PCA number.

See accompanying note to supplementary information.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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### ORGANIZATION

The San Bernardino City Unified School District was established July 1, 1964. The District operates forty-nine elementary schools, one K-8 school, ten middle schools, a middle college, six comprehensive high schools, one alternative education school, two continuation high schools, two community day schools, an adult education school, and two special education schools. There were no boundary changes during the year.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Abigail Medina	President	2022
Gwendolyn Rodgers	Vice President	2020
Dr. Barbara Flores	Member	2022
Michael J. Gallo	Member	2020
Dr. Margaret Hill	Member	2020
Danny Tillman	Member	2022
Scott Wyatt, Ed.D	Member	2020

### ADMINISTRATION

Dale Marsden, Ed.D	Superintendent
Harold Vollkommer, Ed.D	Deputy Superintendent
Jayne Christakos	Chief Business Officer
Perry Wiseman, Ed.D	Assistant Superintendent, Human Resources
Kennon Mitchell, Ph.D	Assistant Superintendent, Educational Services
Rachel Monárrez, Ph.D	Assistant Superintendent, Continuous Improvement
Lorraine Perez, Ed.D.	Assistant Superintendent, Student Services

See accompanying note to supplementary information.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

	Final Report	
	Second Period Report 4C4F53E5	Annual Report 74A68EDB
Regular ADA		
Transitional kindergarten through third	15,572.45	15,592.48
Fourth through sixth	11,727.76	11,724.53
Seventh and eighth	6,862.43	6,852.35
Ninth through twelfth	12,435.72	12,243.75
Total Regular ADA	<u>46,598.36</u>	<u>46,413.11</u>
Extended Year Special Education		
Transitional kindergarten through third	-	14.85
Fourth through sixth	-	9.05
Seventh and eighth	-	3.89
Ninth through twelfth	-	11.77
Total Extended Year Special Education	<u>-</u>	<u>39.56</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	5.84	6.56
Fourth through sixth	9.74	9.86
Seventh and eighth	21.36	21.36
Ninth through twelfth	52.30	50.11
Total Special Education, Nonpublic, Nonsectarian Schools	<u>89.24</u>	<u>87.89</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.17	0.65
Fourth through sixth	0.43	0.76
Seventh and eighth	0.39	1.29
Ninth through twelfth	1.77	3.13
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>2.76</u>	<u>5.83</u>
Community Day School		
Transitional kindergarten through third	2.60	2.87
Fourth through sixth	11.13	10.73
Seventh and eighth	2.23	2.24
Total Community Day School	<u>15.96</u>	<u>15.84</u>
Total ADA	<u><u>46,706.32</u></u>	<u><u>46,562.23</u></u>

See accompanying note to supplementary information.



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		54,800	180	-	Complied
Grade 2		54,800	180	-	Complied
Grade 3		54,800	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,800	180	-	Complied
Grade 5		54,800	180	-	Complied
Grade 6		54,800	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		61,446	180	-	Complied
Grade 8		61,446	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		65,736	180	-	Complied
Grade 10		65,736	180	-	Complied
Grade 11		65,736	180	-	Complied
Grade 12		65,736	180	-	Complied

See accompanying note to supplementary information.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

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

See accompanying note to supplementary information.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

	(Budget) 2019 <sup>1</sup>	2018	2017	2016
<b>GENERAL FUND<sup>3</sup></b>				
Revenues	\$ 681,975,109	\$ 669,637,335	\$ 648,250,038	\$ 624,891,878
Other sources and transfers in	-	-	-	59,977
Total Revenues and Other Sources	681,975,109	669,637,335	648,250,038	624,951,855
Expenditures	(718,644,852)	(666,280,162)	(625,454,066)	(593,626,278)
Other uses and transfers out	(885,663)	(2,121,667)	(1,155,932)	(1,896,851)
Total Expenditures and Other Uses	(719,530,515)	(668,401,829)	(626,609,998)	(595,523,129)
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	\$ (37,555,406)	\$ 1,235,506	\$ 21,640,040	\$ 29,428,726
<b>ENDING FUND BALANCE</b>	\$ 68,409,587	\$ 105,964,993	\$ 104,729,487	\$ 83,089,447
<b>AVAILABLE RESERVES <sup>2</sup></b>	\$ 15,503,143	\$ 14,876,118	\$ 30,492,220	\$ 32,020,305
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	2.2%	2.2%	4.9%	5.4%
<b>LONG-TERM OBLIGATIONS <sup>4</sup></b>	N/A	\$ 462,878,191	\$ 411,658,775	\$ 355,507,537
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	46,609	46,706	46,889	47,372

The General Fund balance has increased by \$22,875,546 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$37,555,406 (35.4 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$107,370,654 over the past two years.

Average daily attendance has decreased by 666 over the past two years. An additional decline of 97 ADA is anticipated during fiscal year 2018-2019.

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

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

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of the Fund 14, Deferred Maintenance Fund, as required by GASB Statement No. 54.

<sup>4</sup> Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2018

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Name of Charter School	Included in Audit Report
PAL Academy (Charter No. 0335)	No
ASA Charter (Charter No. 0677)	No
Public Safety Academy (Charter No. 0731)	No
SOAR Charter Academy (Charter No. 0982)	No
Options for Youth (Charter No. 1132)	No
New Vision Middle (Charter No. 1089)	No
Hardy Brown College Prep (Charter No. 1155)	No
Excel Prep Charter (Charter No. 1153)	No
Taft T. Newman Leadership Academy (Charter No. 1437)	No
Woodward Leadership Academy (Charter No. 1438)	No
Ballington Academy for the Arts and Science - San Bernardino (Charter No. 1795)	No

See accompanying note to supplementary information.

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**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Capital Facilities Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 773,388	\$ 137,379	\$ 5,871,864
Receivables	1,717,030	72,522	42,411
Due from other funds	27,639	2,121,667	-
<b>Total Assets</b>	<b>\$ 2,518,057</b>	<b>\$ 2,331,568</b>	<b>\$ 5,914,275</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 682,448	\$ 869,460	\$ 2,376,636
Due to other funds	851,234	854,880	8,160
Unearned revenue	146,777	190,013	-
<b>Total Liabilities</b>	<b>1,680,459</b>	<b>1,914,353</b>	<b>2,384,796</b>
<b>Fund Balances:</b>			
Restricted	667,741	417,215	3,529,479
Assigned	169,857	-	-
<b>Total Fund Balances</b>	<b>837,598</b>	<b>417,215</b>	<b>3,529,479</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,518,057</b>	<b>\$ 2,331,568</b>	<b>\$ 5,914,275</b>

See accompanying note to supplementary information.

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<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 27,479,305	\$ 10,090,637	\$ 19,961,059	\$ 64,313,632
107,513	29,659	-	1,969,135
-	-	-	2,149,306
<u>\$ 27,586,818</u>	<u>\$ 10,120,296</u>	<u>\$ 19,961,059</u>	<u>\$ 68,432,073</u>
\$ -	\$ 227,478	\$ -	\$ 4,156,022
-	-	-	1,714,274
-	-	-	336,790
<u>-</u>	<u>227,478</u>	<u>-</u>	<u>6,207,086</u>
27,586,818	-	19,961,059	52,162,312
-	9,892,818	-	10,062,675
<u>27,586,818</u>	<u>9,892,818</u>	<u>19,961,059</u>	<u>62,224,987</u>
<u>\$ 27,586,818</u>	<u>\$ 10,120,296</u>	<u>\$ 19,961,059</u>	<u>\$ 68,432,073</u>

