

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Special Counsel, under existing statutes, regulations, rulings and court decisions, and subject to the matters described in “TAX MATTERS” herein, interest evidenced by the Certificates is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income for the owners thereof for federal income tax purposes and is not included in computing the federal alternative minimum taxable income of the owners thereof. It is also the opinion of Special Counsel that under existing law interest evidenced by the Certificates is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein.

\$28,705,000*

2021 CERTIFICATES OF PARTICIPATION

(Sarafian Building Project)

**Evidencing the Direct, Undivided Proportionate Interests of the
Owners Thereof in Lease Payments to be Made by the**

PASADENA AREA COMMUNITY COLLEGE DISTRICT

to Public Property Financing Corporation of California

Dated: Date of Delivery

Due: August 1, as shown on inside cover.

The captioned 2021 Certificates of Participation (the “Certificates”) evidencing the direct, undivided proportionate interests of the Owners thereof in the Lease Payments (as defined herein) to be made pursuant to a Lease Agreement (as defined herein) by and between the Public Property Financing Corporation of California (the “Corporation”) and Pasadena Area Community College District, as Lessee (the “Lessee” or the “District”), and a Trust Agreement, dated as of March 1, 2021, by and among the Corporation, the Lessee and U.S. Bank National Association, as Trustee (the “Trustee”). The Certificates are being executed and delivered to (i) finance the design, demolition and construction of a building for use by the District, (ii) fund a portion of interest evidenced by the Certificates to February 1, 2024 and (iii) pay delivery costs of the Certificates. See “PLAN OF FINANCE.” The Certificates will be delivered in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). Purchasers of the Certificates will not receive certificates representing their interests therein.

Interest due with respect to the Certificates is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2021* (each, a “Payment Date”). On each Payment Date, the Trustee will make all payments of principal, premium, if any, and interest, for so long as the Certificates are registered in the name of Cede & Co., to DTC, which, in turn, is obligated to remit such principal, premium, if any, and interest to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Certificates. Principal with respect to the Certificates is payable upon surrender of the Certificates at maturity or earlier prepayment at the principal corporate trust office of the Trustee in Los Angeles, California. The Certificates are to be delivered as fully registered certificates without coupons, in authorized denominations of \$5,000 or any integral multiple thereof.

The Certificates are subject to optional, extraordinary and mandatory prepayment as described herein.* See the captions “THE CERTIFICATES – Optional Prepayment,” “– Prepayment From Net Insurance and Condemnation Proceeds” and “– Mandatory Sinking Fund Prepayment” herein.

The Lessee has covenanted under the Lease Agreement that, so long as the Leased Property (as defined herein) is available for the Lessee’s use, it will take such action as may be necessary to include in its annual budgets all of its Lease Payments due in each fiscal year and to make the necessary annual appropriations therefor, subject to abatement thereof in the event of damage, destruction, condemnation or any defect of title which substantially interferes with the Lessee’s use and right of possession of the Leased Property.

The obligation of the Lessee to make Lease Payments does not constitute an obligation of the Lessee for which the Lessee is obligated to levy or pledge any form of taxation or for which the Lessee has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the Lessee to make Lease Payments under the Lease Agreement constitutes a debt of the Lessee, the Corporation, the County of Los Angeles, the State of California or any of its political subdivisions within the meaning of the Constitution of the State of California or otherwise, or a pledge of the full faith and credit of any of the foregoing.

MATURITY SCHEDULE

On Inside Cover

This cover page contains information for quick reference only. Investors must read this entire Official Statement in order to obtain information essential to making an informed investment decision.

The Certificates are offered when, as and if executed, delivered and received by the Underwriter set forth below, subject to the approval as to their validity and enforceability by Norton Rose Fulbright US LLP, Los Angeles, California, Special Counsel to the Corporation, and certain other conditions. It is anticipated that the Certificates will be available through the facilities of DTC on or about March 10, 2021.

PIPER | SANDLER

Dated: _____, 2021

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a 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 such jurisdiction.

MATURITY SCHEDULE*
Base CUSIP[†] Number: _____

Maturity (August 1)	Principal Component	Interest Rate	Yield	CUSIP[†] Suffix
	\$	%	%	

\$ _____ % Term Certificates due August 1, 20__ Yield: ____% CUSIP No.[†] _____

*Preliminary, subject to change.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company and are included solely for the convenience of the holders of the Certificates. None of the District, the Corporation, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers. 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 of such maturity 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 the Certificates. None of the District, the Corporation, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the Corporation, the Lessee or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Corporation, the Lessee or the Underwriter. 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 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 a representation of facts.

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

The information set forth in this Official Statement has been obtained from the Lessee, the County of Los Angeles (see APPENDIX F — “THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS”), and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstance create any implication that there has been no change in the affairs of the Lessee, the Corporation or the County of Los Angeles since the date hereof. All summaries of the Certificates, Lease Agreement, Site Lease, Trust Agreement, Assignment Agreement, and Continuing Disclosure Certificate (each as defined herein) and other documents, are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

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

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

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

PASADENA AREA COMMUNITY COLLEGE DISTRICT

Board of Trustees

James A. Osterling, President
Berlinda Brown, Vice President
Linda Wah, Clerk
Sandra Chen Lau, Member
Tammy Silver, Member
John Martin, Member
Dr. Anthony R. Fellow, Member
David Ramirez, Student Trustee

Administration

Dr. Erika Endrijonas, Superintendent/President
Dr. Michael Bush, Assistant Superintendent/Vice President, Business and Administrative Services
Dr. Robert H. Bell, Assistant Superintendent/Senior Vice President, Noncredit and Offsite Campuses⁽¹⁾
Dr. Laura Ramirez, Assistant Superintendent/Vice President, Instruction
Robert S. Blizinski, Assistant Superintendent/Vice President, Human Resources
Dr. Cynthia Olivo, Assistant Superintendent/Vice President, Student Services
Chedva Weingart, Executive Director of Fiscal Services

Municipal Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Special Counsel and Disclosure Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Trustee

U.S. Bank National Association
Los Angeles, California

⁽¹⁾ Dr. Bell has provided notice of retirement effective September 1, 2021.

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SUMMARY STATEMENT

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO THE MORE COMPLETE INFORMATION IN THIS OFFICIAL STATEMENT AND THE OFFERING OF THE CERTIFICATES TO POTENTIAL INVESTORS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT.

Purpose

Proceeds from the sale of the Certificates in the aggregate principal amount of \$28,705,000* will be used to (i) finance the design, demolition and construction of certain capital facilities for use by the Pasadena Area Community College District (the “Lessee” or the “District”), (ii) fund a portion of interest evidenced by the Certificates to February 1, 2024 and (iii) pay costs of delivery of the Certificates. Certain real property of the Lessee has been leased by the Lessee under the Lease Agreement (the “Lease Agreement”) from Public Property Financing Corporation of California (the “Corporation”), as Lessor. For a detailed description of the Leased Property, see APPENDIX B – “THE LEASED PROPERTY” attached hereto.

Security for the Certificates

The Lessee is obligated under the Lease Agreement to make Lease Payments on each January 15 and July 15, commencing July 15, 2021,* as the rental for the use and possession of the Leased Property (the “Lease Payments”), so that Certificate Owners will be paid on the Certificate Payment Dates of February 1 and August 1. Each Certificate evidences and represents a proportionate undivided interest of the registered owner thereof (herein referred to as the “Owners” or “Certificate Owners”) in Lease Payments to be made by the Lessee. The Lessee has covenanted under the Lease Agreement that so long as its Leased Property is available for the Lessee’s use, it will take such action as may be necessary to include in its annual budget all of its Lease Payments due in such fiscal year and to make the necessary annual appropriations therefor. Under California law, the obligation of the Lessee to make Lease Payments (other than to the extent that funds are available for such purpose from insurance or in accounts established for the Lessee from proceeds of the Certificates) must be abated in whole or in part if the Lessee does not have full use and possession of its Leased Property.

Pursuant to the Assignment Agreement (as defined herein), the Corporation will assign to the Trustee for the benefit of the Owners of the Certificates its rights under the Lease Agreement, including (i) its right to receive amounts payable by the Lessee under the Lease Agreement, (ii) its right to receive and collect any proceeds of any insurance maintained under the Lease Agreement, and (iii) its right to enforce amounts payable upon default.

* Preliminary; subject to change.

Form of Certificates	The Certificates will be sold and delivered in fully registered form in authorized denominations of \$5,000 or any integral multiple thereof.
Prepayment	The Certificates are subject to optional, extraordinary and mandatory prepayment, as described herein.
Leased Property	The Leased Property consists of the site and facilities known as the Center for the Arts building located on the District's main campus at 1570 East Colorado Boulevard, Pasadena, California 91106. See APPENDIX B – "THE LEASED PROPERTY" attached hereto.
The Lessee	The Lessee is duly organized and existing as a community college district located in Los Angeles County, California. See APPENDIX A – "FINANCIAL AND DEMOGRAPHIC INFORMATION OF THE DISTRICT" attached hereto.
The Trustee	U.S. Bank National Association will act as Trustee for the Certificates.

THE OBLIGATION OF THE LESSEE TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT IS AN OBLIGATION PAYABLE FROM THE LESSEE'S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE LESSEE FOR THE PAYMENT OF THE LEASE PAYMENTS. THE OBLIGATION OF THE LESSEE TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE LESSEE FOR WHICH THE LESSEE IS OBLIGATED TO PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE LESSEE HAS PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE LESSEE TO PAY LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE A DEBT OR INDEBTEDNESS OF THE LESSEE, THE CORPORATION, THE COUNTY OF LOS ANGELES, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

OFFICIAL STATEMENT

\$28,705,000*

2021 CERTIFICATES OF PARTICIPATION (Sarafian Building Project)

**Evidencing the Direct, Undivided Proportionate Interests of the
Owners Thereof in Lease Payments to be Made by the**

PASADENA AREA COMMUNITY COLLEGE DISTRICT to Public Property Financing Corporation of California

INTRODUCTION

The purpose of this Official Statement, including the cover page, inside cover, Summary Statement, Table of Contents and Appendices (the “Official Statement”), is to provide certain information concerning the execution, sale and delivery of certain Certificates of Participation, in the aggregate principal amount of \$28,705,000* (the “Certificates”). The Pasadena Area Community College District (the “Lessee” or the “District”) will execute a Site Lease, dated as of March 1, 2021 (the “Site Lease”), pursuant to which the Lessee will lease certain real property (the “Leased Property”) to the Corporation. The Certificates evidence and represent the proportionate undivided interest of the registered owners thereof (the “Owners”) in lease payments (the “Lease Payments”) to be made by the Lessee as the rental for the use and possession of the Leased Property to be leased from Public Property Financing Corporation of California (the “Corporation”) pursuant to a Lease Agreement, by and between the Corporation and the Lessee, dated as of March 1, 2021 (the “Lease Agreement”). Pursuant to the Assignment Agreement, dated as of March 1, 2021, by and between the Corporation and the Trustee (the “Assignment Agreement”), the Corporation has assigned to the Trustee, for the benefit of the Owners, its rights under the Lease Agreement, including (i) its right to amounts payable by the Lessee under the Lease Agreement, (ii) its right to receive the proceeds of casualty and rental interruption insurance on the Leased Property and (iii) its right to enforce payment of amounts due upon default. The Certificates are being executed, sold and delivered pursuant to a Trust Agreement, dated as of March 1, 2021 (the “Trust Agreement”), by and among the Lessee, the Corporation and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms used but not defined herein shall have the meanings set forth in the Trust Agreement. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” attached hereto.

The Certificates are being executed and delivered to (i) finance the design, demolition and construction of a building for use by the Lessee, (ii) fund a portion of interest evidenced by the Certificates to February 1, 2024 and (iii) pay costs of delivery in connection with the Certificates. The Leased Property consists of certain real property of the Lessee as described herein under APPENDIX B – “THE LEASED PROPERTY” attached hereto. The Leased Property has an annual fair market rental value of not less than the maximum annual Lease Payments.

The Lessee is required to pay to the Trustee, as assignee of the Corporation, the Lease Payments for use and possession of the Leased Property, which amounts are intended to be sufficient in both time and aggregate amount to pay, when due, the principal and interest payable with respect to the Certificates. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE LEASE – Lease Payments.” In the Lease Agreement, the Lessee has covenanted that it will take such actions as may be necessary to include in its annual budgets all of the Lease Payments due in each fiscal year with respect to the Leased Property and to make the necessary annual appropriations therefor. **The obligation of the Lessee to make Lease Payments does not constitute an obligation of the Lessee for which the Lessee is obligated to pledge any form of taxation or for which the Lessee**

* Preliminary; subject to change.

has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the Lessee to make Lease Payments constitutes an indebtedness of the Lessee, the Corporation, the County of Los Angeles, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

For certain financial information concerning the Lessee, see APPENDIX A – “FINANCIAL AND DEMOGRAPHIC INFORMATION OF THE DISTRICT.”

ESTIMATED USES OF PROCEEDS

The proceeds to be received from the sale of the Certificates are estimated to be applied as follows:

<u>Sources</u>	
Principal Amount of Certificates	\$
[Net] Premium	
TOTAL SOURCES	<hr/> \$
<u>Uses</u>	
Project Fund	\$
Capitalized Interest ⁽¹⁾	
Costs of Delivery ⁽²⁾	
TOTAL USES	<hr/> \$

⁽¹⁾ Represents interest accruing evidenced by the Certificates to February 1, 2024.

⁽²⁾ Includes legal fees, Trustee fees, Underwriter’s discount (see the caption “UNDERWRITING” herein), printing costs, rating agency fees and other miscellaneous costs of delivery.

PLAN OF FINANCE

The net proceeds of sale of the Certificates are expected to be used to finance the design, demolition and construction of a building for use by the Lessee.

The building, designated the Armen Sarafian Building (the “Sarafian Building”) was determined to be an earthquake hazard in 2012, and has been vacant since then. California’s 2019-20 State Budget included a \$44.5 million appropriation for the Sarafian Building project. As a priority project in the life-and-safety category of the California Community Colleges Chancellor’s Office facilities list, the Sarafian Building project is expected to receive 80% of its funding from state bond proceeds under The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51). State money has already funded certain preliminary planning, engineering and architectural fees. The Certificates are being delivered to assist with financing the District’s portion of the costs of the Sarafian Building project, along with certain interim project costs pending the receipt of State funds.

The Certificates are not secured by the Sarafian Building. See “THE CERTIFICATES - Security for the Certificates” herein.

THE CERTIFICATES

General Provisions

The Certificates will be executed, sold and delivered in the aggregate principal amount of \$28,705,000,* will be dated their date of delivery, and will represent and evidence interest from such date, at the rates per annum set forth on the inside cover page hereof. The Certificates will be payable

semiannually on February 1 and August 1, commencing on August 1, 2021* (each, a “Payment Date”). Interest evidenced by the Certificates will be funded to February 1, 2024 and will be funded in part from a portion of the proceeds of the Certificates. See “ESTIMATED USES OF PROCEEDS” herein. The Certificates will mature on August 1 in each of the designated years and in the principal amounts shown on the inside cover page hereof.