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Capital Facilities Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 972,024	\$ 559,124	\$ -
Other State sources	7,387,190	9,769,515	-
Other local sources	463,362	228,442	593,192
<b>Total Revenues</b>	<b>8,822,576</b>	<b>10,557,081</b>	<b>593,192</b>
<b>EXPENDITURES</b>			
Current		-	
Instruction	5,113,570		-
Instruction-related activities:			
Supervision of instruction	96,676	428,148	-
School site administration	2,381,544	229,850	-
Pupil services:			
All other pupil services	331,428	36,620	-
Administration:			
All other administration	276,712	456,305	-
Plant services	701,864	290,779	-
Community services	-	10,826,981	-
Other outgo	-	-	-
Facility acquisition and construction	1,480	11,784	7,611,034
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>8,903,274</b>	<b>12,280,467</b>	<b>7,611,034</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(80,698)</b>	<b>(1,723,386)</b>	<b>(7,017,842)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	2,121,667	-
Other sources - premium on issuance of general obligation bonds	-	-	-
Transfers out	-	-	(4,900,005)
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>2,121,667</b>	<b>(4,900,005)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(80,698)</b>	<b>398,281</b>	<b>(11,917,847)</b>
<b>Fund Balances - Beginning</b>	<b>918,296</b>	<b>18,934</b>	<b>15,447,326</b>
<b>Fund Balances - Ending</b>	<b>\$ 837,598</b>	<b>\$ 417,215</b>	<b>\$ 3,529,479</b>

See accompanying note to supplementary information.



<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Capital Projects Fund for Blended Component Units</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ 1,531,148
-	-	-	162,197	17,318,902
346,358	93,856	-	16,369,473	18,094,683
346,358	93,856	-	16,531,670	36,944,733
-	-	-	-	5,113,570
-	-	-	-	524,824
-	-	-	-	2,611,394
-	-	-	-	368,048
-	-	-	-	733,017
-	-	-	-	992,643
-	-	-	-	10,826,981
-	-	64	-	64
-	1,493,022	-	-	9,117,320
-	-	-	7,655,000	7,655,000
-	-	-	8,368,979	8,368,979
-	1,493,022	64	16,023,979	46,311,840
346,358	(1,399,166)	(64)	507,691	(9,367,107)
110,780	8,064,297	-	-	10,296,744
-	-	-	2,493,624	2,493,624
(3,164,297)	(110,780)	-	-	(8,175,082)
(3,053,517)	7,953,517	-	2,493,624	4,615,286
(2,707,159)	6,554,351	(64)	3,001,315	(4,751,821)
30,293,977	3,338,467	64	16,959,744	66,976,808
\$ 27,586,818	\$ 9,892,818	\$ -	\$ 19,961,059	\$ 62,224,987

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

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**NOTE 1 - PURPOSE OF SCHEDULES**

**Schedule of Expenditures of Federal Awards**

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and in Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, the District received Qualified School Construction Bonds - Interest Subsidy funds which are not required to be reported on the Schedule of Expenditures of Federal Awards.

Description	Federal CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Revenues, Expenses and Changes in Net Position:		\$ 90,842,540
Medi-Cal Billing Option	93.778	121,200
Qualified School Construction Bonds - Interest Subsidy	[1]	(2,613,101)
Total Schedule of Expenditures of Federal Awards		\$ 88,350,639

[1] CFDA number not available

**Local Education Agency Organization Structure**

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

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

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

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### **Schedule of Instructional Time**

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

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

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

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

### **Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School and whether or not the Charter School is included in the District audit.

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

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
San Bernardino City Unified School District  
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise San Bernardino City Unified School District's basic financial statements, and have issued our report thereon dated December 17, 2018.

***Emphasis of Matter - Change in Accounting Principles***

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

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered San Bernardino City Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Bernardino City Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of San Bernardino City Unified School District's internal control.

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

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of San Bernardino City Unified School District in a separate letter dated December 17, 2018.

### **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.

*Varvink, Inc., Day & Co., LLP*

Rancho Cucamonga, California  
December 17, 2018



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

Governing Board  
San Bernardino City Unified School District  
San Bernardino, California

**Report on Compliance for Each Major Federal Program**

We have audited San Bernardino City Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of San Bernardino City Unified School District's major Federal programs for the year ended June 30, 2018. San Bernardino City Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of 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 San Bernardino City Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of San Bernardino City Unified School District's compliance.

### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

Management of San Bernardino City Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Bernardino City Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Bernardino City Unified School District's internal control over compliance.

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

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

*Vavink, Inc., Day & Co., LLP*

Rancho Cucamonga, California  
December 17, 2018





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

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
San Bernardino City Unified School District  
San Bernardino, California

### **Report on State Compliance**

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

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the San Bernardino City Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of San Bernardino City Unified School District's compliance with those requirements.

***Unmodified Opinion***

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

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

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

	<u>Procedures Performed</u>
<b>CHARTER SCHOOLS</b>	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing for Independent Study because the ADA reported for the program was below the materiality threshold required for testing.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

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

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

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a Course-Based Independent Study Program; therefore, we did not perform procedures related to Independent Study - Course Based.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

*Vavink, Jain, Day & Co., LLP*

Rancho Cucamonga, California  
December 17, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

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

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster
<u>93.778</u>	<u>Medi-Cal Assistance Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,650,519</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.



# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### *Financial Statements Findings*

**2017-001      30000**

#### **Criteria or Specific Requirements**

Under the accrual basis of accounting, amounts due to private persons, businesses, or other vendors for services rendered and goods received on or before the close of the fiscal year should be accrued to ensure expenditures are recorded in the year they are incurred. Amounts accrued should be based on actual goods provided or services rendered as of year-end to the extent such information is available from vendors. It may be necessary to estimate the amount due. In such instances, estimates should be based on information available to reasonably estimate, such as estimates provided by a vendor when an invoice is not yet available.

#### **Condition**

The District accrued liabilities in excess of amounts owed. Such amounts were associated with invoices related to utility services, phone bills, and capital outlay activities in multiple funds amounting to \$5,922,386.

#### **Questioned costs**

There were no questioned costs associated with the condition identified. However, audit adjustments were required as a result of the over-accrued liabilities.

#### **Context**

The condition was identified through our substantive procedures performed over the District's accounts payable balances and through examination of supporting documents.

#### **Effect**

Due to the condition identified, the District's accounts payable and the associated expenditures were overstated by \$5,922,386 in total, expanding through multiple funds.

#### **Cause**

The cause of the condition identified appears to have originated as a result of the combination of over-estimating amounts due without an invoice present and not properly closing open purchase orders, which resulted in automatically accruing the full amount.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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### **Recommendation**

The District should implement a process to ensure all invoices that require estimation are estimated accurately by reviewing invoices for the same month in the prior year or by contacting the vendor. The District should also review all of its open purchase orders and close them, if no expenses have been incurred before year-end to prevent them from being automatically accrued.

### **Current Status**

Partially implemented. See management letter comment.

### *State Awards Findings*

**2017-002      40000**

#### *After School Education and Safety Program*

### **Criteria or Specific Requirements**

According to the California *Education Code* Section 8483a(2), it is the intent of the Legislature that elementary and middle school or junior high school pupils participate in the full day of the program every day during which pupils participate, except as allowed by the early release policy.

### **Condition**

While verifying the total students served for the month of November 2016, the auditor noted instances where students were signed out early in the after school program or arrived late in the before school program without documenting the reason for early release or late arrival. Since the reason for early release or late arrival is not documented, it cannot be determined if the early release or late arrival is consistent with the early release/late arrival policy.

### **Questioned Costs**

Under the provisions of the program, there are no questioned costs associated with this condition.

### **Context**

The condition identified resulted from our review of Del Rosa Elementary, Norton Elementary, Rio Vista Elementary, Vermont Elementary, Del Vallejo Middle, and Newark Sunrise attendance records, and monthly attendance summary totals for the month of November 2016. The auditor selected five out of fifty-eight after school programs and one out of 16 before school programs for the first semi-annual reporting period dated July to December 2016. The auditor reviewed sign in/sign out records for the month of November 2016, and noted instances where students signed in late or signed out early without documenting the reason for early release.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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### Effect

As a result of our testing, the District was not compliant with *Education Code* Section 8483a(2) for the 2016-2017 fiscal year since the students were signing in late or signing out early without a reason. As such, it could not be determined if the students arriving late or leaving early were in compliance with the early release/late arrival policy.