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

The Certificates will be executed, sold and delivered in fully registered form without coupons, in denominations of \$5,000 each or any integral multiple thereof. On each Payment Date, the Trustee will, for so long as the Certificates are registered in the name of Cede & Co., make payments of principal, premium, if any, and interest with respect to the Certificates, to DTC, which, in turn, is obligated to remit such principal, premium, if any, and interest, to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Certificates. Principal and premium, if any, with respect to the Certificates is payable upon surrender of the Certificates at maturity or earlier prepayment at the principal corporate trust office of the Trustee.

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

Optional Prepayment*

The Certificates may be prepaid before maturity, at the option of the Lessee, from moneys deposited into the Prepayment Fund as a result of the Lessee’s election to prepay Lease Payments, on any date on or after August 1, 2023, as a whole or in part at a prepayment price equal to the principal amount thereof together with interest accrued thereon to the date fixed for prepayment.

Prepayment From Net Insurance and Condemnation Proceeds

The Certificates are subject to prepayment on any Payment Date, in whole or in part, from Net Insurance and Condemnation Proceeds deposited in the Prepayment Fund at least 45 days prior to a Payment Date and credited towards the prepayment made by the Lessee pursuant to the Lease Agreement, at a prepayment price equal to the Principal Component thereof, together with the accrued Interest Component to the date fixed for prepayment, without premium. In the event of a prepayment of Certificates from Net Insurance and Condemnation Proceeds when fewer than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment from the Outstanding Certificates, proportionately by maturity in Authorized Denominations. The Trustee shall promptly notify the Lessee and the Corporation in writing of the Certificates so selected for prepayment.

* Preliminary; subject to change.

Mandatory Sinking Fund Prepayment*

The Certificates maturing on August 1, 20__, shall be subject to mandatory sinking fund prepayment prior to maturity at a prepayment price equal to the Principal Component of the Certificates to be prepaid, plus accrued interest with respect thereto to the prepayment date, on August 1 of each year, commencing August 1, 20__, in the Principal Components and on the prepayment dates as follows:

Mandatory Sinking Fund Prepayment Date (August 1)	Mandatory Sinking Fund Payment
	\$

†

† Maturity.

If some but not all of the principal evidenced by the Certificates maturing on August 1, 20__ is prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “– Prepayment from Net Insurance and Condemnation Proceeds,” the principal evidenced by such Certificates to be prepaid pursuant to Mandatory Sinking Fund Payments on any subsequent August 1 shall be reduced by the aggregate principal evidenced by such Certificates so prepaid pursuant to the extraordinary prepayment provisions, such reduction to be allocated among prepayment dates in proportion to the amount by which the principal components of the Lease Payments evidenced by such Certificates payable on such prepayment dates are abated pursuant to the Lease Agreement as a result of the event that caused such Certificates to be prepaid pursuant to the extraordinary prepayment provisions, in amounts of Authorized Denominations.

If some but not all of the principal evidenced by the Certificates maturing on August 1, 20__ is prepaid pursuant to the optional prepayment provisions as described herein under the caption “– Optional Prepayment,” the principal evidenced by such Certificates to be prepaid pursuant to Mandatory Sinking Fund Payments on any subsequent August 1 shall be reduced by the aggregate principal evidenced such Certificates so prepaid pursuant to the optional prepayment provisions, such reduction to be allocated among prepayment dates in amounts of Authorized Denominations, as designated by the District.

Selection of Certificates for Prepayment

Except as otherwise provided in the Trust Agreement, whenever provision is made in the Trust Agreement for the prepayment of Certificates and fewer than all Outstanding Certificates are called for prepayment, other than in the event of a prepayment of Certificates from Net Insurance and Condemnation Proceeds, the Trustee shall select Certificates for prepayment from the Outstanding Certificates not previously called for prepayment as the Lessee may direct, and, in the absence of such direction, in inverse order of maturity, and by lot within any maturity, in any manner which the Trustee shall in its sole discretion deem appropriate. All or a portion of any Certificate may be prepaid, but only in a Principal Component equal to an integral multiple of \$5,000.

Notice of Prepayment

When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice of the prepayment of the affected Certificates. Such notice shall specify: (i) that the Certificates or a designated portion thereof are to be prepaid, (ii) the CUSIP numbers, numbers and dates of maturity of the Certificates to be prepaid, (iii) the date of prepayment, (iv) the prepayment price and (v) the place or

* Preliminary; subject to change.

places where prepayment will be made. 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 together with interest accrued to said date to be prepaid with respect to the Certificates, and that from and after such date, the Interest Component shall cease to accrue and become payable.

Notice of such prepayment shall be given by first class mail, postage prepaid, to the Lessee, the Corporation and the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books not less than 20 days, but not more than 60 days, prior to the prepayment date; provided that 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 the Certificates.

Notice of prepayment having been given as aforesaid, the Certificates or portions of Certificates so to be prepaid shall, on the prepayment date, become due and payable at the prepayment price therein specified, and from and after the date on which prepaid, interest with respect to such Certificates or portions of Certificates shall cease to be payable. Upon surrender of such Certificates for prepayment in accordance with said notice, such Certificates shall be paid by the Trustee at the prepayment price. Amounts equal to the Interest Component due on or prior to the prepayment date shall be payable as herein provided for regular payments of the Interest Component. Upon surrender for any partial prepayment of any Certificate, there shall be prepared for the Owner of a Certificate a new Certificate or Certificates in the amount of the unpaid Principal Component. All Certificates which have been prepaid shall be canceled by the Trustee, shall not be redelivered and shall be destroyed pursuant to the Trust Agreement.

Effect of Notice of Prepayment

With respect to any notice of prepayment of the Certificates in accordance with the Trust Agreement, in whole or in part, such notice may state that such prepayment will be conditional upon the receipt by the Trustee, on or prior to the date fixed for such prepayment, of moneys sufficient to pay the prepayment price of and accrued interest on the such Certificates to be prepaid, and that if such moneys will not have been so received, said notice will be of no force and effect and the Lessee and the Lessor shall not be required to prepay such Certificates or to pay any amounts to the Owners of the Certificates except to pay principal and interest evidenced by the Certificates in accordance with the Trust Agreement. In the event that such conditional notice of prepayment contains such a provision and such moneys are not so received, the conditional prepayment shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received and that the conditional prepayment was cancelled. The Lessee may rescind any prepayment, and notice thereof may be rescinded by Lessee for any reason, by providing written notice of such rescission to the Trustee on any date prior to the date fixed for prepayment. Within one (1) day of receipt of such written notice, the Trustee shall give written notice of the rescission to the Owners of the Certificates so called for prepayment. The actual receipt by the Owners of the Certificate of any Certificate of notice of such rescission will not be a condition precedent to such rescission and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Notice having been given as aforesaid, and the moneys for the prepayment (including the Interest Component accruing to the applicable date of prepayment) having been set aside in the Prepayment Fund, the Certificates so called shall become due and payable on said date of prepayment, and upon presentation and surrender thereof at the office or offices specified in said notice, said Certificates shall be paid in the amount of the unpaid Principal Component, plus the Interest Component accrued and unpaid to said date of prepayment.

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, and premium, if any, shall be held by the Trustee 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, the Interest Component 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 to be so prepaid without liability for interest with respect thereto.

Partial Payment of Certificates

Upon surrender by an Owner of a Certificate for partial prepayment, excepting as otherwise provided for in the Trust Agreement, payment of such partial prepayment of the Principal Component will be made by check mailed by first class mail to the Owner at his or her address as it appears on the registration books of the Trustee. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the Lessee, a new Certificate or Certificates which shall be of authorized denominations equal in aggregate principal or issue amount to the unprepaid Principal Component of the Certificate surrendered and of the same interest rate or yield and the same maturity. Such partial prepayment shall be valid upon payment of the amount thereby required to be paid to such Owner, and the Lessee, the Corporation and the Trustee shall be released and discharged from all liability to the extent of such payment.

Security for the Certificates

Sources of Payment for the Certificates. Each Certificate evidences and represents a proportionate, undivided interest of the Owner in the Lease Agreement, including the right to receive the Lease Payments to be made by the Lessee to the Corporation. The Lessee and Lessor will enter into the Lease Agreement, pursuant to which the Lessee will agree to make Lease Payments in amounts sufficient to make the payments due with respect to the Certificates. The Lease Agreement may be amended pursuant to its terms to provide for additional lease payments secured by the Leased Property on a parity with the Lease Payments made with respect to the Certificates.

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

Principal and the Interest Component due with respect to the Certificates will be made from the Lease Payments payable by the Lessee for the use and possession of the Leased Property, from condemnation proceeds, from title insurance proceeds, from rental interruption insurance proceeds, from casualty insurance net proceeds pertaining to the Leased Property (to the extent that such net proceeds are not used for repair or replacement) or from interest or other income derived from the investment of the funds and accounts held by the Trustee for the Lessee pursuant to the Trust Agreement.

The Lessee has covenanted under the Lease Agreement to make Lease Payments for the use and possession of the Leased Property and to take such action each year as may be necessary to include in its annual budget all of the Lease Payments due in such fiscal year and to appropriate annually an amount necessary to make the Lease Payments. Lease Payments received by the Trustee are to be used to make the payments of principal and interest with respect to the Certificates. Additional Payments payable by the Lessee under the Lease Agreement include amounts as shall be required for the payment of all administrative costs of the Corporation. Under California law, even though the Lease Agreement becomes effective as of the date of original execution of the Certificates, the obligation of the Lessee to make Lease Payments (other than to the extent that funds to make Lease Payments are available, in the case of

termination of the Lease Agreement or partial prepayment of the Lease Payments, in the Project Fund) must be abated in whole or in part if the Lessee does not have full use and possession of the Leased Property. See “RISK FACTORS – Abatement” herein.

The Lessee has further covenanted to also pay such amounts as shall be required for the payment of all administrative costs of the Corporation relating to the Leased Property or the execution, sale and delivery of the Certificates, including, without limitation, taxes of any sort whatsoever payable by the Corporation as a result of its ownership of the Leased Property or as may be related to the Lease Agreement, and certain costs resulting from the administration of the Trust Agreement, the fees of auditors, accountants, attorneys or engineers, insurance premiums, credit enhancement fees, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement.

The obligation of the Lessee to make Lease Payments and Additional Payments does not constitute an obligation of the Lessee for which the Lessee is obligated to pledge any tax revenues. **Neither the Certificates nor the obligation of the Lessee to make Lease Payments and Additional Payments constitutes an indebtedness of the Lessee, the Corporation, the County of Los Angeles, the State of California or any of its political subdivisions within the meaning of the Constitution of the State of California or otherwise or a pledge of the faith and credit of the Lessee.**

The Trustee, pursuant to the Trust Agreement, will receive Lease Payments for the benefit of the Owners. The Lease Payments are scheduled to be sufficient in both time and amount to pay when due the portion of the principal and interest with respect to the Certificates due on the next Interest Payment Date. The Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Trust Agreement, and under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates. Lease Payments and Additional Payments are subject to abatement during any period in which, by reason of condemnation, damage or destruction, there is substantial interference with the use and possession of the Leased Property, or any discrete portion thereof, by the Lessee. See “Abatement” below and APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE LEASE” attached hereto. The Lessee is responsible for the repair and maintenance of the Leased Property and the replacement or repair of the Leased Property to the extent provided in the Lease Agreement.

Insurance. The Lease Agreement requires the Lessee to maintain insurance of the type and in the amounts set forth therein. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE LEASE – Insurance” attached hereto. The Lease Agreement permits the Lessee to self-insure to meet insurance requirements (so long as the terms of the Lease Agreement are satisfied) except for rental interruption insurance. The Lease Agreement requires the Lessee to apply the proceeds of any insurance award either to replace or repair the portion of the Leased Property or to repay Certificates if certain certifications with respect to the adequacy of the 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 Agreement may be reduced during any period in which material damage or destruction to all or part of any component of the Leased Property substantially interferes with the Lessee’s use and possession thereof. Lease Payments may, however, be made from the proceeds of rental interruption insurance as described below. See “RISK FACTORS – Abatement” herein.

Abatement. Except to the extent of (i) amounts held by the Trustee in the Lease Payment Fund, (ii) amounts received in respect of rental interruption insurance or liquidated damages, if any, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates during any period in which, by reason of material damage, destruction, title defect or condemnation there is substantial interference with the use and possession by the Lessee of any component of the Leased

Property, Lease Payments due under the Lease Agreement with respect to such Leased Property shall be abated by the difference between the annual fair rental value of the facilities of the Leased Property with respect to which there is no such substantial interference, as set forth in a certification of the Lessee. Any abatement of Lease Payments pursuant to the Lease Agreement shall not be considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the date of such interference and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

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

No Debt Service Reserve Fund

The Trust Agreement does not provide for a debt service reserve fund supporting the Certificates.

Lease Payments

Lease Payments are required under the Lease Agreement to be made by the Lessee on each January 15 and July 15, commencing on July 15, 2021* (individually, a “Lease Payment Date”) for use and possession of the Leased Property for the six-month periods commencing on the first day of the month next succeeding the Lease Payment Date, as applicable.

The Lease Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. On each Interest Payment Date or Payment Date, the Trustee will withdraw from the Lease Payment Fund the aggregate amount of the Lease Payments and will apply such amounts to make principal and interest payments with respect to the Certificates, as shown in the following amortization schedule.

* Preliminary; subject to change.

SCHEDULE OF CERTIFICATE PAYMENTS

<u>Payment Dates</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total</u>
August 1, 2021	\$	\$ (1)	\$
February 1, 2022		(1)	
August 1, 2022		(1)	
February 1, 2023		(1)	
August 1, 2023		(1)	
February 1, 2024		(1)	
August 1, 2024			
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August 1, 2048			
February 1, 2049			
August 1, 2049			
February 1, 2050			
August 1, 2050			
February 1, 2051			
August 1, 2051			
	\$	\$	\$

(1) Represents funded interest accruing evidenced by the Certificates to February 1, 2024.

Limitations on Remedies Available to Owners of the Certificates

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

Certain Definitions

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

INVESTMENT OF LESSEE FUNDS

Substantially all the Lessee's cash will be deposited into the County Treasury to the credit of the proper fund of the Lessee. The Lessee's funds, including cash receipts and other moneys received by the Lessee for deposit to the general fund of the Lessee, are deposited with the County Treasury, to remain on deposit therein and generally available for the payment of current expenses and other obligations of the Lessee until deposited into the Lease Payment Fund or otherwise. For a discussion of the County Treasury, see APPENDIX F – "THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS."

THE CORPORATION

The Public Property Financing Corporation of California, 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 Corporation Code). The Corporation was organized for the primary purpose of providing financial assistance to public agencies in California by acquiring, constructing, improving and financing various facilities, land and equipment, and by leasing facilities, land and equipment for the use of such public agencies.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. Such factors do not purport to be an exhaustive list of risks and other considerations may be relevant to an investment in the Certificates. Furthermore, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

Not a Pledge of Taxes

The obligation of the Lessee to pay the Lease Payments does not constitute an obligation of the Lessee for which the Lessee is obligated to levy or pledge any form of taxation or for which the Lessee has levied or pledged any form of taxation. The obligation of the Lessee to pay Lease Payments does not constitute a debt or indebtedness of the Lessee, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

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

Additional Obligations of the Lessee

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

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

COVID-19 Pandemic

The recent outbreak of the novel strain of coronavirus called COVID-19, which has been designated a global pandemic by the World Health Organization, is impacting local and global economies, as governments, businesses, and citizens react to, plan for, and try to prevent or slow further transmission of the virus. Financial markets, including the stock market in the United States and globally, have seen significant volatility that has been attributed to COVID-19 concerns, economic output has fallen, and unemployment has increased. The California Department of Public Health and the United States Centers for Disease Control and Prevention have been providing regular updates and guidelines to the public and to State and local governments. On March 4, 2020, California Governor Gavin Newsom declared a state of emergency. The District cannot predict the extent or duration of the outbreak or what impact it may have on the District's financial condition or operations of the District, or the assessed values of property within the District. **In response to guidelines and directives from the County, State and Federal agencies, including the State Chancellor's Office, in an effort to ensure the continuity of education for students and essential business, Pasadena City College is currently operating business remotely and offering instruction primarily through distance learning and online during Fall 2020, Winter 2021 and Spring 2021 terms, with certain exceptions for education and training in healthcare services, automotive and welding.**

On March 17, 2020, the Governor signed Senate Bill 89 ("SB 89"), which amends the Budget Act of 2019 by appropriating \$500,000,000 from the State General Fund for any purpose related to executing the emergency proclamation issued by the Governor on March 4, 2020. On March 19, 2020, the Governor ordered all California residents to stay home or at their place of residence to protect the general health and well-being, except as needed to maintain continuity of 16 critical infrastructure sectors described therein. Since that time, the gradual reopening first of lower-risk workplaces, public spaces and then other businesses was permitted. However, from time to time, the Governor directed certain counties, including the County, to roll back the opening of some of the businesses permitted to open in June 2020.

On August 20, 2020, California moved to a four-tier, color coded classification system that will determine which counties can move forward with reopening businesses. There are four tiers: yellow, orange, red and purple. Yellow indicates minimal COVID-19 spread and allows for nearly all businesses

to reopen indoor operations (as long as physical distancing and face covering requirements are in place). Purple means there is widespread COVID-19 transmission in the county and nearly all businesses have to keep indoor operations closed or severely limited (counties with more than 7 daily new cases per 100,000 residents or higher than 8% positivity rate).

In addition to the four-tier classification system, under a regional stay at home order issued on December 3, 2020, if hospital intensive care unit capacity drops below 15%, a county was required to enforce even stricter rules under a recent State stay-at-home order. The County became subject to those stricter rules for a period. The regional stay at home order was ended on January 25, 2021, based on projected ICU bed capacity in each region. As such, counties are now subject to the applicable restrictions of the four-tier, color coded classification system. The County is currently in the purple zone, which requires generally that colleges remain closed.

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed by the President of the United States. The CARES Act appropriates over \$2 trillion to, among other things, (i) provide cash payments to individuals, (ii) expand unemployment assistance and eligibility, (iii) provide emergency grants and loans for small businesses, (iv) provide loans and other assistance to corporations, (v) provide funding for hospitals and community health centers, (vi) expand funding for safety net programs, including child nutrition programs, and (vii) provide aid to state and local governments. The CARES Act includes approximately \$14.25 billion in funding for higher education, including California community college districts, principally in the form of direct emergency aid to students and institutional grants. The CARES Act also waives a number of federal regulatory requirements to provide institutions greater flexibility in addressing the effects of the COVID-19 outbreak. The CARES Act addresses needs in multiple arenas, including the Higher Education Emergency Relief Fund (HEERF) which includes \$13.9 billion in “flexible funding” to help Institutions of Higher Education (IHEs) defray expenses and other fiscal impacts. The District’s allocation under the HEERF is \$15,230,050. A minimum of 50% of these funds must be distributed in direct aid to students. As a Hispanic, Asian, Native American, and Pacific Islander serving institution, the District was awarded \$1,041,785 in additional funds distributed under the HEERF. The District also received \$2,599,895 under the CARES Act Coronavirus Relief Fund (CRF), of which, \$1,167,174 was distributed under the COVID-19 Response Block Grant Federal Portion, and \$1,432,721 under the COVID-19 Response Block Grant State Portion.

On December 27, 2020 the Coronavirus Response and Relief Supplemental Appropriations Act (the “Coronavirus Response and Relief Act”) was signed by the President of the United States. The HEERF, implemented in the CARES Act, will receive an additional \$22.7 billion under the Coronavirus Response and Relief Act, \$20.2 billion of which will be allocated to public and private non-profit institutions of higher education, including those institutions that serve students enrolled exclusively in distance education, to be distributed by an allocation formula which considers head count in addition to full-time equivalent enrollment. The allocation formula is a change from the CARES Act, which only used full-time equivalent enrollment. Public and private non-profit institutions can use HEERF funding for lost revenue, reimbursement for expenses, technology costs associated with the shift to distance education, financial aid grants for students (including those exclusively enrolled in distance education), certain student support activities, and other qualifying purposes. Institutions who receive HEERF funds must provide at least the same amount of funding in emergency financial aid grants to students as was required under the CARES Act. The District estimates it may receive about \$30 million from HEERF funds Coronavirus Response and Relief Act, with about 50% of those funds dedicated to emergency financial aid grants to students.

During certain emergency conditions, state regulations provide that a community college district may be provided an “emergency conditions allowance,” calculated to approximate the same general purpose apportionment that such district would have received in absence of the emergency. Emergency conditions are defined to include epidemics, an order from a city or county board of health or the State

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

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

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic and other of actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the District's operations and finances is unknown. Additional information with respect to events surrounding the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to the State Governor's office, the California Department of Public Health and the Chancellor's Office. <https://www.gov.ca.gov/>; <https://www.cdph.ca.gov/>; <https://www.cccco.edu/About-Us/Chancellors-Office>. The District has not incorporated by reference the information on such websites, and the District does not assume any responsibility for the accuracy of the information on such websites. There can be no assurances that the spread of COVID-19, or the responses thereto by local, State, or the federal government, will not materially adversely impact the local, state and national economies or the assessed valuation of property within the District, adversely impact enrollment or average daily attendance within the District and, notwithstanding Executive Order N-26-20 and the public health orders, materially adversely impact the financial condition or operations of the District.

No Acceleration Upon Default

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

Lease Payments were due and against funds needed to serve the public welfare and interest. See “PLAN OF FINANCE – Security for the Certificates –*Sources of Payment for the Certificates*” herein.

Abatement

The obligation of the Lessee under the Lease Agreement to pay Lease Payments is in consideration for the use and possession of the Leased Property. The obligation of the Lessee to make Lease Payments may be abated in whole or in part if the Lessee does not have full use and possession of the Leased Property.

The amount of Lease Payments due under the Lease Agreement shall be abated during any period in which by reason of damage, destruction, eminent domain or otherwise there is substantial interference with the use and possession of the Leased Property. Such abatement will end with the substantial completion or replacement, repair or reconstruction of the Leased Property. If damage or destruction or eminent domain proceedings with respect to the Leased Property result in abatement of Lease Payments and the resulting Lease Payments (and in the event of damage or destruction, together with rental interruption proceeds, if any), are insufficient to make all payments of principal and interest represented by the Certificates during the period that the Leased Property is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made and no remedy is available to the Trustee or the Owners, under the Lease Agreement or Trust Agreement, for nonpayment under such circumstances. See “PLAN OF FINANCE – Security for the Certificates –*Abatement*” herein.

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

No Liability by the Corporation to the Owners

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

Hazardous Substances

The public education activities of the Lessee will, from time to time, result in the use of limited amounts of hazardous substances on the facilities owned and operated by the Lessee, including, but not limited to, the Leased Property. Accordingly, it is possible that spills, discharges or other adverse environmental consequences of such use in the future could cause an adverse effect on the fair rental value of the Leased Property and lead, in an extreme case, to abatement, in whole or in part, of Lease Payments. See “Abatement” above. The Lessee has covenanted to limit its use of hazardous substances on its campuses to those permitted by the Environmental Regulations (as defined in the Lease Agreement).

Earthquakes and Other Natural Disasters in California

The Lessee is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on their Leased Property. Depending on its severity, an earthquake could result in abatement under the Lease Agreement. See “RISK FACTORS – Abatement” herein.

In recent years, there have been several notable natural disasters throughout the State. These include drought conditions throughout the State, which led to a State-wide drought State of Emergency issued in January 2014, and certain executive orders issued in 2015 and 2016 aimed to reduce water usage in local communities. The drought was declared to have ended in 2017 due to record-level precipitation in late 2016 and early 2017.

In addition, wildfires have occurred in recent years in different regions of the State. Serious and significant property damage has resulted in areas of the State due to fire damage. In 2018, several laws were enacted addressing issues related to increased wildfire risk in the State, including forest management, mutual aid for fire departments, emergency alerts and safety mandates.

Further, the Governor has taken several actions to expedite forest management and fuel reduction projects that purport to protect 200 wildfire-prone communities in the State. Also, the State continues to provide aid to those communities that are still recovering from fire damage sustained during 2017 and 2018.

The Lessee can make no prediction on the impact of any earthquakes, droughts, wildfires or other natural disasters upon economic activity within its boundaries or the extent to which there will be a material adverse impact on its funding sources, including impacts on State funding sources and local property taxes.

Depending on their severity, earthquakes, wildfires, droughts and other natural disasters could result in a loss of use of the Leased Property by the District and an abatement of Base Rental Payments under the Lease Agreement.

Bankruptcy

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

Bankruptcy of Lessee. The Lessee may be eligible to become a debtor in a Chapter 9 bankruptcy case. If the State Chancellor or its appointed Trustee were to file for Chapter 9 bankruptcy on behalf of the Lessee, the Lessee may be able to reject the Site Lease or the Lease Agreement or assume the Site Lease or the Lease Agreement, despite any provision of the Site Lease or the Lease Agreement that makes the bankruptcy or insolvency of the Lessee an event of default thereunder.

If the Lessee rejects the Lease Agreement, the Lessee's obligation to pay Lease Payments and Additional Payments will terminate. The Trustee on behalf of the Owners of the Certificates will have a claim for damages in the bankruptcy case, but this claim for damages may be significantly limited.

If the Lessee rejects the Site Lease, the rights of the Trustee and the Owners of the Certificates to receive Lease Payments and Additional Payments may terminate, even if the Lessee remains in possession of the Leased Property. While the Trustee on behalf of the Owners of the Certificates may have a claim in the Lessee's bankruptcy, this claim for damages may be significantly limited, and the Owners of the Certificates could suffer substantial losses.

If the Lessee were to go into bankruptcy, the Trustee and the Owners of the Certificates could be prohibited from taking any action to enforce any of their rights or remedies against the Lessee or its property, unless the permission of the bankruptcy court was first obtained. This could prevent the Trustee from making payments to the Owners of the Certificates from funds in the possession of the Trustee.

Actions could be taken in a bankruptcy of the Lessee that could adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. In addition, there may be other possible effects of the bankruptcy of the Lessee that could result in delays or reductions in payments of the principal and interest evidenced by the Certificates, or in other losses to the Owners of the Certificates.

Regardless of any specific adverse determinations in a bankruptcy case of the Lessee, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the Certificates.

Bankruptcy of Corporation. While the Corporation covenants in the Lease Agreement that it will not engage in any activities inconsistent with the purposes for which the Corporation is organized, the Corporation is not a special-purpose bankruptcy-remote entity, and could become a debtor in a bankruptcy case. The Lessee and the Corporation intend the assignment to the Trustee of all of Corporation's right, title, and interest to receive the Lease Payments and Additional Payments to be an absolute sale and not the grant of a security interest in such property to secure a borrowing of the Corporation. Nonetheless, if the Corporation were to become a debtor in a bankruptcy case, and a party in interest (including the Corporation itself) was to take the position that the transfer of the Lease Payments and Additional Payments to the Trustee should be re-characterized as the grant of a security interest in such property, then delays in payments on the Certificates could result. If a court were to adopt such position, then delays or reductions in payments evidenced by the Certificates, or other losses to the Owners of the Certificates, could result.

Because the Corporation is not assigning all its rights under the Site Lease and the Lease Agreement to the Trustee, if the Corporation goes into bankruptcy, the Corporation may be able to obtain authorization from the bankruptcy court to sell to a third party all rights under the Site Lease and the Lease Agreement, including the Lease Payments and Additional Payments, free and clear of rights of the Trustee and the Owners of the Certificates. While the Trustee (and thus the Owners of the Certificates) should be entitled to receive the value of the Lease Payments and Additional Payments as determined by the bankruptcy court, the bankruptcy court's valuation may be substantially different than the value placed on such payments by the Owners of the Certificates, and the Owners of the Certificates may suffer a loss.

Similarly, because the Corporation is not assigning all its rights under the Site Lease and the Lease Agreement, it may be able to reject the Site Lease and the Lease Agreement or assume the Site Lease or the Lease Agreement despite any provision of the Site Lease or the Lease Agreement which makes the bankruptcy or insolvency of the Corporation an event of default thereunder. If the Corporation rejects the Site Lease or the Lease Agreement, the rights of the Trustee and the Owners of the Certificates to receive Lease Payments and Additional Payments may be terminated. Under such circumstances, the Owners of the Certificates could suffer substantial losses, and any claim for damages may be significantly limited. If the Corporation assumes the Site Lease and the Lease Agreement, it may be able to assign them to a third party, notwithstanding the provisions of the transaction documents.

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

Actions could be taken in a bankruptcy case of the Corporation which could adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. In addition, there may be other possible effects of the bankruptcy of the Corporation that could result in delays or reductions in payments of the principal and interest evidenced by the Certificates, or in other losses to the Owners of the Certificates.

Regardless of any specific adverse determinations in a bankruptcy case of the Corporation, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the Certificates.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111, 1A, 22, 30, 2, 62, 39, 51 and 55 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. See APPENDIX A – "FINANCIAL AND DEMOGRAPHIC INFORMATION OF THE DISTRICT" for a description of Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111, 1A, 22, 30, 2, 62, 39, 51 and 55. From time to time, other initiative measures could be adopted, further affecting the Lessee's revenues or their ability to expend revenues.