### Cause

The cause of the condition appears to be a result of parents failing to record an early release/late arrival code in the system when checking their child in/out of the program.

### Recommendation

We recommend the District continue to enforce its early release/late arrival policy by communicating with parents the importance of documenting the reason for early release or late arrival.

### Current Status

Implemented

2017-003 40000

### *Unduplicated Local Control Funding Formula Pupil Counts*

#### Criteria or Specific Requirements

California *Education Code* Section 42238.02(b)(4) states school districts should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System (CALPADS).

#### Condition

The Unduplicated Local Control Funding Formula (LCFF) Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported 36 students as having designation of free or reduced and 4 students as having designation of English learner on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

#### Questioned Costs

The District over claimed the total eligible pupils by 36, resulting in a decrease of approximately \$29,246 in Local Control Funding Formula (LCFF) funding.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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### Context

The condition was identified as a result of selecting a sample of students from the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report in accordance to the 2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Section 19489(a)(1).

The initial sample of FRPM Only students was selected from eleven school sites, which resulted in exceptions noted for two of these sites. For 40 students selected, three had their status changed to Paid after the Verification process was performed by the Nutrition Services Department. The auditor requested that the District identify all remaining students who had their status changed to Paid due to the verification process. The District's review of all remaining students resulted in a total of 32 students identified that were incorrectly designated as having free or reduced status on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

The initial sample of EL only students were selected from ten school sites, which resulted in exceptions noted for one of the sites. For 17 students selected, one had been exited out of EL designation before the census date. The auditor requested that the District review all of its EL students and determine how many more students had been exited out of EL designation before census date but their status wasn't changed in CALPADS. The District's review resulted in a total of 4 students who were incorrectly designated as EL on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

### Effect

As a result of our testing, it appears that the District did not properly update the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report to align the reporting with the accurate EL status and most current free and reduced eligibility information from the District's Nutrition Services Department. The following schedule identifies the exceptions District-wide.

<b>Enrollment Count</b>	<b>Certified Total Unduplicated Count</b>	<b>Adjustment for FRPM</b>	<b>Adjustment for EL</b>	<b>Adjusted Total Unduplicated Count</b>
49,840	44,466	(32)	(4)	44,430

### Cause

The primary cause for inaccurate reporting of FRPM students appears to be early upload of Verification data into CalPADS. The Nutrition Department finished the verification in mid-November but the upload of changes in statuses due to verification was completed at the end of October.

The primary cause of inaccurate reporting of EL students appears to be two different statuses in CalPADS. The District needs to delete the old status in CalPADS for the new and accurate status to be able to take its place.

# SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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### **Recommendation**

The District should emphasize the importance of completing Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CALPADS calendar dates to ensure that appropriate and necessary measures are taking place to ensure that CALPADS information is being updated.

### **Current Status**

Implemented



Governing Board  
San Bernardino City Unified School District  
San Bernardino, California

In planning and performing our audit of the financial statements of San Bernardino City Unified School District (the District) for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 17, 2018, on the government-wide financial statements of the District.

### ***ACCRUED LIABILITIES***

#### Observation

The District over accrued the liability for utilities by accruing the outstanding purchase order amount instead of basing the year-end accrual on the actual invoice amount due.

#### Recommendation

We recommend the District review its procedures related year-end accruals of liabilities to add an extra layer of review to ensure only actual invoice amounts or estimated invoice amounts per vendors are accrued as liabilities and not the outstanding amount of purchase orders.

### ***ASSOCIATED STUDENT BODY (ASB)***

#### **Marshall Elementary School**

#### Observation

One out of the three disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

#### Recommendation

In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel. This would allow the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

### **Ramona-Alessandro Elementary School**

#### Observations

1. Four of five disbursements tested did not have an expenditure request form. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
2. Two of five transactions reviewed did not have receiving documentation or acknowledgement of appropriate items received. As a result, vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
3. The site was not utilizing fundraising activity request forms and revenue potential forms.

#### Recommendations

1. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel. This would allow the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
2. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
3. Revenue potentials should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

### **Barton Elementary School**

#### Observations

1. One of the deposits tested did not have any supporting documents and the actual amount deposited did not agree to the deposit ticket.
2. Out of the five disbursements tested, three did not have explicit receiving documentation for the goods purchased.
3. From the fundraising event tested it contained a revenue potential form that was not complete.
4. Per review of the prepared bank reconciliation, it was noted that the reconciled book balance did not agree to the actual book balance.

### Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. In addition, amounts deposited should be verified by tracing supporting receipts or deposit ticket to the bank statement to ensure the amount deposited made it to the bank intact.
2. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
3. All revenue potentials must be completely filled out at the end of each fundraiser. The revenue potentials form is important because it shows whether or not all the monies that should have been raised and turned in actually were based on the price of the item and number sold. The form is also used to document overages and shortages or losses of merchandise. An explanation of any overages/shortages must be documented on the form. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.
4. The site should ensure that the bank reconciliation is prepared timely and by an appropriate personnel and a review should be performed by a person independent of the preparer to ensure it is prepared accurately and any variances can be further investigated so all the activity through bank statement is accounted for.

### **Hunt Elementary School**

#### Observations

1. Cash deposits forwarded from teachers or advisors to the associated student body bookkeeper are not always accompanied by a cash count sheet documenting the deposit total as counted by the teacher or advisor.
2. It appears that the site does not provide adequate controls over cash receipts. Pre-numbered receipts are not used to account for cash collections and therefore, there is no reconciliation between issued receipts and bank deposits.
3. Based on the review of the cash receipting procedures, it was noted that four of eighteen deposits tested were not deposited in a timely manner. Delay in deposit was approximately 41 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
4. ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, one of two disbursements were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
5. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.



### Recommendations

1. The cash count sheet serves the same purpose as a bank deposit slip, it provides for a reconciliation process since the deposit is usually not verified with both parties present. A difference between the bookkeepers count and the teacher's or advisor's count would warrant a recount with both parties present. This procedure decreases the number of disputes arising from deposits processed incorrectly.
2. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and Administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
3. The ASB should adhere to the District's depositing policy which dictates that the ASB should, at a minimum make their deposits once a week or when funds on hand exceed \$100.00 to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit.
4. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
5. All revenue potentials must be completely filled out before and at the end of each fundraiser. The revenue potential form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales and an explanation of the difference. The form also requires an explanation of any overages/shortages between sales received to monies deposited. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

### **Cypress Elementary School**

#### Observations

1. Based on the review of the cash receipting procedures, it was noted that two of ten deposits tested were not deposited in a timely manner. The delay in the deposit ranged from approximately 14 to 15 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Three of 3 disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

Recommendations

1. The ASB should adhere to the District’s depositing policy which dictates that the ASB should, at a minimum make their deposits once a week or when funds on hand exceed \$100.00 to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel. This would allow the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

**Cesar Chavez Middle School**

Observation

Three of five revenue potential forms were incomplete. One of the three revenue potential forms did not have the actuals column filled out. Two of three revenue potential forms tested did not provide an explanation for the difference between the estimated and the actual.

Recommendation

Revenue potential forms should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

**Del Vallejo Middle School**

Observations

1. Based on the review of the cash receipting procedures, it was noted that one of seven deposits tested were not deposited in a timely manner. The delay in the deposit was approximately 14 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. One of the revenue potential forms wasn’t approved by the school’s administrator and it didn’t include an explanation for variances between expected versus actual amounts.
3. The school was not able to provide its account analysis report for the fiscal year 2018 due to glitches with their ASB accounting system, which will not be fixed in a timely manner for us to be able to review the report.