TAX MATTERS

The delivery of the Certificates is subject to delivery of the opinion of Special Counsel, to the effect that interest evidenced by the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the "Code"), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The delivery of the Certificates is also subject to the delivery of the opinion of Special Counsel, based upon existing provisions of the laws of the State of California, that interest evidenced by the Certificates is exempt from personal income taxes of the State of California. A form of Special Counsel's anticipated opinion is included as Appendix E. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

In rendering the foregoing opinions, Special Counsel will rely upon the representations and certifications of the District made in a certificate (the "Tax Certificate") of even date with the initial delivery of the Certificates pertaining to the use, expenditure and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Trust Agreement and the Lease Agreement by the District subsequent to the issuance of the Certificates. The Trust Agreement, the Lease Agreement and the Tax Certificate contain covenants by the District with respect to, among other matters, the use of the proceeds of the Certificates and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest evidenced by the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Except as described above, Special Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest evidenced by, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Special Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") or the State of California with respect to the matters addressed in the opinion of Special Counsel, and Special Counsel's opinion is not binding on the Service or the State of California. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures, the Service is likely to treat the District as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest evidenced by the Certificates, the District may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to Certificate owners of the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Certificates

The initial public offering price of certain of the Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount, allocable to the holding period of such Discount Certificate by the initial purchaser, will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest evidenced by the Certificates described above. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Certificate, and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued original issue discount on Discount Certificates and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The purchase price of certain Certificates (the “Premium Certificates”) paid by an owner may be greater than the amount payable on such Certificates at maturity. An amount equal to the excess of a purchaser’s tax basis in a Premium Certificate over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Certificate in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity (or, in some cases with respect to a callable Certificate, the yield based on a call date that results in the lowest yield on the Certificate). Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable certificate premium with respect to the Premium Certificates for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, execution and delivery of the Certificates will be subject to the final approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Special Counsel to the Lessee, substantially in the form contained in Appendix E. Norton Rose Fulbright US LLP is also acting as Disclosure Counsel. Certain legal matters will be passed upon for the Lessor by Parker & Cover LLP, Tustin, California. Compensation to be paid to Special Counsel, Disclosure Counsel and Counsel to the Lessor is contingent upon the issuance of the Certificates.

ABSENCE OF LITIGATION

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

RATING

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), has assigned a rating of “AA” to the Certificates. Such rating reflects only the view of S&P and an explanation of the significance of such rating may be obtained as follows: S&P at Municipal Finance Department, 55 Water Street, New York, New York 10041, tel. (212) 208-8000. A rating is not a recommendation to buy, sell or hold the Certificates. Such rating reflects only the views of S&P at the time the rating was given, and neither the District nor the Corporation makes any representation as to the appropriateness of any rating. An explanation of the significance of the rating may be obtained only from S&P. The District furnished to S&P information and materials relating to the Certificates, the District and the Leased Property, certain of which information and materials have not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that such rating will continue for any given period of time or

that they will not be revised downward or withdrawn entirely if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are to be purchased by Piper Sandler & Co. (the “Underwriter”) at a price of \$_____, reflecting an Underwriter’s discount of \$_____, plus [net] premium of \$_____. The certificate purchase agreement relating to the Certificates provides that all Certificates will be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said certificate purchase agreement, the approval of certain legal matters by Special Counsel and certain other conditions.

The Underwriter may offer and sell Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover. The offering prices may be changed from time to time by the Underwriter.

Underwriter Disclosure. The Underwriter has provided the following information for inclusion in this Preliminary Official Statement:

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

CONTINUING DISCLOSURE

The Lessee has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the Lessee (the “Annual Report”) for each fiscal year by not later than the February 25 following the end of the Lessee’s fiscal year (currently ending June 30) commencing with the Annual Report for Fiscal Year 2020-21 (which is due no later than February 25, 2022), and to provide notices of the occurrence of certain Listed Events. The Lessee will provide or cause to be provided the Annual Report and these notices to the Municipal Securities Rulemaking Board through the EMMA System or in the manner prescribed by the SEC. The specific nature of the information to be contained in the Annual Report and a notice of a Listed Event is set forth in Appendix G – “Form of Continuing Disclosure Certificate” attached hereto. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “Rule”).

The Lessee’s obligations under the Continuing Disclosure Certificate shall terminate upon the defeasance, prior prepayment or payment in full of all of the Certificates. The undertakings in the Continuing Disclosure Certificate shall inure solely to the benefit of the Lessee, the Trustee, the Underwriter and the Owners and beneficial owners, from time to time, of the Certificates, and shall create no rights in any other person or entity. See APPENDIX G – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Prior Undertakings. Within the last five years, the District did not timely file certain portions of its Annual Report for Fiscal Year 2014-15. As of the date hereof, the District has submitted all information for its outstanding obligations required to be submitted by the District’s continuing disclosure undertakings. In order to ensure future compliance with its continuing disclosure undertakings, the District has designated the Executive Director of Fiscal Services as the primary contact for continuing disclosure. The Executive Director of Fiscal Services coordinates with Digital Assurance Certification, L.L.C., as dissemination

agent, to file all appropriate documents and works with District staff to ensure all filings are made in a timely manner.

MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Lessee. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement is not to be construed as a contract or agreement between the Lessee and purchasers or Owners of any of the Certificates.

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

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APPENDIX A

FINANCIAL AND DEMOGRAPHIC INFORMATION OF THE DISTRICT

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APPENDIX A

FINANCIAL AND DEMOGRAPHIC INFORMATION OF THE DISTRICT

This Appendix A provides information concerning the operations and finances of the Pasadena Area Community College District (the “District”) and certain demographic information in the area covered by the District. Investors must read the entire Official Statement, including this Appendix, to obtain information essential to making an informed investment decision.

The economic and demographic data contained in this Appendix are the latest available, but are generally as of dates and for periods before the economic impact of the COVID-19 pandemic and the measures instituted to slow it. Accordingly, they are not necessarily indicative of the current financial condition or future economic prospects of the District or the region.

THE DISTRICT

District General Information

The Pasadena Area Community College District (the “District”) currently operates Pasadena City College which occupies a 53-acre site located in the City of Pasadena, California (the “City”), along with three satellite campuses (designated Foothill, Northwest and Rosemead) and a Child Development Center. The District, which was formerly named Pasadena Area Junior College District, was formed in July 1967. For Fiscal Year 2019-20, the District served approximately 37,360 credit students and 3,393 noncredit students. The District is located within the County of Los Angeles (the “County”), in the City of Pasadena, California. The population of the District’s service area is estimated to be approximately 467,829 based on January 2020 population figures for the cities of Pasadena, Arcadia, La Cañada Flintridge, San Marino, Temple City, South Pasadena, Sierra Madre, Rosemead, El Monte, Glendale, Los Angeles, Monrovia, San Gabriel and South El Monte, as well as the unincorporated region of Los Angeles County (with the population of each city and region weighted by its percentage overlap with the District).

District Organization

The District is governed by a Board of Trustees (the “Board”). The Board consists of 7 members (and 1 student trustee) who are elected at-large to overlapping four-year terms at elections held in staggered years and a student trustee elected to a one-year term by the District’s student body. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board Members or by a special election. Each December, the Board elects a President and a Vice President to serve one-year terms. The years in which the current terms for each member of the Board expire are set forth below:

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
BOARD OF TRUSTEES**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
James A. Osterling	President	2024
Berlinda Brown	Vice President	2022
Linda Wah	Clerk	2022
Sandra Chen Lau	Member	2022
Tammy Silver	Member	2024
John Martin	Member	2024
Dr. Anthony R. Fellow	Member	2022
David Ramirez	Student Trustee	2021

Key Personnel

The following is a listing of the key administrative personnel of the District:

<u>Name</u>	<u>Title</u>
Dr. Erika Endrijonas	Superintendent/President
Dr. Michael Bush	Assistant Superintendent/Vice President, Business and Administrative Services
Dr. Robert H. Bell ⁽¹⁾	Assistant Superintendent/Senior Vice President, Noncredit and Offsite Campuses
Dr. Laura Ramirez	Assistant Superintendent/Vice President, Instruction
Robert S. Blizinski	Assistant Superintendent/Vice President, Human Resources
Dr. Cynthia Olivo	Assistant Superintendent/Vice President, Student Services
Chedva Weingart	Executive Director of Fiscal Services

⁽¹⁾ Dr. Bell has provided notice of retirement effective September 1, 2021.

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

Brief biographies of the Superintendent/President and the Assistant Superintendent, Vice President Business and Administrative Services follow:

Dr. Erika A. Endrijonas, Superintendent/President. Dr. Enrijonas has served as the District's Superintendent/President since January 2019. She has over 20 years of community college experience and previously served as the President of Los Angeles Valley College, Executive Vice President and Accreditation Liaison Officer at Oxnard College and Dean of Educational Programs at Santa Barbara City College. Statewide, she has served on the California Community College boards of the Chief Instructional Officers and Chief Student Services Officers Associations and the Association for Occupational Education. She is also a board member of the California Community College Athletic Association and co-chairs the board of the national association LGBTQ Presidents in Higher Education. Dr. Enrijonas earned her bachelor's degree in history from California State University, Northridge, and a Master of Arts and Ph.D. from the University of Southern California.

Dr. Michael Bush, Assistant Superintendent, Vice President Business and Administrative Services. Dr. Bush has served as the District's Assistant Superintendent, Vice President of Business and Administrative Services since June 2019. Dr. Bush has over 20 years of experience in the California

K-12 and community college system. Previously, Dr. Bush served as the Vice President of Business Services at Oxnard College. He earned his M.S. and doctorate in Education from Pepperdine University.

Accreditation

Pasadena Area Community College is fully accredited by the Accrediting Commission for Community and Junior Colleges (“ACCJC”) of the Western Association of Schools and Colleges (“WASC”). ACCJC is one of seven institutional accrediting bodies recognized by the Commission on Recognition of Postsecondary Accreditation and the U.S. Department of Education. Accreditation is a voluntary system of self-regulation developed to evaluate overall educational quality and institutional effectiveness and to provide public assurance of the quality of education based upon such evaluation. Each institution affiliated with ACCJC voluntarily accepts the obligation to participate in a seven year cycle of evaluation that requires a comprehensive evaluation visit by an external team of peers. The cycle includes a mandatory midterm report in the third year as well as any other reports requested by ACCJC.

The District is fully accredited by the Accrediting Commission for Community and Junior Colleges (the “ACCJC”). Its last comprehensive review was in 2016-17, and the next comprehensive review is scheduled for Spring 2021.

District Employees

The District employs approximately 725 full-time and approximately 1,049 part-time certificated academic professionals as well as 143 full-time classified employees.

<u>Labor Organization</u>	<u>Number of Employees Represented</u>		<u>Contract Expiration</u>
	<u>Full-Time</u>	<u>Part-Time</u>	
California School Employees Association, Chapter 777	62	--	June 30, 2020
Pasadena City College Confidential Employees	17	--	Meet and Confer Group
Pasadena City College Faculty Association	423	1,049	June 30, 2022
California Federation of Teachers	270	--	June 30, 2020
Pasadena City College Management Association	85	--	Meet and Confer Group
Pasadena City College Police Officers Association	11	--	June 30, 2019 ⁽¹⁾

⁽¹⁾ A proposed contract with a term ending June 30, 2022 has been ratified by a vote of the membership of the Pasadena City College Police Officers Association, however, execution of the final contract is pending.

Insurance

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and worker’s compensation as are adequate, customary and comparable with such insurance maintained by similarly situated community college districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

The District participates in two joint powers agreement (“JPA”) entities: Statewide Association of Community Colleges (SWACC) and Schools Alliance for Workers’ Compensation Excess Group Purchase (SAWCX II). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

Based upon prior claims experience, the District believes it has adequate insurance coverage through the JPAs and its own self-insurance.

District Enrollment

The table below sets forth the Full-Time Equivalent Students (“FTES”) for the District for the Fiscal Years ending June 30, 2016 through 2020.

PASADENA AREA COMMUNITY COLLEGE DISTRICT		
Full-Time Equivalent Students		
Fiscal Years Ending 2015-16 through 2019-20		
Fiscal Year	Resident and Non-Resident FTES ⁽¹⁾	Increase (Decrease) From Prior Year
2015-16	23,501	691
2016-17	23,988	487
2017-18	23,989	1
2018-19	23,881	(108)
2019-20	23,940	59

⁽¹⁾ FTES figures include California resident (“Resident”) and non-resident students. The District receives apportionment from the State only for Resident students. Non-resident students are charged a higher fee per unit than Resident students, which income is independent and not subject to apportionment nor deduction by the State. Table represents actual FTES without regard to hold-harmless provisions. See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA - Student Centered Funding Formula” herein.

Source: The District.

District Investments

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

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

For a further discussion of the Pooled Investment Fund, see APPENDIX F - “THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS” hereto.

Financial Statements of the District

The District's General Fund finances the legally authorized activities of the District. General Fund revenues are derived from such sources as State fund apportionments, taxes, use of money and property, charges for current services, aid from other governmental agencies and other revenue. The General Fund of the District is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the District and restricted funds and moneys which are restricted to specific types of programs or purposes. Certain information from the District's financial statements follows. The District's audited financial statements for fiscal year ended June 30, 2020 are attached hereto as APPENDIX H. The District has not requested and its auditor has not provided any review or update of such statements in connection with the inclusion thereof in this Official Statement.

The financial statements included herein were prepared by the District using information from the Annual Financial Reports which are prepared by the District and audited by independent certified public accountants each year. The data included in this Official Statement for the District beyond fiscal year 2019-20 is unaudited and has not been reviewed by the District's independent certified public accountants.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California Community Colleges Budget and Accounting Manual. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

The financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities. The major fund classification is the general fund, which accounts for all financial resources not required to be accounted for in another fund. The District's fiscal year begins on July 1 and ends on June 30. All governmental funds and fiduciary funds are maintained on the accrual basis of accounting, and so revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. For more information on the District's accounting method, see "APPENDIX H – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2020" hereto.

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

The District's Audited Financial Statements for fiscal year ended June 30, 2020 were prepared by Eide Bailly LLP and are attached as APPENDIX H. Due to COVID-19, the Chancellor for California Community College Districts issued Executive Order 2020-06 that established new deadlines for local budgets, annual financial and budget reports, and district audit reports.

The District considers its audited financial statements to be public information, and accordingly, no consent has been sought or obtained from the auditor in connection with the inclusion of such statements in this Official Statement. The auditor has made no representation in connection with inclusion of the audit in this Official Statement.

Budgets of District; State Chancellor Oversight

The fiscal year of the District begins on the first day of July of each year and ends on the 30th day of June of the following year. On or before July 1 of each year the District adopts a fiscal line-item budget setting forth expenditures in priority sequence so that appropriations during the fiscal year can be adjusted if revenues do not meet projections.

The District is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous year. The State Chancellor imposes a uniform budgeting format for each community college district in the State.