Recommendations

1. The ASB should adhere to the District's depositing policy which dictates that the ASB should, at a minimum make their deposits once a week or when funds on hand exceed \$200.00 to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit. It is also recommended that the bookkeeper remind the club advisors of the importance of submitting money upon receiving the same day.
2. The revenue potential forms should be approved by an appropriate personnel and is prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.
3. We recommend the site prepare this report as soon as the school year is over to ensure timely review during audit process.

**Golden Valley Middle School**

Observations

1. Cash deposits forwarded from teachers or advisors to the associated student body bookkeeper are not always accompanied by a cash count sheet documenting the deposit total as counted by the teacher or advisor.
2. One of the two revenue potential forms tested did not have adequate supporting documentation to substantiate the actual revenue amount indicated on the form.

Recommendations

1. The cash count sheet serves the same purpose as a bank deposit slip, it provides for a reconciliation process since the deposit is usually not verified with both parties present. A difference between the bookkeepers count and the teacher's or advisor's count would warrant a recount with both parties present. This procedure decreases the number of disputes arising from deposits processed incorrectly.
2. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. This will an audit trail so the amount recorded as revenue can be traced to the supporting documentation.

**Serrano Middle School**

Observations

1. ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, one of 4 vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.

Governing Board  
San Bernardino City Unified School District

2. Based on the review of the cash receipting procedures, it was noted that 1 of 11 deposits tested were not deposited in a timely manner. Delay in deposit ranged from approximately 13 to 15 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. The school was not able to provide its account analysis report for the fiscal year 2018 due to glitches with their ASB accounting system, which will not be fixed in a timely manner for us to be able to review the report.

Recommendations

1. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
2. The ASB should adhere to the District's depositing policy which dictates that the ASB should, at a minimum make their deposits once a week or when funds on hand exceed \$200.00 to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit. It is also recommended that the bookkeeper remind the club advisors of the importance of submitting money upon receiving the same day.
3. We recommend the site prepare this report as soon as the school year is over to ensure timely review during audit process.

**Curtis Middle School**

Observations

1. Based on the review of the cash receipting procedures, it was noted that two of seventeen receipts tested were not deposited in a timely manner. Delay in deposit ranged from approximately 13 to 16 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Two of two disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
3. Both revenue potential forms tested did not include actual profit and did not include explanation for variances between actual and expected amounts.

Recommendations

1. The ASB should adhere to the District's depositing policy which dictates that the ASB should, at a minimum make their deposits once a week or when funds on hand exceed \$200.00 to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit. It is also recommended that the bookkeeper remind the club advisors of the importance of submitting money upon receiving the same day.

2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. Revenue potential forms should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

### **Arroyo Valley High School**

#### Observation

During review of cash collections process, we noted that advisors deposit count sheets did contain explicit documentation that a count was performed by two individuals although two individuals were present during reconciliation process.

#### Recommendation

The cash count sheet provides for a reconciliation process of the monies collected. A difference between the bookkeepers count and the teacher's or advisor's count would warrant a recount with both parties present. A signature will help to decrease the number of disputes arising from deposits processed incorrectly or the amount that was actually deposited.

### **San Bernardino High School**

#### Observations

1. Based on the review of the cash receipting procedures, it was noted that six of 42 receipts tested were not deposited in a timely manner. Delay in deposit ranged from approximately 13 to 42 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Three of nine disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
3. ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, six of nine vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
4. Two of nine disbursements tested did not have a purchase request form.
5. One of the two revenue potential forms tested did not have adequate supporting documentation to substantiate the actual revenue and disbursement amounts. Both revenue potential forms tested did not include actual profit and did not include explanation for variances between actual and expected amounts.

6. During review of ticket sales procedures, we noted that the sales report form was incomplete. Number of tickets sold was not documented on the form and no reconciliation was performed between tickets sold and revenues collected. Both ticketed events tested did not have adequate supporting documentation to substantiate the actual revenue collected.

### Recommendations

1. The ASB should adhere to the District's depositing policy which dictates that the ASB should, at a minimum make their deposits once a week or when funds on hand exceed \$300.00 to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit. It is also recommended that the bookkeeper remind the club advisors of the importance of submitting money upon receiving the same day.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by the student council. This would allow the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
4. ASB should ensure all requested purchases utilize proper documents during the purchase requisition and approval process. This will ensure all the appropriate approvals are in place for each disbursements and can be traced to those documents.
5. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. This will ensure presence of an audit trail so the amount recorded as revenue can be traced to the supporting documentation. Appropriate invoices and purchase request forms should be used and kept on a file related to fundraisers so actual disbursement can be traced to the supporting documents and also provides an audit trail. Revenue potential forms should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.
6. Site should review current forms and determine whether they are adequate in determining that all necessary information is present in order to perform reconciliation. The form should document first ticket number and last ticket number and multiply the number of tickets sold to the ticket price and compare the amount to the actual cash collected. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. This will an audit trail so the amount recorded as revenue can be traced to the supporting documentation. Appropriate invoices and purchase request forms should be used and kept on a file related to fundraisers so actual disbursement can be traced to the supporting documents and also provides an audit trail.

## **Indian Springs High School**

### Observations

1. No proper documentation was maintained to document the reconciliation between tickets sold and cash collected for both ticketed events tested.
2. All five tested revenue potential forms were incomplete. The forms did not indicate actual revenues collected or cash disbursed for any of the fundraisers.
3. ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, two of 18 vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
4. One of the 18 disbursements tested was not approved prior to the transaction taking place. Another disbursement did not include a purchase order.

### Recommendations

1. A ticket sales form should be prepared for every event where tickets are used as the main medium of verifying the cash collections. The form should clearly identify the different tickets used and the value of each ticket type. The cash collected should be reconciled to the tickets sold and any significant variances explained.
2. Revenue potential forms should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.
3. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved the student council. This would allow the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

**San Andreas Continuation High School**

Observations

1. Based on the review of the cash receipts it was noted that each of the five deposits tested contained receipts that were not deposited in a timely manner. Delay in deposit was ranged from 11 to 23 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. The selected disbursement was not approved prior to transactions taking place.
3. The ASB bank reconciliation contains an outstanding duplicate check entry that has been voided. As the voided outstanding item does not represent an actual check, it should be removed from the ASB bank reconciliations.
4. The school was not able to provide its account analysis report for the fiscal year 2018 due to glitches with their ASB accounting system, which will not be fixed in a timely manner for us to be able to review the report.

Recommendations

1. The ASB should adhere to the District's depositing policy which dictates that the ASB should, at a minimum make their deposits once a week or when funds on hand exceed \$300.00 to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit. It is also recommended that the bookkeeper remind the club advisors of the importance of submitting money upon receiving the same day.
2. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be preapproved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. To accurately determine the ASB reconciled cash balance, the erroneous outstanding item should be cleared from future reconciliations.
4. We recommend the site prepare this report as soon as the school year is over to ensure timely review during audit process.

We will review the status of the current year comments during our next audit engagement.

*Vavink, Jain, Day & Co., LLP*

Rancho Cucamonga, California  
December 17, 2018



## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the San Bernardino City Unified School District (the “District”) in connection with the execution and delivery of its \$ \_\_\_\_\_ Certificates of Participation (2019 School Financing Project) (the “Certificates”). The Certificates are being executed pursuant to a Trust Agreement, dated as of June 1, 2019, by and among the District, U.S. Bank National Association, as trustee (the “Trustee”) and the San Bernardino Schools Financing Corporation (the “Corporation”). The District covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

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

“Disclosure Representative” shall mean the Superintendent of the District, the Chief Business Official of the District, or their designee, or such other officer or employee as the District shall designate in writing from time to time.

“Dissemination Agent” shall mean initially the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Financial Obligation” shall mean (a) a debt obligation, (b) derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation, or (c) a 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 Municipal Rulemaking Board consistent with the Rule.