State law grants to the Board of Governors of the California Community Colleges and to the State Chancellor certain oversight with respect to the budget development process and financial reporting of community college districts. Pursuant to California Education Code Section 84040 *et seq.* and the California Code of Regulations Section 58310 *et seq.*, the chief executive officer or other designee of the governing board of each community college district is required to regularly report the financial condition of such community college district to the governing board thereof. Further, the chief executive officer or other designee is required to submit reports showing the financial and budgetary conditions of its community college district, including outstanding obligations, to the governing board at least once every three months. Each community college district is also required to submit a copy of a certified quarterly report to the appropriate county office of education and the State Chancellor no later than forty-five days following the completion of such quarter. The State Chancellor is required to develop and maintain procedures for the administration of fiscal monitoring of community colleges districts pursuant to the California Education Code Section 84040 *et seq.*

In the event that a community college district's financial information indicates to the State Chancellor a high probability that, absent corrective actions, the district will need an emergency apportionment within three years or that the district is not in compliance with the principles of sound fiscal management as set forth in the California Code of Regulations, the State Chancellor has the authority to further intervene in the affairs of the district. The State Chancellor may, among other things, require additional reports from a community college district, require such community college district to respond to specific concerns or direct the community college district to adopt a detailed plan for fiscal stability and an educational plan which shows the impact of the fiscal plan on such community college district's educational program.

The California Code of Regulations grants the State Chancellor the authority to take certain actions if the State Chancellor determines that a community college district's plans are inadequate to solve the financial problems or to implement the principles of sound fiscal management, such community college district substantially fails to implement the plans, or if a college operated by such community college district is in imminent jeopardy of losing its accreditation which would create severe fiscal problems. The State Chancellor may, among other thing, (i) conduct a comprehensive management review of a community college district and its educational programs and an audit of the financial condition of such community college district; (ii) direct a community college district to amend and readopt the fiscal and educational plans based on the findings of the comprehensive audits; (iii) review and monitor the implementation of the plans and direct a community college district to make any further modifications to the fiscal and educational

plans he or she deems necessary for such community college district's achievement of fiscal stability; (iv) appoint or assign a special trustee (a "Special Trustee"). The Special Trustee, if appointed, may review and monitor plans, reports, and other financial material, and may modify the fiscal and educational plans, review and prioritize expenditures in order to further the community college district's achievement of fiscal stability, approve or disapprove actions of such community college district which affect or relate to the implementation of the fiscal and educational plans. The Special Trustee may assume management and control of a community college district if authorized by the Board of Governors based on the recommendation of the State Chancellor. The State Chancellor may authorize the Special Trustee to exercise such powers as are approved by the Board of Governors for a period of no more than one year, unless the Board of Governors approves one or more one-year extensions.

In the event the State Chancellor deems that the aforementioned procedures have not stabilized the financial condition of a community college district, the State Chancellor may seek an appropriation for an emergency apportionment to be repaid over a period of three years. However, the State Chancellor is not authorized to approve any diversion of revenue from *ad valorem* taxes levied to pay debt service on district general obligation bonds.

In the event the State elects to provide an emergency appropriation to a community district, such appropriation may be accomplished through the issuance of "State School Fund Apportionment Lease Revenue Bonds" to be issued by the California Infrastructure and Economic Development Bank, on behalf of the community college district. State law provides that so long as such bonds are outstanding, the recipient community college district cannot file for bankruptcy.

District Finances

The following table describes the District's audited financial results for the fiscal years 2017-18 through 2019-20 and the District's adopted budgets for the fiscal years 2017-18 through 2020-21.

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PASADENA AREA COMMUNITY COLLEGE DISTRICT
Combined General Fund

Audited Actual Results for Fiscal Years 2017-18 through 2019-20 and Adopted Budgets for Fiscal Years 2017-18 through 2020-21

	<u>2017-18</u>		<u>2018-19</u>		<u>2019-20</u>		<u>2020-21</u>
	<u>Budgeted</u>	<u>Actuals</u>	<u>Budgeted</u>	<u>Actuals</u>	<u>Budgeted</u>	<u>Actuals</u>	<u>Budgeted</u>
REVENUES:							
Federal	\$9,025,883	\$7,394,871	\$7,194,912	\$7,145,128	\$7,831,709	\$7,851,045	\$17,307,576
State	135,403,014	129,303,655	127,644,853	126,459,143	142,328,104	133,998,133	140,487,596
Local	<u>53,965,552</u>	<u>62,438,868</u>	<u>68,266,903</u>	<u>68,717,090</u>	<u>64,609,951</u>	<u>65,768,099</u>	<u>62,898,105</u>
Total Revenues	\$198,394,449	\$199,137,394	\$203,106,668	\$202,321,361	\$214,769,764	\$207,617,277	\$220,693,277
EXPENDITURES:							
Academic Salaries	\$74,989,962	\$78,501,615	\$82,628,794	\$80,466,009	\$87,067,567	\$83,064,062	\$82,720,393
Classified Salaries	34,248,490	33,525,999	37,117,758	35,343,188	40,308,685	38,574,856	40,292,502
Employee Benefits	44,254,772	40,739,734	46,932,438	44,454,055	50,225,292	49,954,755	52,868,436
Supplies and Materials	4,575,586	2,445,143	4,193,132	2,963,994	7,108,638	2,757,660	7,882,036
Other Operating Expenses and Services	30,104,596	26,840,145	24,558,534	18,280,854	23,702,798	18,927,395	26,447,307
Capital Outlay	<u>5,742,116</u>	<u>4,331,515</u>	<u>2,937,300</u>	<u>3,115,308</u>	<u>4,166,958</u>	<u>2,837,079</u>	<u>7,611,583</u>
Total Expenditures	\$193,915,522	\$186,384,151	\$198,367,956	\$184,623,408	\$212,579,938	\$196,115,807	\$217,822,257
Excess (Deficiency)	\$4,478,927	\$12,753,243	\$4,738,712	\$17,697,953	\$2,189,826	\$11,501,470	\$2,871,020
Other Outgo	\$4,537,315	\$11,731,811	\$5,873,527	\$15,003,237	\$4,815,266	\$11,118,098	\$4,597,756
Other Financing Sources	\$3,000	\$68,000	\$3,000	\$5,281	\$353,000	\$966,178	\$353,000
Net Increase/(Decrease) in Fund Balance	\$(55,388)	\$1,089,432	\$(1,131,815)	\$2,699,997	\$(2,272,440)	\$1,349,550	\$(1,373,736)
Beginning Fund Balance July 1	\$28,551,225	\$28,551,225	\$29,640,657	\$29,640,657	\$32,340,654	\$32,340,654	\$33,690,204
Ending Fund Balance June 30	\$28,495,837	\$29,640,657	\$28,508,842	\$32,340,654	\$30,068,214	\$33,690,204	\$32,316,468
ENDING FUND BALANCE							
As % of Expenditures	14.69%	15.90%	14.37%	17.52%	14.14%	17.18%	14.84%

Source: California Community College State Chancellor's Office and the District.

Pasadena City College Foundation

The Pasadena City College Foundation (the “Foundation”) is a separate non-profit, public benefit corporation organized under Section 501(c)(3) of the Internal Revenue Code. The Foundation was established in 1979 to secure philanthropic funding through contributions from individuals, corporations, foundations, and non-profits to assist the Pasadena Area Community College District in meeting its commitment to student success. The purpose of the Foundation is to secure financial assistance for scholarships, programs, capital projects, technology updates and other projects which meet the need of the College’s diverse student population. Under GASB rules, the Foundation is not a component unit of the District for financial reporting purposes. The Foundation has awarded over \$8.3 million in scholarships since 2008. As of June 30, 2020, the Foundation had net assets valued at approximately \$32.1 million.

Liquidity; Cash-flow Borrowing

The District has substantial cash in other operating funds that may be used for temporary borrowing, if necessary. As of January 5, 2021, such available borrowable funds totaled about \$40.7 million. While those funds are internally designated to other operating funds, they are unrestricted and available for unexpected cash flow needs.

Cash on hand may be augmented by a temporary cash flow borrowing of up to an estimated \$18.9 million by the District’s participation in the California School Finance Authority State Aid Intercept Notes (Fiscal Year 2020-21 School and Community College District Deferrals) tax and revenue anticipation notes program to contend with expected State deferral of payments to local education agencies, including the District. To provide some perspective, State funding deferrals for the District peaked at \$24.5 million in fiscal year 2011-12.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payments
2021	\$ 359,780
2022	128,192
2023	128,192
2024	128,192
2025	128,192
2026-2030	677,486
2031-2035	701,380
2036-2040	746,430
2041-2045	325,991
2046-2050	241,575
2051-2055	<u>241,575</u>
Total	\$3,806,985

Rental expenditures for the year ended June 30, 2020, amounted to \$1,335,915.

Long-Term Debt

A schedule of the District's changes in long-term debt for the fiscal year ended June 30, 2020 is shown below:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2020</u>
Bonds Payable				
General Obligation Bonds	\$81,402,857	\$ 25,848,113	\$ (31,043,152)	\$ 76,207,818
Aggregate Net OPEB Liability	19,753,129	4,054	(783,381)	18,973,802
Aggregate Net Pension Obligation	170,063,976	13,398,616	-	183,462,592
Other Liabilities	9,682,253	1,432,395	(562,088)	10,552,560
Total Long-Term Obligations	<u>\$ 280,902,215</u>	<u>\$ 40,683,178</u>	<u>\$ (32,388,621)</u>	<u>\$ 289,196,772</u>
Amount due within one year				<u>\$ 3,920,000</u>

For more information on the District's existing general obligations, see "APPENDIX H - AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2020" hereto.

2020 General Obligation Refunding Bonds. On March 12, 2020, the District issued general obligations refunding bonds designated 2020 General Obligation Refunding Bonds in the aggregate principal amount of \$22,165,000 to refund its 2002 Election Taxable General Obligation Build America Bonds (Direct Subsidy), 2009 Series E in the aggregate principal amount of \$25,295,000. Such refunded bonds were redeemed on March 30, 2020.

Retirement Systems

General. The District currently participates in the California State Teachers' Retirement System ("STRS"), California Public Employees' Retirement System ("PERS"), Public Agency Retirement System ("PARS") and the Accumulation Program for Part-Time and Limited-Service Employees (the "APPLE Plan" and, together with the STRS, PERS and PARS, the "Retirement Plans"). Academic employees are members of STRS, classified employees are members of the PERS, part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the APPLE Plan, and employees who opted for an early retirement incentive and are receiving an ongoing monthly benefit are members of the District's Supplementary Retirement Plan under PARS. The amounts of the District's contributions to STRS, PERS, PARS and the APPLE Plan are subject to, among other things, modifications to or approvals of collective bargaining agreements. See APPENDIX H – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2020 for additional information.

STRS. The District participates in the State Teachers' Retirement System. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

Prior to fiscal year 2014-15, unlike typical defined benefit programs, neither the employee, employer or State contribution rate 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 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 recently passed legislation to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by statute to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed Assembly Bill 1469 (“AB 1469”) into law as a part of the 2014-15 State 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. Beginning July 1, 2014, the employee contribution rates increased over a three-year period in accordance with the following schedule:

MEMBER CONTRIBUTION RATES		
STRS (Defined Benefit Program)		
Effective Date	STRS Members Hired Prior to January 1, 2013	STRS Members Hired After January 1, 2013
July 1, 2014	8.15%	8.15%
July 1, 2015	9.20	8.56
July 1, 2016	10.25	9.21

Source: STRS and AB 1469

Pursuant to AB 1469, K-14 school district contribution rates 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)	
Effective Date	K-14 School District Employer Contributions
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	18.13
July 1, 2020	19.10

Source: STRS and 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 that was 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 employer contributions to STRS for fiscal years ended June 30, 2016 through June 30, 2020 (together with the unaudited estimate for fiscal year ending June 30, 2021) are set forth in the table below, and equal 100 percent of the required contributions for each year. See APPENDIX H – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2020 for additional information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
STRS CONTRIBUTIONS**

Fiscal Years Ended June 30	District Employer Contributions
2016	\$ 5,834,591
2017	7,444,308
2018	9,399,768
2019	10,265,598
2020	10,897,459
2021 ⁽¹⁾	10,289,211

⁽¹⁾ Unaudited estimate.
Source: The District.

PERS. The District also participates in the State Public Employees' Retirement System ("PERS"). The District's employer contribution to PERS for fiscal years ended June 30, 2016 through June 30, 2020 (together with the unaudited estimate for fiscal year ending June 30, 2021) are set forth in the table below, and equal 100 percent of the required contributions for each year. See APPENDIX H – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2020 for additional information.

**PASADENA AREA COMMUNITY COLLEGE DISTRICT
PERS CONTRIBUTIONS**

Fiscal Years Ended June 30	District Employer Contributions
2016	\$3,272,310
2017	3,787,743
2018	4,350,794
2019	5,512,146
2020	6,617,767
2021 ⁽¹⁾	6,863,751

⁽¹⁾ Unaudited estimate.
Source: The District.

Both PERS and STRS are operated on a Statewide basis and, based on available information, both PERS and STRS have unfunded actuarial accrued liabilities. (Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282.) The amounts of the pension/award benefit obligation (PERS) or actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. See "State Pension Trusts" below. The District is unable to predict what the amount of liabilities will be in the future, or the amount of the contributions which the District may be required to make.

\$1,440 Lifetime Benefit Plan. The District administers and contributes to a single-employer defined benefit pension plan for eligible retirees upon retirement from the District and reaching the age of 65. An annual payment of \$1,440 is contributed by the District to eligible retirees to help offset the costs of healthcare coverage. There are 850 active employees who may become eligible to retire and receive benefits in the future, 45 retirees with deferred benefits, and 423 retirees receiving District-paid benefits as of the July 1, 2019 valuation date. The measurement date for the total pension liability is June 30, 2020. The benefit is paid in full during the first year of eligibility and there are no spousal or survivor benefits paid under this plan. Benefit payments made in the 2019-20 fiscal year, inclusive of the implicit subsidy, was \$632,004. This benefit is payable in addition to pension benefits that may be payable under one of the District's other pension plans. See APPENDIX H – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2020 for additional information.

California Public Employees' Pension Reform Act of 2013. The Governor signed the California Public Employee's Pension Reform Act of 2013 (the "Reform Act") into law on September 12, 2012. The Reform Act affects both STRS and PERS, most substantially as they relate to new employees hired after January 1, 2013 (the "Implementation Date"). As it pertains to STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age, increasing the eligibility for the 2% "age factor" (the percent of final compensation to which an employee is entitled to 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. 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 also increases the eligibility requirement for the maximum age factor of 2.5% to age 67.

The Reform Act also implements certain other changes to PERS and STRS including the following:

- (a) all new participants enrolled in PERS and STRS after the Implementation Date are required to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary,
- (b) STRS and PERS are both required 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 (currently 12 months for STRS members who retire with 25 years of service), and
- (c) "pensionable compensation" is capped for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for STRS and PERS members not participating in social security.

On April 17, 2013 the PERS Board of Administration (the "PERS Board") approved new actuarial policies aimed to fully fund the pension system's obligations within 30 years. The new policies included 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 in respect of the State, K-14 school district and all other public agencies in Fiscal Year 2015-16.

In 2014, PERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014, the PERS Board adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. 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 the next three years in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal

year 2019-20. The new discount rate will go 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 will also see their contribution rates rise. The three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans. The PERS Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these changes is the inclusion of mortality improvement to acknowledge the greater life expectancies among PERS membership and expected continued improvements.