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

“Official Statement” shall mean the Official Statement relating to the Certificates, dated \_\_\_\_\_.

“Participating Underwriter” shall mean Piper Jaffray & Co., the original underwriters of the Certificates, required to comply with the Rule in connection with offering of the Certificates.

“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, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than nine (9) months after the end of the District’s fiscal year (presently ending June 30), commencing with the report for the fiscal year ending June 30, 2019, 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(c).

(b) Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report 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.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the Repository.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

(a) The District’s audited financial statements, prepared in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) 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):

- (i) State funding received by the District for the last completed fiscal year;
- (ii) Average Daily Attendance of the District for the last completed fiscal year; and

(iii) summary financial information on revenues, expenditures and fund balances for the District's general fund for last completed fiscal year and summary financial information on any adopted budget 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.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates 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; and
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.

For the purposes of the event identified in 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, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

1. non-payment related defaults.
2. modifications to rights of Bondholders.
3. optional, contingent or unscheduled bond calls.
4. unless described under Section 5(a)(5) above, adverse tax opinions, material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates.
5. release, substitution or sale of property securing repayment of the Certificates.
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 with respect to the Certificates or the change of name of such a Trustee.
8. incurrence of a Financial Obligation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect Bondholders.

(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 prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. 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. The Dissemination Agent may resign by providing thirty days written notice to the District and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District and shall have no duty to review any information provided to it by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

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, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. 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(c), and (ii) the Annual Report for the year in which the change is made shall 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 Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

No Certificate holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their

status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, 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 negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Certificate holders, or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the District as constituting the Annual Report required of the District in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing with the Repository. No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

SECTION 12. Beneficiaries. This Disclosure Certificate solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 13. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the District to the undertaking herein provided.

Dated: \_\_\_\_\_, 2019

SAN BERNARDINO CITY UNIFIED SCHOOL  
DISTRICT

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

**EXHIBIT A**

**NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

Name of District: San Bernardino City Unified School District  
Name of Certificate Issue: \$ \_\_\_\_\_ San Bernardino City Unified School District  
Certificates of Participation (2019 School Financing Project)  
Date of Delivery: \_\_\_\_\_, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate executed by the District on the date of delivery of the Certificates. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

SAN BERNARDINO CITY UNIFIED SCHOOL  
DISTRICT

By: [form only; no signature required] \_\_\_\_\_

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## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information under this caption concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "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 Certificates. The Certificates 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 Certificate will be issued for each of maturity of the Certificates, each in the aggregate principal amount of such Certificate, 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](http://www.dtcc.com). However, the information presented on such website is not incorporated herein by any reference to such website.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books

of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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

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

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

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

Redemption proceeds or distributions on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or 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 Certificates 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, physical 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, 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.

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## APPENDIX F

### GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF SAN BERNARDINO, SAN BERNARDINO COUNTY AND RIVERSIDE COUNTY

*The following information regarding the City of San Bernardino (the “City”), San Bernardino County (the “County”) and Riverside County (collectively, the “Counties”) is included only for the purpose of supplying general information regarding the local community and economy. The Bonds are not a debt of the Counties. This material has been prepared by or excerpted from the sources as noted herein and has not been reviewed for accuracy by the District or Bond Counsel.*

#### **General**

***The City of San Bernardino.*** The City is located in San Bernardino County and serves as the County seat. The City lies on the floor of the San Bernardino Valley, south of the San Bernardino Mountains and has an area of 81 square miles. It is the 17th largest city in the State of California (the “State”) and the largest city in the County. The City lies 60 miles east of Los Angeles and 120 miles northeast of San Diego. The City was incorporated in 1854. The City government operates under a hybrid mayor-council-city manager form. The mayor is elected by the voters at large, as are the seven members of the city council, each elected within their respected wards. The mayor and council members serve four-year terms.

***San Bernardino County.*** The County is located in the southern portion of the State. The County is bordered by the State of Nevada to the east, Riverside County to the south, Inyo County to the north and Kern, Los Angeles and Orange Counties to the west. It is the fifth most populous county in the State and the twelfth most populous in the United States. The County has an area of 20,160 square miles, with more than three-quarters of the area vacant and covered by desert, forest and mountain ranges. The County is governed by a five-member Board of Supervisors, each elected from their districts. The County was established on May 23, 1853. The County seat is San Bernardino.

***Riverside County.*** Riverside County is the fourth largest county in the State of California (the “State”), encompassing approximately 7,243 square miles. It is located in the southern portion of the State and is bordered by San Bernardino County on the north, Los Angeles and Orange Counties on the west, the State of Arizona and the Colorado River on the east, and San Diego and Imperial Counties on the south. The County has experienced a long period of growth and development. It is currently the eleventh most populous county in the United States, and fourth largest in the State. The County, incorporated in 1893, is a general law county with its seat located in the city of Riverside.

## Population

The following table below shows historical population figures for the City, the Counties and the State from 2010 through 2019.

**POPULATION ESTIMATES  
2010 through 2019  
City of San Bernardino, San Bernardino County, Riverside County and State of California**

<u>Year</u> <sup>(1)</sup>	<u>City of San Bernardino</u>	<u>San Bernardino County</u>	<u>Riverside County</u>	<u>State of California</u>
2010 <sup>(2)</sup>	209,924	2,035,210	2,189,641	37,253,956
2011	211,260	2,058,416	2,217,946	37,594,781
2012	212,924	2,076,145	2,246,951	37,971,427
2013	214,334	2,090,945	2,272,031	38,321,459
2014	214,091	2,104,088	2,295,798	38,662,301
2015	215,292	2,123,562	2,321,837	38,592,462
2016	216,834	2,136,242	2,350,992	39,214,803
2017	218,514	2,156,115	2,384,660	39,504,609
2018	218,992	2,171,517	2,412,536	39,740,508
2019	219,233	2,192,203	2,440,124	39,927,315

<sup>(1)</sup> As of January 1.

<sup>(2)</sup> As of April 1.

Source: 2010: U.S. Department of Commerce, Bureau of the Census, for April 1, 2011-18 (2010 Census Benchmark): California Department of Finance for January 1.

## Income

The following table shows per capita personal income for the Counties, the State and the United States from 2008 through 2017.

**PER CAPITA PERSONAL INCOME<sup>(1)</sup>  
2008 through 2017  
San Bernardino County, Riverside County, State of California and the United States**

<u>Year</u>	<u>San Bernardino County</u>	<u>Riverside County</u>	<u>State of California</u>	<u>United States</u>
2008	\$30,150	\$31,627	\$43,895	\$40,904
2009	29,122	30,451	42,050	39,284
2010	29,557	30,685	43,609	40,545
2011	31,051	32,179	46,145	42,727
2012	31,703	32,707	48,751	44,582
2013	32,404	33,383	49,173	44,826
2014	34,218	34,732	52,237	47,025
2015	36,245	36,603	55,679	48,940
2016	37,514	37,827	57,497	49,831
2017	38,816	39,261	59,796	51,640

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. Estimates for 2010 through 2017 reflect county population estimates available as of March 2018. All dollar estimates are in current dollars (not adjusted for inflation). Data for 2018 is not yet available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Employment