Pursuant to the PERS Board's decision in February 2014, the new actuarial assumptions will be incorporated in the June 30, 2015 valuation for the schools portion of the PERS pool (the "School's Pool"). The increase in liability due to the new actuarial assumptions will be amortized over 20 years and phased in over 5 years in accordance with PERS Board policy, beginning with the contribution requirement for fiscal year 2016-17. The projected impact of the assumption change on the Schools Pool rate is estimated to be an increase of 1.6 percent of payroll in 2016-17 with approximate annual increases of 0.8 percent of payroll in each of the next 4 years with an estimated total increase of 4.8 percent of payroll by 2020-21.

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

In February 2017, the STRS Board voted to adopt revised actuarial assumptions to reflect the increasing life expectancies of its members and the then-current economic trends. The revisions to the actuarial assumptions included changes to the generational mortality methodology that reflect prior improvements in life expectancies and more dynamic assessments of future life spans. In addition, the STRS Board determined to decrease the investment return assumption over a two-year period as follows: (i) a decrease from 7.50% to 7.25% for the June 30, 2016 actuarial valuation that is to be presented to the STRS Board in April 2017 and (ii) a decrease from 7.25% to 7.00% for the June 30, 2017 actuarial valuation to be presented to the STRS Board at the April/May 2018 meeting. The changes reflect the less than 50% probability that the then-current return assumptions would be met over the long term. The STRS Board also decreased some of the economic-related assumptions to reflect continued trends. As a result, the wage-growth assumption was reduced to 3.50% from 3.75% while the price inflation factor was also reduced to 2.75% from 3.00%.

State Pension Trusts

The following information on the State Pension Trusts has been obtained from publicly available sources and has not been independently verified by the District, is not guaranteed as to the accuracy or completeness of the information and is not to be construed as a representation by the District or the Underwriter. Furthermore, the summary data below should not be read as current or definitive, as recent losses on investments made by the retirement systems generally may have increased the unfunded actuarial accrued liabilities stated below.

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 PERS Schools Pool had an unfunded liability, based on the market value of assets, of \$31.4 billion as of June 30, 2019, and STRS had unfunded actuarial liabilities of \$105.7 billion

as of June 30, 2019. The amount of unfunded actuarially accrued liability will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution.

STRS and PERS each issue separate comprehensive annual financial reports that include financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, P.O. Box 15275, Sacramento, California 95851-0275 and copies of the PERS annual financial report and actuarial valuations may be obtained from the PERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information presented in these reports is not incorporated by reference in this Official Statement.

Pension Stability Trust

During the Fiscal Year 2017-18, the District established an irrevocable pension stability trust with PARS to assist in stabilizing the District's funding for increasing future STRS and PERS liabilities. Through June 30, 2019, the District has contributed \$4.0 million to this trust. No contribution was made to this trust in Fiscal Year 2019-20. These funds can be used to augment the pay-as-you-go expense of pension benefits in any fiscal year. The District is not obligated to replenish the fund.

GASB Statement Nos. 67 and 68

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

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For the fiscal year ended June 30, 2020, the District reported the net pension liabilities, deferred outflows of resources, deferred inflows of resources and pension expense for each of the plans as follows:

Pension Plan	Aggregate Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
STRS	\$103,947,383	\$31,792,418	\$12,360,831	\$12,474,526
PERS – Schools Risk Pool	64,034,102	15,772,550	1,288,055	10,683,558
PERS – Misc. Pool	1,356,900	239,715	48,304	297,823
Plan (Bookstore)				
\$1,440 Lifetime Benefit	14,124,207	2,376,013	203,550	1,063,068
Total	\$183,462,592	\$50,180,696	\$13,900,740	\$24,518,975

Source: The District's Audited Financial Statements, June 30, 2020.

The District's share of the net pension liabilities for STRS and PERS appears in the table above under the column heading "Aggregate Net Pension Liability." For more information, see the fiscal year 2019-20 audited financial statements of the District included in Appendix H hereto.

Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The pronouncement required public agency employers providing other postemployment benefits ("OPEB") to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits ("GASB 45"). In June 2015, GASB issued Statement Nos. 74 and 75, respectively, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pension Plans and Pensions, respectively*. The objectives of these statements are to (i) improve the usefulness of information related to postemployment benefits other than pensions (other postemployment benefits or "OPEB") included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability and (ii) improve accounting and financial reporting by State and local governments for OPEB, respectively. GASB Statement No. 74 replaces Statements No. 43 and 57 and Statement No. 75 replaces GASB Statement No. 45.

Plan Description. The District's Governing Board administers the Postemployment Benefits Plan (the "Plan"), a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions for eligible retirees and their spouses. Management of the Plan is vested in the District management. Management of the trustee assets is vested with the Public Agency Retirement Services (PARS), Irrevocable Trust Management Services.

Plan Membership. At June 30, 2020, the Plan membership consisted of 45 inactive employees or beneficiaries currently receiving benefit payments and 850 active employees, for a total of 895 plan participants.

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 the benefits is covered by the Plan. The District's Governing Board has the authority to establish and amend the benefit terms as contained with the negotiated labor agreements.

Contribution Information. The contribution requirements of Plan members and the District are established and may be amended by the District, the Faculty Association (FA), 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, FA, CSEA and the unrepresented groups. For the measurement period of June 30, 2020, the District contributed \$1,259,116 to the Plan, all of which was used for current premiums.

Retiree Health Benefit OPEB Trust. During the 2017-18 fiscal year, the District established a GASB Statement No. 74 irrevocable trust with Public Agency Retirement Services (“PARS”) to fund OPEB obligations. Through June 30, 2018, the District contributed \$10 million to this trust, with an additional \$2,000,000 contributed in fiscal year 2018-19. The Retiree Health Benefit OPEB Trust (the “Trust”) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by PARS as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California Government Code section 53600.5 which specifies that the trustee’s primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary to the Trust.

Net OPEB Liability of the District. The District’s net OPEB liability of \$18,215,598 was measured as of June 30, 2020, and the total OPEB liability used to calculate the net 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, 2020, were as follows:

Total OPEB liability	\$31,784,216
Plan fiduciary net position	(13,568,618)
District’s Net OPEB Liability	<u>\$18,215,598</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u><u>42.69%</u></u>

Source: The District.

For additional information, see “APPENDIX H – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2020 – Note 10” hereto.

FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA

Major Revenues

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

The major local revenue source is local property taxes that are collected from within district boundaries, with student enrollment fees accounting for most of the remainder. A small part of a community college district’s budget is from local sources other than property taxes and student enrollment

fees, such as interest income, donations, educational foundation contributions and sales or leases of property.

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

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

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

SB 361 specified that, commencing with the 2006-07 fiscal year the minimum funding per FTES would be: (a) not less than \$4,367 per credit FTES; (b) at a uniform rate of \$2,626 per non-credit FTES; and (c) \$3,092 per CDCP FTES. Although CDCP FTES were initially funded at a lower rate than credit FTES, subsequent legislation effective as of the 2015-16 fiscal year set the minimum funding for CDCP FTES at the same level as credit FTES. Each such minimum funding rate was subject to cost of living adjustments (each, a “COLA”), if any, funded through the State budgeting legislation in each fiscal year.

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

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

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

The SCFF includes several provisions to provide districts greater financial stability in transitioning to the new formula: (i) for fiscal years 2018-19 through 2021-22,[†] community college districts will receive no less in total apportionment funding than they received in 2017-18, adjusted for COLAs; (ii) for fiscal year 2022-23 and onward, districts will receive no less in apportionment funding per-student than they received in fiscal year 2017-18; and (iii) beginning in fiscal year 2018-19, districts will receive the greater of the amount calculated by the SCFF for the current or prior year (excluding amounts districts receive pursuant to the provision summarized in (i) above).

The 2020-21 State Budget extends the formula's existing hold harmless (minimum revenue) provision by two years, through 2023-24. Under this provision, the District will earn at least their 2017-18 total computational revenue, adjusted by COLA each year, in years without base reductions.

Base Allocation. The Base Allocation is composed of (1) the Basic Allocation, determined consistent with the prior funding formula (see “- *Enrollment Based Funding*” above), and (2) funding for credit, non-credit and CDCP FTES. The Base Allocation is expected to constitute approximately 70% of Statewide funding for community college districts in fiscal year 2018-19 and in fiscal year 2019-20. The 2019 Budget Act tasked the Chancellor's Office with determining the formula's final 2019-20 funding rates based on total computational revenue of \$7.43 billion as determined by the Department of Finance. Beginning in 2020-21, these funding rates are to be adjusted by COLA and other base adjustments, and the distribution of funds across the three allocations (base, supplemental, and student success) is to be determined by changes in the underlying factors.

The SCFF provides minimum funding levels for credit FTES for the first fiscal year at \$3,727 for fiscal year 2018-19. For fiscal year 2019-20 the 2019-20 State Budget recalculates funding rates in the base, supplemental and student success allocations so that 70% of SCFF funds would be allocated to the base allocation. Beginning in 2020-21 those funding rates are codified in trailer bill language and are to be adjusted by COLA. Notwithstanding the foregoing, the SCFF provides higher credit FTES funding rates for certain districts that were entitled to higher funding rates under the prior funding formula. Beginning in fiscal year 2021-22, the provision of COLAs and other adjustments will be subject to appropriation therefor in the annual State budget. Total funding for credit FTES will be based on a rolling three-year average of the funded credit FTES from the current fiscal year and the two immediately preceding fiscal years. Credit FTES associated with enrollment growth proposed in the annual budget act shall be excluded from the three-year average and shall instead be added to the computed three-year rolling average. In computing the three-year average, credit FTES generated by incarcerated and special admit students shall be excluded and funded consistent with the prior funding formula.

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

Supplemental Allocation. The Supplemental Allocation, accounting for approximately 20% of Statewide funding, will be distributed to districts based on their headcounts of students that receive Federal Pell Grants, a student who is granted an exemption from nonresident tuition pursuant to Section 68130.5 (AB540), and student fee waivers under California Education Code 76300 (California College Promise Grant). The SCFF provides \$919 per qualifying student for fiscal year 2018-19. Beginning in fiscal year 2019-20, the 2019-20 State Budget recalculates funding rates for supplemental allocation so that in 2019-20, 20% of the SCFF funds would be allocated for the supplemental allocation. The final SCFF rate per qualifying student as calculated in the 2020 Budget Act is \$948. Beginning in 2020-21 those rates would

[†] The 2020-21 State Budget extended the formula's existing hold harmless (minimum revenue) provision by two years, through 2023-24. Under this provision, districts will earn at least their 2017-18 total computational revenue, adjusted by COLA each year, in years without base reductions.

be adjusted by COLA. Headcounts are not unduplicated, such that districts will receive twice or three times as much supplemental funding for a student that falls into more than one of the aforementioned categories.

Student Success Allocation. The Student Success Allocation will be distributed to districts based on their performance in a various student outcome metrics, including obtaining various degrees and certificates, completing transfer-level math and English courses within a student's first year, and having students obtain a regional living wage within a year of completing community college. The original SCFF stipulates that Student Success Allocation accounts for 10% of statewide funding for community college districts in fiscal year 2018-19, 10% in each of fiscal years 2019-20, 2020-21 and 2021-22. The SCFF Funding allocation implementation plan has been revised to allocate 10% to Student Success Allocation starting in 2019-2020. However, increases in future fiscal years' are subject to change. Each metric is assigned a point value, with some metrics are weighted more than others. A single student outcome with more points will generate more funding. Outcome metrics for students that qualify for Federal Pell Grants and California College Promise Grants are eligible for additional funding.

Beginning in fiscal year 2019-20 the student success allocation will count only the highest of all awards a student earned in the same year and will only count the award if the student was enrolled in the district in the year the award was granted. The student success allocation will also calculate based on the three-year rolling average of each metric. Outcome metrics for students that qualify for Federal Pell Grants, AB 540 and California College Promise Grants are eligible for additional funding.

The District received \$10.0 million more in fiscal year 2018-19 than in fiscal year 2017-18 in apportionment. The increase in revenue consisted of a cost of living increase of 2.71% and 4.75% increase provided by the new funding formula allocation. The District's FTES remained stable at 23,880. In 2018-19, the new funding formula provided the District with additional revenues above the base revenue and Cost-of-Living Adjustment (COLA), however the revenue was constrained by almost \$1.2 million due to an overall budget shortfall for community colleges. The 2020-21 State Budget extends the existing minimum revenue provisions of the SCFF, specifying that districts will receive at least the 2017-18 total computational revenues, adjusted by COLA each year, through 2023-24 COLA for fiscal year 2019-20 was 3.26%, which provides an additional \$3.7 million for the District. However, the revenue may be constrained by approximately \$1.4 million due to an overall State budget shortfall. COLA for fiscal year 2020-21 is 0.00%.

There can be no assurances that the spread of COVID-19, or the responses thereto by local, State, or the federal government, will not materially adversely impact the local, State and national economies or the assessed valuation of property within the District, or adversely impact enrollment or FTES within the District and, notwithstanding Executive Order N-26-20 and the public health orders, materially adversely impact the financial condition or operations of the District. Accordingly, the District's FTES count and State funding may be affected by the ongoing COVID-19 outbreak. See "RISK FACTORS – COVID-19 Pandemic" and "APPENDIX A – FINANCIAL AND DEMOGRAPHIC INFORMATION OF THE DISTRICT – FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA - State Budget" herein.

Assessed Valuations

The Board of Supervisors of the County of Los Angeles levies and collects *ad valorem* taxes upon property within the District subject to taxation by the County. The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution.

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

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

For fiscal year 2020-21, the District's total assessed valuation is \$98,822,343,110. Shown in the following tables is information relating to the assessed valuation of property in the District during the current and past five fiscal years, assessed valuation and parcels by land use, and per parcel assessed valuation of single-family homes.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
Summary of Assessed Valuations
Fiscal Years 2015-16 through 2020-21

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utilities</u>	<u>Unsecured</u>	<u>Total</u>
2015-16	\$73,846,516,979	\$1,971,348	\$1,121,013,560	\$74,969,447,887
2016-17	77,782,328,658	2,689,999	1,135,358,889	78,920,377,546
2017-18	83,014,786,037	268,063	1,150,707,287	84,165,761,387
2018-19	87,863,101,914	268,063	1,186,915,510	89,050,285,487
2019-20	92,631,072,781	268,063	1,247,894,901	93,879,235,745
2020-21	97,556,706,053	2,059,556	1,263,577,501	98,822,343,110

Source: California Municipal Statistics, Inc.