The following table summarizes the labor force, employment and unemployment figures for the City, the Counties, the State and the United States from 2014 through 2018.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT RATE**  
**2014 through 2018<sup>(1)</sup>**  
**City of San Bernardino, San Bernardino County,**  
**Riverside County, State of California and the United States**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment<sup>(2)</sup></u>	<u>Unemployment</u>	<u>Unemployment Rate (%)<sup>(3)</sup></u>
<u>2014</u>				
City of San Bernardino	82,200	73,900	8,300	10.1
San Bernardino County	905,400	833,000	72,500	8.0
Riverside County	1,011,100	928,300	82,900	8.2
State of California	18,714,700	17,310,900	1,403,800	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
<u>2015</u>				
City of San Bernardino	82,900	76,100	6,800	8.2
San Bernardino County	920,000	860,800	59,200	6.4
Riverside County	1,034,200	965,000	69,300	6.7
State of California	18,851,100	17,681,800	1,169,200	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
<u>2016</u>				
City of San Bernardino	83,200	77,200	6,000	7.2
San Bernardino County	930,900	877,200	53,700	5.8
Riverside County	1,052,400	988,100	64,300	6.1
State of California	19,044,500	18,002,800	1,041,700	5.5
United States	159,187,000	151,436,000	7,751,000	4.9
<u>2017</u>				
City of San Bernardino	84,000	78,600	5,300	6.3
San Bernardino County	944,300	897,800	46,500	4.9
Riverside County	1,073,400	1,017,100	56,300	5.2
State of California	19,205,300	18,285,500	919,800	4.8
United States	160,320,000	153,337,000	6,982,000	4.4
<u>2018</u>				
City of San Bernardino	85,200	80,800	4,400	5.2
San Bernardino County	961,000	922,300	38,800	4.0
Riverside County	1,092,400	1,044,600	47,800	4.4
State of California	19,398,200	18,582,800	815,400	4.2
United States	162,075,000	155,761,000	6,314,000	3.9

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 2018 Benchmark.

## Industry

The County is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the “MSA”). The distribution of employment in the MSA is presented in the following table for the last five years. These figures are multi county-wide statistics and may not necessarily accurately reflect employment trends in the County.

**LABOR FORCE AND INDUSTRY EMPLOYMENT ANNUAL AVERAGES  
2014 through 2018  
San Bernardino County (Riverside-San Bernardino-Ontario MSA)**

<u>Category</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Farm	14,400	14,800	14,600	14,500	14,500
Total Nonfarm	1,290,400	1,354,400	1,403,200	1,454,900	1,504,200
Total Private	1,061,600	1,121,100	1,160,900	1,203,900	1,246,600
Goods Producing	170,300	183,100	191,600	197,600	207,300
Mining and Logging	1,300	1,300	900	1,000	1,200
Construction	77,600	85,700	92,000	97,400	104,800
Manufacturing	91,400	96,200	98,700	99,200	101,300
Durable Goods	60,200	63,100	64,400	64,100	65,100
Nondurable Goods	31,200	33,100	34,300	35,200	36,200
Service Providing	1,120,100	1,171,200	1,211,700	1,257,300	1,296,900
Private Service Providing	891,300	937,900	969,400	1,006,300	1,039,300
Trade, Transportation and Utilities	314,800	333,100	347,900	365,500	378,300
Wholesale Trade	58,100	60,500	61,600	62,600	64,900
Retail Trade	169,600	174,400	178,300	180,900	180,800
Transportation, Warehousing and Utilities	87,100	98,100	108,000	122,100	132,600
Information	11,300	11,400	11,500	11,300	11,200
Financial Activities	42,900	44,000	44,600	44,200	43,700
Professional and Business Services	138,700	147,400	144,900	146,900	150,600
Educational and Health Services	195,900	206,300	215,700	226,700	240,000
Leisure and Hospitality	144,800	151,700	160,200	166,300	170,000
Other Services	43,000	44,000	44,600	45,400	45,600
Government	<u>228,800</u>	<u>233,300</u>	<u>242,300</u>	<u>251,000</u>	<u>257,500</u>
Total, All Industries	<u>1,304,800</u>	<u>1,369,100</u>	<u>1,417,900</u>	<u>1,469,400</u>	<u>1,518,700</u>

Note: The “Total, All Industries” data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, Industry Employment & Labor Force – by Annual Average. March 2018 Benchmark.



## Principal Employers

The following tables list the principal employers located in the Counties.

### PRINCIPAL EMPLOYERS 2018

#### San Bernardino County

<u>Company</u>	<u>Description</u>	<u>Employees</u>
County of San Bernardino	Public Administration	10,000+
Loma Linda University Medical Center	Health Services	10,000+
Amazon	Technology company focusing in e-commerce, cloud computing, and artificial intelligence	10,000+
State of California	Government	10,000+
Kaiser Permanente	Insurance Agents, Brokers, and Service	5,000-9,999
Wal-Mart	Retail Trade: Department/Food Stores	5,000-9,999
San Bernardino City Unified School District	Educational Services	5,000-9,999
Stater Bros. Market	Retail Trade: Food Stores	5,000-9,999
United States Government	Government	5,000-9,999
United Parcel Service	Transportation of Freight and Cargo	5,000-9,999

Source: "Comprehensive Annual Financial Report" of San Bernardino County, California for the fiscal year ended June 30, 2018.

### PRINCIPAL EMPLOYERS 2018

#### Riverside County

<u>Employer Name</u>	<u>Industry</u>	<u>Number of Employees</u>
County of Riverside	Public Administration	22,038
March Air Reserve Base	National Security	9,000
University of California Riverside	Services: Education	8,829
Kaiser Permanente Riverside Medical Center	Services: Health	5,500
Corona-Norco Unified School District	Services: Education	5,478
Pechanga Resort and Casino	Resort Casino	4,750
Riverside Unified School District	Services: Education	4,200
Hemet Unified School District	Services: Education	4,058
Riverside University Health Care Systems	Medical Center	3,965
Morongo Casino Resort and Spa	Resort Casino	3,800

Source: County of Riverside Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2018.

## Commercial Activity

Summaries of annual taxable sales for the City and the Counties from 2013 through 2017 are shown in the following tables.

### ANNUAL TAXABLE SALES 2013 through 2017 City of San Bernardino (Dollars in Thousands)

<u>Year</u>	<u>Retail Permits</u>	Retail Stores		<u>Total Taxable Transactions</u>
		<u>Transactions</u>	<u>Total Permits</u>	
2013	4,401	\$2,171,867	5,498	\$2,568,376
2014	4,673	2,273,215	5,808	2,737,021
2015	--	2,337,790	--	2,862,492
2016	--	2,415,646	--	2,947,080
2017	--	2,527,456	--	3,055,577

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry-level data for 2015 are not comparable to that of prior years. Data not available for 2018.

Source: "Taxable Sales in California (Sales & Use Tax)," California State Board of Equalization.

### ANNUAL TAXABLE SALES 2013 through 2017 San Bernardino County (Dollars in Thousands)

<u>Year</u>	<u>Retail Permits</u>	Retail Stores		<u>Total Taxable Transactions</u>
		<u>Transactions</u>	<u>Total Permits</u>	
2013	32,986	\$21,173,875	46,632	\$31,177,823
2014	34,455	22,240,376	48,349	33,055,967
2015	--	23,142,828	--	35,338,556
2016	--	24,242,145	--	36,981,694
2017	--	25,341,773	--	38,137,915

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry-level data for 2015 are not comparable to that of prior years. Data not yet available for 2018.

Source: "Taxable Sales in California (Sales & Use Tax)," California State Board of Equalization.

**TAXABLE SALES  
2013 through 2017  
Riverside County  
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	Retail Stores <u>Taxable Transactions</u>	<u>Total Permits</u>	Total Taxable <u>Transactions</u>
2013	33,391	\$21,306,774	46,805	\$30,065,467
2014	34,910	22,646,343	48,453	32,035,687
2015	--	23,281,724	--	32,910,910
2016	--	24,022,136	--	34,231,144
2017	--	25,581,948	--	36,132,814

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry-level data for 2015 are not comparable to that of prior years. Data not available for 2018.

Source: "Taxable Sales in California (Sales & Use Tax)," California State Board of Equalization.

**Construction Activity**

The annual building permit valuations and number of permits for new dwelling units issued from 2013 through 2017 for the City and the Counties are shown in the following tables.