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PASADENA AREA COMMUNITY COLLEGE DISTRICT
2020-21 Assessed Valuation by Jurisdiction

<u>Jurisdiction:</u>	<u>Assessed Valuation in District</u>	<u>% of District⁽¹⁾</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>% of Jurisdiction in District</u>
City of Arcadia	\$17,976,475,115	18.19%	\$18,384,704,572	97.78%
City of El Monte	2,047,266,368	2.07	\$8,820,501,396	23.21
City of Glendale	79,516,487	0.08	\$35,557,869,979	0.22
City of La Canada-Flintridge	8,123,974,923	8.22	\$8,862,622,903	91.67
City of Los Angeles	720,621	0.00	\$696,013,120,916	0.00
City of Monrovia	20,708,747	0.02	\$6,452,193,392	0.32
City of Pasadena	34,783,993,552	35.20	\$34,783,993,552	100.00
City of Rosemead	2,338,689,613	2.37	\$5,112,497,588	45.74
City of San Gabriel	388,361,307	0.39	\$5,931,401,642	6.55
City of San Marino	7,135,993,695	7.22	\$7,135,993,695	100.00
City of Sierra Madre	2,568,962,003	2.60	\$2,568,962,003	100.00
City of South El Monte	494,306	0.00	\$2,626,608,353	0.02
City of South Pasadena	5,408,029,556	5.47	\$5,408,029,556	100.00
City of Temple City	5,625,059,540	5.69	\$5,770,249,439	97.48
Unincorporated Los Angeles County	<u>12,324,097,277</u>	<u>12.47</u>	\$117,499,724,109	10.49
Total District	\$98,822,343,110	100.00%		
Los Angeles County	\$98,822,343,110	100.00%	\$1,708,923,809,032	5.78

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Assessed valuation of Los Angeles County, and is not the sum of preceding numbers in column.

Source: California Municipal Statistics, Inc.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
2020-21 Assessed Valuation and Parcels by Land Use

	<u>2020-21 Assessed Valuation ⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
<u>Non-Residential:</u>				
Agricultural/Dairy	\$32,794,492	0.03%	37	0.03%
Commercial/Office	12,358,769,100	12.67	4,711	3.90
Vacant Commercial	639,180,412	0.66	640	0.53
Industrial	1,431,793,483	1.47	722	0.60
Vacant Industrial	160,219,091	0.16	152	0.13
Recreational	472,966,253	0.48	126	0.10
Government/Social/Institutional	530,041,330	0.54	633	0.52
Miscellaneous	<u>130,021,200</u>	<u>0.13</u>	<u>1,599</u>	<u>1.32</u>
Subtotal Non-Residential	\$15,755,785,361	16.15%	8,620	7.13%
<u>Residential:</u>				
Single Family Residence	\$64,827,640,012	66.45%	86,648	71.66%
Condominium/Townhouse	7,362,468,975	7.55	13,401	11.08
Mobile Home Park	15,752,973	0.02	9	0.01
2-4 Residential Units	3,715,268,688	3.81	6,948	5.75
5+ Residential Units/Apartments	5,211,893,354	5.34	2,390	1.98
Vacant Residential	<u>667,896,690</u>	<u>0.68</u>	<u>2,897</u>	<u>2.40</u>
Subtotal Residential	\$81,800,920,692	83.85%	112,293	92.87%
Total	\$97,556,706,053	100.00%	120,913	100.00%

⁽¹⁾ Local Secured Assessed Valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

PASADENA AREA COMMUNITY COLLEGE DISTRICT
Per Parcel 2020-21 Assessed Valuation of Single-Family Homes

	No. of Parcels	2020-21 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single-Family Residential	86,648	\$64,827,640,012	\$748,172	\$546,520

2020-21 Assessed Valuation	No. of Parcels⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$99,999	7,078	8.169%	8.169%	\$ 477,410,374	0.736%	0.736%
\$100,000 - \$199,999	8,738	10.084	18.253	1,299,042,411	2.004	2.740
\$200,000 - \$299,999	8,559	9.878	28.131	2,142,585,738	3.305	6.045
\$300,000 - \$399,999	8,083	9.329	37.460	2,824,341,025	4.357	10.402
\$400,000 - \$499,999	7,448	8.596	46.055	3,345,893,550	5.161	15.563
\$500,000 - \$599,999	7,185	8.292	54.347	3,947,794,587	6.090	21.653
\$600,000 - \$699,999	6,462	7.458	61.805	4,190,869,811	6.465	28.118
\$700,000 - \$799,999	5,636	6.504	68.310	4,212,353,783	6.498	34.615
\$800,000 - \$899,999	4,737	5.467	73.777	4,016,330,279	6.195	40.811
\$900,000 - \$999,999	3,704	4.275	78.051	3,511,205,808	5.416	46.227
\$1,000,000 - \$1,099,999	2,757	3.182	81.233	2,889,964,855	4.458	50.685
\$1,100,000 - \$1,199,999	2,161	2.494	83.727	2,478,322,059	3.823	54.508
\$1,200,000 - \$1,299,999	1,848	2.133	85.860	2,306,144,739	3.557	58.065
\$1,300,000 - \$1,399,999	1,547	1.785	87.645	2,084,810,106	3.216	61.281
\$1,400,000 - \$1,499,999	1,347	1.555	89.200	1,950,096,084	3.008	64.289
\$1,500,000 - \$1,599,999	1,143	1.319	90.519	1,768,968,945	2.729	67.018
\$1,600,000 - \$1,699,999	978	1.129	91.648	1,612,733,456	2.488	69.506
\$1,700,000 - \$1,799,999	809	0.934	92.581	1,414,690,374	2.182	71.688
\$1,800,000 - \$1,899,999	733	0.846	93.427	1,355,168,785	2.090	73.778
\$1,900,000 - \$1,999,999	682	0.787	94.215	1,329,078,455	2.050	75.828
\$2,000,000 and greater	<u>5,013</u>	<u>5.785</u>	100.000	<u>15,669,834,788</u>	<u>24.172</u>	100.000
	86,648	100.000%		\$64,827,640,012	100.000%	

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

Tax Rates, Levies, Collections and Delinquencies

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

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

the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and ½% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of 1 ½% per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

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

Certain counties in the State operate under a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. **The County has not adopted the Teeter Plan, and consequently the Teeter Plan is not available to local taxing entities within the County, such as the District. The District's receipt of property taxes is therefore subject to delinquencies.**

The District is a member of the California Statewide Delinquent Tax Financing Authority (the "Authority"). The Authority is a joint exercise of powers agency formed for the purpose of purchasing delinquent ad valorem property taxes of its members in accordance with Section 6516.6 of the California Government Code. The Authority purchases delinquent ad valorem property taxes from school agencies and community college districts in the County. The Authority is a pass-through entity and financial information is not available.

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The following tables set forth secured tax charges levied and delinquencies in the District for fiscal years 2014-15 through 2018-19.

PASADENA AREA COMMUNITY COLLEGE DISTRICT

Secured Tax Charges and Delinquencies

Fiscal Years ended June 30, 2015 to June 30, 2020

Fiscal Year ended June 30	1% General Fund Apportionment			District's General Obligation Bond Debt Service Levy		
	Secured Tax Charge⁽¹⁾	Amount Delinquent (June 30)	Percent Delinquent (June 30)	Secured Tax Charge⁽²⁾	Amount Delinquent (June 30)	Percent Delinquent (June 30)
2014-15	\$23,151,594.09	\$334,932.38	1.45%	\$7,111,030.19	\$70,816.39	1.00%
2015-16	24,781,687.03	353,190.82	1.43	6,431,683.30	68,198.89	1.06
2016-17	26,052,511.84	310,880.06	1.19	6,681,417.88	65,177.24	0.98
2017-18	27,977,728.45	349,129.84	1.25	6,801,565.76	84,038.93	1.24
2018-19	29,579,263.04	405,815.17	1.37	6,744,368.31	73,742.18	1.09
2019-20	31,335,947.35	709,476.11	2.26	6,649,297.34	106,127.41	1.60

(1) 1% General Fund apportionment. Excludes redevelopment agency impounds. Reflects county-wide delinquency rate.

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

Source: California Municipal Statistics, Inc.

The following table sets forth typical tax rates levied in Tax Rate Area (7500) for fiscal years 2015-16 through 2020-21:

PASADENA AREA COMMUNITY COLLEGE DISTRICT
Typical Total Tax Rate Per \$100 Assessed Value (Tax Rate Area 7500)

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
General	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Pasadena Area Community College District	.008722	.008850	.008186	.007674	.007207	.005535
Pasadena Unified School District	.111679	.106730	.105469	.094909	.045308	.022936
Metropolitan Water District	<u>.003500</u>	<u>.003500</u>	<u>.003500</u>	<u>.003500</u>	<u>.003500</u>	<u>.003500</u>
Total	1.123901	1.119080	1.117155	1.106083	1.056015	1.031971

Source: California Municipal Statistics, Inc.

Largest Taxpayers

The 20 largest local secured taxpayers in the District and their assessed valuations for 2019-20 are shown in the following table.

PASADENA AREA COMMUNITY COLLEGE DISTRICT 2020-21 Largest Local Secured Taxpayers

	<u>Property Owner</u>	<u>Land Use</u>	<u>2020-21 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1.	Santa Anita Borrower LLC	Shopping Center	\$424,273,264	0.43%
2.	Kaiser Foundation Health Plan	Medical Buildings	277,557,256	0.28
3.	CPUS Pasadena LP	Office Building	277,102,627	0.28
4.	CVFI-S Lake Avenue LP	Office Building	264,261,600	0.27
5.	Santa Anita Land Holdings LLC	Race Track	222,364,422	0.23
6.	BPP East Union LLC	Shopping Center	217,568,855	0.22
7.	Capref Paseo LLC, Lessor	Shopping Center	193,008,857	0.20
8.	Pacific Huntington Hotel	Hotel	185,066,874	0.19
9.	PPF OFF 100 West Walnut Street LP	Office Building	184,882,266	0.19
10.	PPF OFF 74 North Pasadena Avenue and 75	Office Building	171,813,681	0.18
11.	177 Colorado Owner LLC	Office Building	168,024,600	0.17
12.	GLC El Monte LLC	Industrial	167,821,971	0.17
13.	Trio Pasadena LLC	Apartments	163,560,166	0.17
14.	Western Asset Plaza LLC	Office Building	162,704,806	0.17
15.	Tishman Speyer Archstone Smith	Apartments	156,969,226	0.16
16.	CWI Pasadena Hotel LP	Hotel	150,823,913	0.15
17.	Westgate Pasadena Block 2 LLC	Apartments	139,877,514	0.14
18.	TREA Holly Street Village LLC	Apartments	139,264,711	0.14
19.	SFIII Lake LLC	Office Building	134,000,000	0.14
20.	SSR Paseo Colorado LLC	Apartments	<u>129,491,356</u>	<u>0.13</u>
			\$3,930,437,965	4.03%

⁽¹⁾ 2020-21 Local Secured Assessed Valuation: \$97,556,706,053.

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report for the District prepared by California Municipal Statistics, Inc. on December 3, 2020 for debt outstanding as of January 1, 2021. 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.

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PASADENA AREA COMMUNITY COLLEGE DISTRICT DIRECT AND OVERLAPPING BONDED INDEBTEDNESS

2020-21 Assessed Valuation: \$98,822,343,110

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/21</u>
Metropolitan Water District	2.931%	\$ 944,661
Pasadena Area Community College District	100.000	62,530,000
Arcadia Unified School District	100.000	248,625,445
La Canada Unified School District	100.000	75,420,000
Pasadena Unified School District	100.000	283,510,000
San Marino Unified School District	100.000	13,420,670
South Pasadena Unified School District	100.000	97,173,973
Temple City Unified School District	100.000	94,028,629
High School and School Districts	35.236-100.	152,052,523
City of Arcadia	97.780	9,083,762
Community Facilities Districts	100.000	4,175,000
County 1915 Act Bonds	100.000	305,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,041,269,663

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	5.783%	\$152,216,814
Los Angeles County Superintendent of Schools Certificates of Participation	5.783	264,016
Pasadena Area Community College District Certificates of Participation	100.000	—⁽¹⁾
School District Certificates of Participation	Various	11,692,284
City of Pasadena General Fund Obligations	100.000	404,687,944
City of Pasadena Pension Obligations	100.000	136,820,000
Other City General Fund Obligations	Various	99,109,552
Los Angeles County Sanitation District Authorities	Various	2,760,966
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$807,551,576
Less: City of Pasadena general fund obligations supported by other revenue sources		353,837,944
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$453,713,632

OVERLAPPING TAX INCREMENT DEBT (Successor Agencies): \$25,140,285

GROSS COMBINED TOTAL DEBT \$1,873,961,524⁽²⁾
NET COMBINED TOTAL DEBT \$1,520,123,580

⁽¹⁾ Excludes issue to be sold.

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

Ratios to 2020-21 Assessed Valuation:

Direct Debt (\$62,530,000)0.06%
Total Direct and Overlapping Tax and Assessment Debt1.05%
Gross Combined Total Debt1.90%
Net Combined Total Debt1.54%

Ratios to Redevelopment Incremental Valuation (\$7,355,910,057):

Total Overlapping Tax Increment Debt0.34%

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). The Accountability Act changed State funding of public education below the university level, and the operation of the State’s Appropriations Limit, primarily by guaranteeing State funding for K-12 school districts and community college districts (collectively, “K-14 districts”).

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (a) in general, a fixed percent of the State’s General Fund (the “State General Fund”) revenues (“Test 1”), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIII B by reference to State per capita personal income) and enrollment (“Test 2”), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in State per capita personal income (“Test 3”). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a “credit” to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of the 1988-89 fiscal year, implementing Proposition 98, determined the K-14 districts’ funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 35% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, with the Governor’s concurrence, to suspend the K-14 districts’ minimum funding formula for a one-year period. In the fall of 1989, the Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIII B limit to K-14 districts.

Application of Proposition 98. The application of Proposition 98 and other statutory regulations has become increasingly difficult to accurately predict. One major reason is that Proposition 98 minimum funding levels under Test 1 and Test 2 are dependent on State General Fund revenues. In past fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years’ estimated Proposition 98 minimum funding levels.

State Assistance

The District’s principal funding formulas and revenue sources are derived from the budget of the State of California. ***The following information concerning the State of California’s budgets has been obtained from publicly available information which the District believes to be reliable; however, the State has not entered into any contractual commitment with the District, the County, the Underwriter, Special Counsel and Disclosure Counsel nor the Owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, none of the District, the County, Special Counsel and Disclosure Counsel nor the Underwriter assume any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets***

is available at various State-maintained websites including www.ebudget.ca.gov, which website is not incorporated herein by reference.

2020-21 State Budget. On June 29, 2020 Governor Newsom signed into law the Fiscal Year 2020-21 State Budget (the “2020-21 State Budget”), closing a \$54.3 billion gap in Fiscal Year 2020-21 and reducing the State’s structural deficit, balancing the State’s budget by drawing \$8.8 billion in reserves from the Rainy Day Fund (\$7.8 billion), the Safety Net Reserve (\$450 million), and all of the funds in the Public School System Stabilization Account. The 2020-21 Budget (i) includes \$11.1 billion in reductions and deferrals that will be restored if at least \$14 billion in federal funds are received by October 15, 2020; (ii) relies on \$10.1 billion in federal funds that provide General Fund relief, including \$8.1 billion already received; (iii) temporarily suspends the use of net operating losses for medium and large businesses and temporarily limits to \$5 million the amount of business incentive credits a taxpayer can use in any given tax year (generating \$4.4 billion in additional revenues in Fiscal Year 2020-21); and (iv) relies on \$9.3 billion in special fund borrowing and transfers, as well as other deferrals for K-14 schools.