**BUILDING PERMITS AND VALUATIONS  
2013 through 2017  
City of San Bernardino  
(Dollars in Thousands)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Valuation					
Residential	\$12,061	\$36,608	\$36,100	\$16,064	\$6,804
Non-Residential	<u>156,460</u>	<u>112,312</u>	<u>138,704</u>	<u>88,221</u>	<u>172,915</u>
Total	\$168,521	\$148,920	\$174,804	\$104,285	\$179,719
Units					
Single Family	38	62	38	33	19
Multiple Family	<u>0</u>	<u>50</u>	<u>47</u>	<u>62</u>	<u>0</u>
Total	38	112	85	95	19

Note: Totals may not add to sum due to rounding.

Source: Construction Industry Research Board.

**BUILDING PERMITS AND VALUATIONS**  
**2013 through 2017**  
**San Bernardino County**  
**(Dollars in Thousands)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Valuation					
Residential	\$666,166	\$708,471	\$1,056,572	\$888,142	\$1,366,023
Non-Residential	<u>768,169</u>	<u>958,267</u>	<u>1,146,722</u>	<u>994,282</u>	<u>1,285,597</u>
Total	\$1,434,335	\$1,666,738	\$2,203,294	\$1,882,424	\$2,651,670
Units					
Single Family	1,874	1,937	2,753	2,896	4,253
Multiple Family	<u>1,439</u>	<u>1,266</u>	<u>1,159</u>	<u>976</u>	<u>2,578</u>
Total	3,313	3,203	3,912	3,872	6,831

Note: Totals may not add to sum due to rounding.  
Source: Construction Industry Research Board.

**BUILDING PERMIT VALUATIONS**  
**2013-2017**  
**Riverside County**  
**(Dollars in Thousands)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Valuation (\$000):					
Residential	\$1,375,593	\$1,621,751	\$1,536,742	\$1,759,535	\$903,417
Non-residential	<u>873,977</u>	<u>814,990</u>	<u>911,465</u>	<u>1,346,020</u>	<u>1,433,691</u>
Total*	\$2,249,570	\$2,436,741	\$2,448,207	\$3,105,555	\$3,337,108
Residential Units:					
Single family	4,716	5,007	5,007	5,662	6,265
Multiple family	<u>1,427</u>	<u>1,931</u>	<u>1,189</u>	<u>1,039</u>	<u>1,070</u>
Total	6,143	6,938	6,196	6,701	7,335

Note: Totals may not add to sum due to rounding.  
Source: Construction Industry Research Board.

## APPENDIX G

### SAN BERNARDINO COUNTY TREASURY POOL

*The following information concerning the San Bernardino County (the “County”) Treasury Pool (the “Treasury Pool”) has been provided by the Treasurer-Tax Collector of the County (the “Treasurer”), and has not been confirmed or verified by the District, the Municipal Advisor or the Underwriter. None of the District, the Municipal Advisor nor the Underwriter has made an independent investigation of the investments in the Treasury Pool nor any 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 may change the 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, none of the District, the Municipal Advisor nor the Underwriter makes 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 is correct as of any time subsequent to its date. Further information may be obtained from the Treasurer at the following website: <https://www.mytaxcollector.com/>. However, the information presented on such website is not incorporated into this Official Statement by any reference.*

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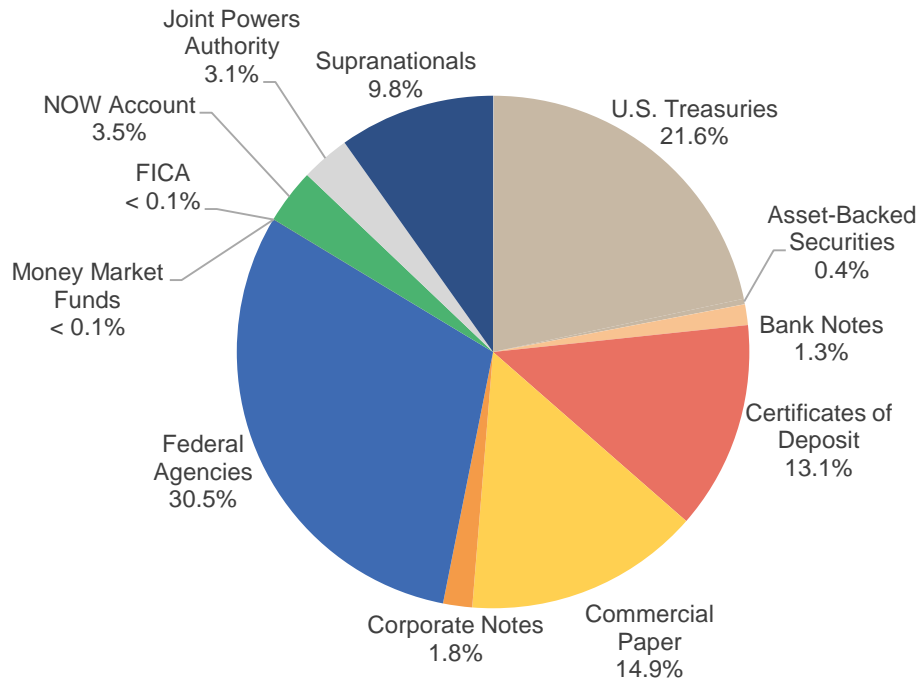
## San Bernardino County Pool Summary (as of 2/28/2019)

Security Type	Par Value	Amortized Cost	Market Value	Market % of Portfolio	Yield to Maturity at Cost	Wtd. Avg. Maturity	Modified Duration
Asset-Backed Securities	22,500,000.00	22,497,680.49	22,514,809.70	0.4%	2.84%	1272	1.73
Bank Notes	85,000,000.00	84,978,992.80	84,729,240.00	1.3%	2.67%	686	1.80
Certificates of Deposit	855,000,000.00	855,000,000.00	855,238,624.50	13.1%	2.53%	89	0.23
Collateralized CD	0.00	0.00	0.00	-	-	-	-
Commercial Paper	971,000,000.00	967,778,242.50	967,902,414.00	14.9%	2.54%	45	0.12
Corporate Notes	119,250,000.00	118,609,044.23	118,716,393.75	1.8%	2.45%	517	1.36
Federal Agencies	1,993,347,000.00	1,991,384,160.83	1,986,769,501.31	30.5%	2.09%	587	1.54
Money Market Funds	2,000,000.00	2,000,000.00	2,000,000.00	0.0%	2.29%	1	0.00
Municipal Debt	0.00	0.00	0.00	-	-	-	-
Repurchase Agreements	0.00	0.00	0.00	-	-	-	-
Bank Deposit Account	1,000,000.00	1,000,000.00	1,000,000.00	0.0%	2.37%	1	0.00
NOW Account	225,000,000.00	225,000,000.00	225,000,000.00	3.5%	2.60%	1	0.00
Joint Powers Authority	200,000,000.00	200,000,000.00	200,000,000.00	3.1%	2.62%	1	0.00
Supranationals	645,000,000.00	644,452,048.35	641,621,340.00	9.8%	1.69%	394	1.04
U.S. Treasuries	1,425,000,000.00	1,417,917,025.25	1,409,826,450.00	21.6%	1.89%	444	1.18
<b>Total Securities</b>	<b>6,544,097,000.00</b>	<b>6,530,617,194.45</b>	<b>6,515,318,773.26</b>	<b>100.0%</b>	<b>2.18%</b>	<b>355</b>	<b>0.94</b>
Cash Balance	243,418,484.73	243,418,484.73	243,418,484.73				
<b>Total Investments</b>	<b>6,787,515,484.73</b>	<b>6,774,035,679.18</b>	<b>6,758,737,257.99</b>				
Accrued Interest		21,092,463.48	21,092,463.48				
<b>Total Portfolio</b>	<b>6,787,515,484.73</b>	<b>6,795,128,142.66</b>	<b>6,779,829,721.47</b>				

1. Yield for the money market funds is a weighted average of the month-end yields for the Federated, Goldman, and Fidelity money market funds.
2. Statistics for the total portfolio include money market funds.
3. Market prices are derived from closing bid prices as of the last business day of the month as supplied by F.T. Interactive Data, Bloomberg, or Telerate.



## Sector Distribution



Sector	Market Value
Asset-Backed Securities	\$22,514,810
Bank Notes	\$84,729,240
Certificates of Deposit	\$855,238,624
Collateralized CD	\$0
Commercial Paper	\$967,902,414
Corporate Notes	\$118,716,394
Federal Agencies	\$1,986,769,501
Money Market Funds	\$2,000,000
Municipal Debt	\$0
Repurchase Agreements	\$0
FICA	\$1,000,000
NOW Account	\$225,000,000
Joint Powers Authority	\$200,000,000
Supranationals	\$641,621,340
U.S. Treasuries	\$1,409,826,450

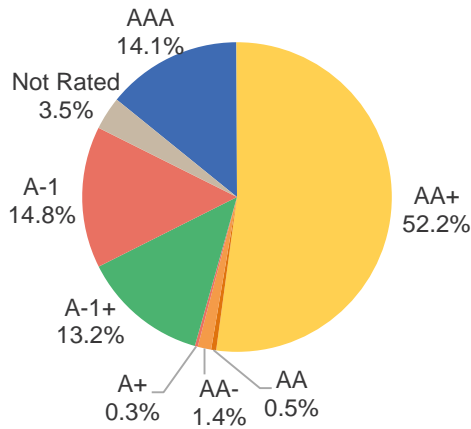
Percentages may not sum to 100% due to rounding.





# Credit Quality Distribution

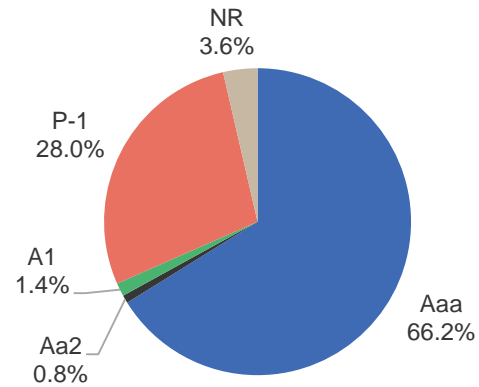
## S&P RATINGS



Credit Rating	Market Value
A-1+ (Short-Term)	\$859,148,869
A-1 (Short-Term)	\$963,992,169
AAA (Long-Term)	\$918,780,587
AA+ (Long-Term)	\$3,401,551,651
AA (Long-Term)	\$34,156,137
AA- (Long-Term)	\$91,438,767
A+ (Long-Term)	\$20,250,593
A (Long-Term)	\$0
Not Rated	\$226,000,000

Percentages may not sum to 100% due to rounding.

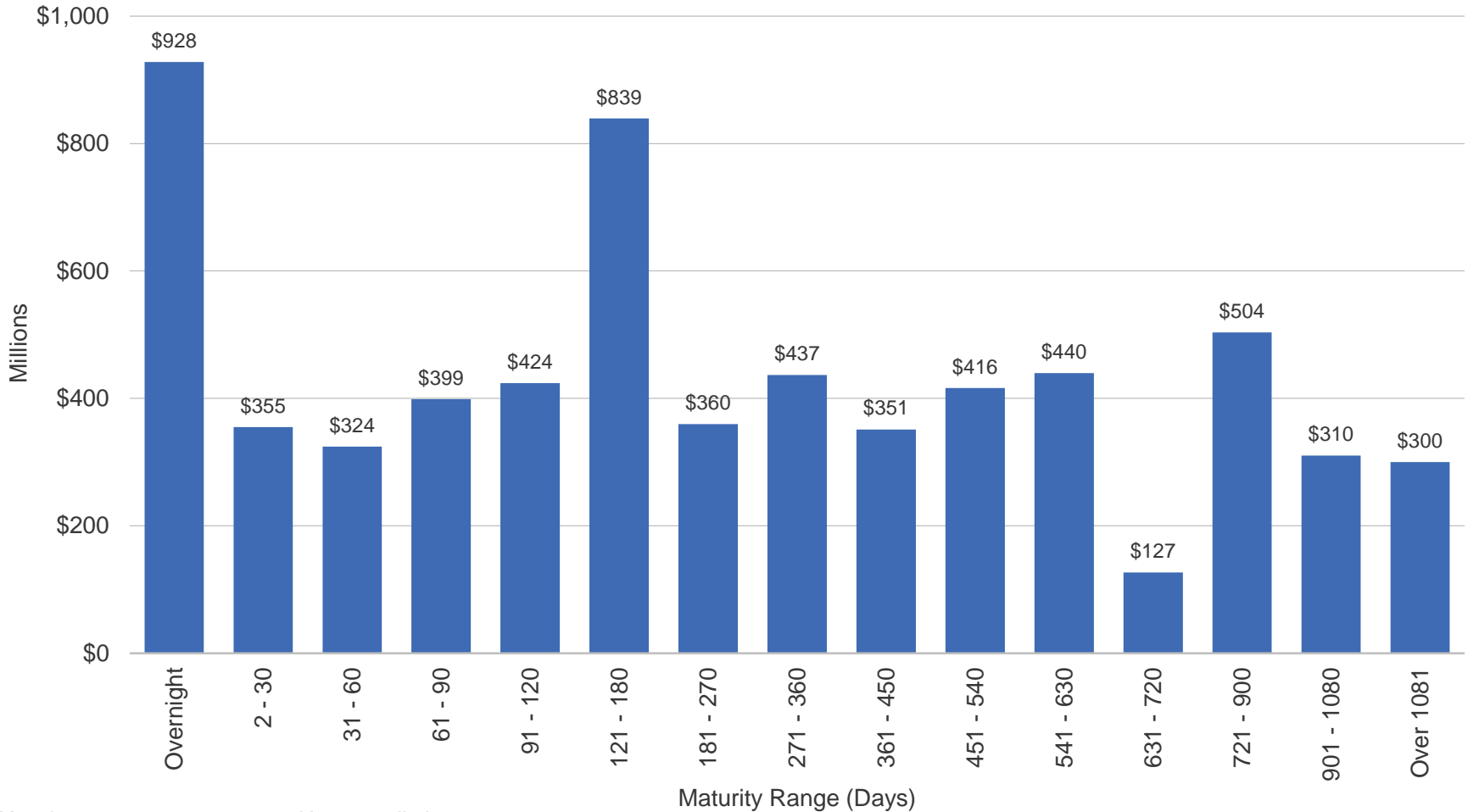
## MOODY'S RATINGS



Credit Rating	Market Value
P-1 (Short-Term)	\$1,823,141,038
Aaa (Long-Term)	\$4,309,830,132
Aa3 (Long-Term)	\$0
Aa2 (Long-Term)	\$54,406,730
Aa1 (Long-Term)	\$0
A3 (Long-Term)	\$0
A2 (Long-Term)	\$0
A1 (Long-Term)	\$91,438,767
Not Rated	\$236,502,106



## Maturity Distribution



Maturity range assumes no securities are called.



## San Bernardino County Pool Portfolio Yield Summary

Month	Yield to Maturity At Cost
February 2018	1.49%
March 2018	1.59%
April 2018	1.71%
May 2018	1.74%
June 2018	1.85%
July 2018	1.86%
August 2018	1.89%
September 2018	1.93%
October 2018	2.01%
November 2018	2.03%
December 2018	2.11%
January 2019	2.15%
<b>February 2019</b>	<b>2.18%</b>

1. Gross yields not including non-earning assets (compensating bank balances) or administrative costs for management of the pool.
2. All historical yields restated to include money market funds.