In addition, the 2020-21 Budget reflects estimated spending of \$5.7 billion to respond directly to the COVID-19 pandemic, including personal protective equipment, hospital surge preparation, and other expenditures to support populations at greater risk of contracting COVID-19. Of the \$9.5 billion in Coronavirus Relief Fund received by the State, \$4.5 billion is allocated to local school districts, \$1.3 billion is allocated to counties, and \$500 million to cities. The 2020-21 Budget also includes \$750 million General Fund to provide support for counties experiencing revenue losses due to the pandemic. The 2020-21 Budget also temporarily suspends for three years net operating loss tax deductions for medium and large businesses and limits business tax credits, with an estimated increase in tax revenues of \$4.3 billion in fiscal year 2020-21.

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

California Community Colleges (“CCC”). The 2020-21 Budget enacts certain statutory changes in an effort to assist CCCs to recover from the impacts of the recession caused by the COVID-19 pandemic, including the following: (i) exempting direct COVID-19-related expenses incurred by community college districts (excluding revenue declines) from the “50 Percent Law” (which requires community college districts to spend at least half of their current expense of education in each fiscal year on salaries and benefits of classroom instructors); (ii) providing a hardship exemption for community college districts unable to meet their financial obligations due to the deferrals enacted in the 2020-21 Budget; (iii) extending the Student-Centered Funding Formula hold harmless provisions for an additional two years, as well as authorizing the use of past-year data sources that have not been impacted by the COVID-19 pandemic for the calculation of the Student-Centered Funding Formula for Fiscal Year 2020-21; and (iv) encouraging and expediting the development of short-term career technical education courses to address the impacts of the COVID-19 pandemic.

Proposition 98 Guarantee. As a result of declining State revenue, the 2020-21 Budget states that the constitutional Proposition 98 guarantee level of \$70.9 billion is more than \$10 billion below the minimum guarantee at the 2019 Budget Act, a loss which is offset by the 2020-21 Budget and defers \$12.9 billion in payments to preserve programs and to provide K-12 schools and CCCs, the resources necessary

to safely reopen. In addition, the 2020-21 Budget commits to making supplemental appropriations above the Proposition 98 guarantee for several years starting in Fiscal Year 2021-22, which will accelerate General Fund support for schools over the multi-year forecast period.

Supplemental Appropriations – The 2020-21 Budget provides for a new, multi-year payment obligation to supplement K-14 education funding. The total obligation would equal approximately \$12.4 billion, and reflects the administration’s estimate of the additional funding K-14 school districts would have received in the absence of COVID-19-related reductions. Under this proposal the State will make annual payments toward this obligation beginning in Fiscal Year 2021-22. These payments would equal 1.5% of State general fund revenue. The 2020-21 Budget also increases the share of State general fund revenue required to be spent on K-14 school districts from 38% to 40% by Fiscal Year 2023-24.

Other significant features of the 2020-21 Budget affecting CCCs include the following:

- ***Fiscal Year Deferrals.*** A deferral of approximately \$330.1 million Proposition 98 General Fund of community college apportionments from Fiscal Year 2019-20 to Fiscal Year 2020-21 and a deferral of approximately \$662.1 million Proposition 98 General Fund of community college apportionments from Fiscal Year 2020-21 to Fiscal Year 2021-22.
- ***Fiscal Year 2020-21 Deferrals Subject to Control Section 8.28.*** As a result of the COVID-19 Recession and absent the receipt of additional federal funds to assist the State with the fiscal crisis, reductions are necessary to balance the state budget. To the extent the federal government provides sufficient federal funds by October 15, 2020, which are eligible for purposes identified below, funds will be appropriated for the Fiscal Year 2020-21 as follows: a deferral of approximately \$791.1 million Proposition 98 General Fund of community college apportionments from Fiscal Year 2020-21 to Fiscal Year 2021-22.
- ***COVID-19 Response Block Grant for CCCs.*** A one-time increase of approximately \$120.2 million, which is comprised of approximately \$54 million from the Coronavirus Relief Fund (CARES Act) and approximately \$66.3 million Proposition 98 General Fund, for a COVID-19 Response Block Grant for the community colleges to support student learning and mitigate learning loss related to the COVID-19 pandemic.
- ***Dreamer Resource Liaisons.*** An increase of \$5.8 million Proposition 98 General Fund to fund Dreamer Resource Liaisons and student support services, for immigrant students including undocumented students in community colleges, pursuant to Chapter 788, Statutes of 2019 (AB 1645). These services provide an opportunity to address disparities and advance economic justice by supporting educational attainment, career pathways and economic mobility for students who may face barriers related to their immigration status.
- ***Legal Services.*** An increase of \$10 million ongoing Proposition 98 General Fund to provide legal services to immigrant students, faculty, and staff on community college campuses.
- ***Revised PERS/STRS Contributions.*** To provide local educational agencies and CCCs with increased fiscal relief, the Budget redirects \$2.3 billion appropriated in the 2019 Budget Act to STRS and PERS for long-term unfunded liabilities to further reduce employer contribution rates in Fiscal Years 2020-21 and 2021-22.
- ***CCC Facilities.*** An increase of general obligation bond funding of \$223.1 million, including \$28.4 million to start 25 new capital outlay projects and \$194.7 million for the construction phase of 15 projects anticipated to complete design by spring 2021. This

allocation represents the next installment of the \$2 billion available to CCCs under Proposition 51.

- **Local Property Tax Adjustment.** A decrease of \$60.9 million Proposition 98 General Fund as a result of increased offsetting local property tax revenues.
- **Employee Protections.** Includes the intent of the State Legislature that school districts, community college districts, joint powers authorities, and county offices of education retain all classified employees in Fiscal Year 2020-21.

Governor's Proposed 2021-22 State Budget. On January 8, 2021, Governor Newsom released California's Proposed Fiscal Year 2021-22 State Budget (the "Proposed 2021-22 State Budget"). The Proposed 2021-22 State Budget totals about \$227 billion, increasing only slightly over the 2020-21 State Budget. General Fund spending would increase by about \$8.6 billion (5.5%) to \$164.5 billion. The Proposed 2021-22 State Budget reflects an improved outlook since the 2020-21 State Budget, based on revenues that outperformed earlier projections following the COVID-19 pandemic. The State is projected to end the Fiscal Year 2020-21 with available general fund reserves that include: \$15.6 billion in the Budget Stabilization Account (the General Fund's "rainy-day" fund) for fiscal emergencies; \$450 million in the Safety Net Reserve (used to maintain benefits and services for CalWORKs and Medi-Cal participants during economic downturns) and \$3 billion in the Public School System Stabilization Account (the Proposition 98 "rainy-day" fund used to lessen the impact of State revenue volatility on K-14 schools). Despite some improvement over the prior year, expenditures are projected to grow faster than revenues, with a structural deficit of about \$7.6 billion projected for Fiscal Year 2022-23 that is forecast to grow to over \$11 billion by 2024-25.

Proposition 98 Guarantee. For K-12 schools and CCCs, the Proposition 98 funding for Fiscal Year 2021-22 is approximately \$85.8 billion, with about \$9.3 billion of that amount for CCCs under the Proposed 2021-22 State Budget. The Proposed 2021-22 State Budget proposes to eliminate the 2020-21 Budget's commitment to making supplemental appropriations above the Proposition 98 guarantee for several years starting in Fiscal Year 2021-22. Last year's budget projections had anticipated a \$12.4 billion drop in Proposition 98 funding for Fiscal Years 2019-20 and 2020-21. But only about a \$500 million drop is now projected to materialize. In place of those multi-year supplemental payments, the Proposed 2021-22 State Budget instead proposes a one-time non-Proposition 98 supplemental payment of \$2.3 billion in Fiscal Year 2020-21.

Deferrals and COLA. The 2020-21 State Budget deferred apportionments of about \$1.45 billion for CCC funding from Fiscal Year 2020-21 to Fiscal Year 2021-22. The Proposed 2021-22 State Budget proposes to reduce deferred apportionments for SCFF by about \$1.13 billion, reducing deferrals to \$326.5 million. The proposed COLA for SCFF is 1.5% (translating to about \$111.1 million). Proposed 2021-22 State Budget projects an increase of \$23.1 million (or 0.5%) enrollment growth for SCFF. An additional \$120.9 million of funding increase is proposed based on SCFF base adjustments.

Significant features of the Proposed 2021-22 State Budget affecting CCCs include the following:

- **Emergency Financial Assistance.** A \$250 million one-time Proposition 98 General Fund appropriation for emergency financial assistance for full-time, low-income community college students and other students who were previously working full-time.
- **Student Basic Needs.** A \$100 million one-time Proposition 98 General Fund appropriation to address students' basic needs related to food and housing insecurity.

- ***Student Retention and Enrollment.*** A \$20 million one-time Proposition 98 General Fund appropriation to support efforts to bolster CCC student retention rates and enrollment, primarily targeting students who withdrew due to impacts of the COVID-19 pandemic.
- ***Student Technology Access.*** A \$20 million ongoing Proposition 98 General Fund appropriation to support student access to electronic devices and high-speed Internet connectivity, as well as to increase student mental health resources.
- ***Apprenticeship Investments; Work-Based Learning.*** A \$15 million ongoing Proposition 98 General Fund appropriation to augment the California Apprenticeship Initiative, which supports the creation of apprenticeship opportunities in priority and emerging industry sectors; a \$20 million one-time Proposition 98 General Fund appropriation to expand work-based learning models and programs at CCCs, including working with faculty and employers to incorporate work-based learning into curriculum.
- ***Online Education Infrastructure.*** An increase of \$10.6 million ongoing Proposition 98 General Fund appropriation to support continuity of education and distance learning.
- ***Instructional Materials.*** An increase of \$2.5 million one-time Proposition 98 General Fund appropriation for CCCs to provide instructional materials for dual enrollment students. An increase of \$15 million one-time Proposition 98 General Fund appropriation for CCCs to develop and implement zero-textbook-cost degrees using open education resources.
- ***CCC Facilities.*** An increase of general obligation bond funding of \$355.8 million for 18 capital outlay projects, representing the next installment of the \$2 billion available to CCCs under Proposition 51.
- ***Pension Costs.*** The 2020-21 State Budget redirected funds previously designated for a long-term buy-down of pension liabilities, and instead used them to reduce local school employer pension contributions in 2020-21 and 2021-22 by about 2% in each year. The Proposed 2021-22 State Budget does not propose further buy-downs but continues implementation of the 2021-22 employer contribution reduction. As a result, the CalSTRS employer contribution declines from 17.1% in 2019-20 to 15.92% in 2021-22. The proposal also mitigates increases to the CalPERS estimated employer contribution rate of 24.9%, providing for a rate of 23% in 2021-22.

LAO Report on Proposed 2021-22 State Budget. On January 10, 2021, California’s Legislative Analyst’s Office (“LAO”) issued a nonpartisan analyses (the “LAO Report”) of the Proposed 2021-22 State Budget. The LAO Report notes the State’s improved fiscal picture amidst the ongoing COVID-19 pandemic. Despite the overall expected increase in reserves under the Proposed 2021-22 State Budget, the LAO observes that the State will face large multiyear operating deficits if the State legislature adopts the Proposed 2021-22 State Budget. In particular, the LAO warns that the State would experience an operating deficit of \$7.60 billion in fiscal year 2022-23 that would grow to \$11.30 billion in fiscal year 2024-25. The LAO recommends that the State Legislature begin to consider the ways in which the State might address the multi-year structural deficit, including, for example, by considering the use of discretionary spending to make supplemental pension payments.

The LAO estimates that the Governor had a \$15.50 billion surplus to allocate in the Proposed 2021-22 State Budget, and that the Governor allocated approximately \$8.10 billion to one-time or temporary spending, approximately \$2.90 billion to the Special Fund for Economic Uncertainties (“SFEU”), approximately \$2.50 billion to revenue reductions, approximately \$1.30 billion to ongoing spending (the

costs of which the LAO estimates will grow slightly over time to \$1.40 billion by fiscal year 2024-25), and approximately \$700 million to repay State debts and liabilities. The LAO comments that the Proposed 2021-22 State Budget provides a reasonable mix of one-time and ongoing spending.

The LAO Report observes that, of the new public school and community college spending specifically attributable to 2021-22, the Proposed 2021-22 State Budget allocates \$2.6 billion for ongoing commitments and \$2.9 billion for one-time activities. This one-time spending, combined with a \$2.4 billion one-time deposit into the Public School System Stabilization Account, creates a budget cushion of \$5.3 billion. The LAO Report asserts that this cushion will help protect ongoing programs from volatility in the Proposition 98 minimum guarantee. Moreover, the LAO Report observes, \$2.3 billion of the total Proposition 98 funding allocated to schools in 2021-22 is supported with a one-time supplemental payment (the Proposed 2021-22 State Budget assumes no such additional payments are provided after 2021-22).

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

Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget" or www.ebudget.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst ("LAO") at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution. On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness and (as a result of a constitutional amendment approved by California voters on November 7, 2000) on bonded indebtedness for school facilities and equipment approved by 55 percent of the voters voting on the bond measure. See "Proposition 39" below. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-1976 tax bill under full 'cash value,' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation. This system results in widely varying amounts of tax on similarly situated properties based on differences in the taxpayer's date of acquisition of the property. On June 18, 1992, the United States Supreme Court issued a decision upholding the constitutionality of Article XIII A (*Nordlinger v. Hahn*, 112 S. Ct. 2326, 120 L. Ed. 2d 1 (1992)).

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

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situation.” Any such allocation made to a local agency continues as part of its allocation in future years.

Article XIII B of the California Constitution. An initiative to amend the California Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979 thereby adding Article XIII B to the California Constitution (“Article XIII B”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-1979 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIII C and Article XIII D of the California Constitution. On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, 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. Article XIII C also provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether

the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District.

Proposition 62. In 1986, California voters adopted Proposition 62, a statutory initiative which amended the California Government Code by the addition of Sections 53720-53730. Proposition 62 requires that (i) any local tax for general governmental purposes (a “general tax”) must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a “special tax”) must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency’s property tax allocation. Provisions applying Proposition 62 retroactively from its effective date to 1985 are unlikely to be of any continuing importance; certain other restrictions were already contained in the Constitution.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Following the California Supreme Court’s decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (“La Habra”). In this case, the court held that public agency’s continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Proposition 98. In 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). The Accountability Act changed State funding of public education below the university level, and the operation of the State’s Appropriations Limit, primarily by guaranteeing State funding for K-12 school districts and community college districts (collectively, “K-14 districts”).

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (d) in general, a fixed percent of the State’s General Fund (the “State General Fund”) revenues (“Test 1”), (e) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIII B by reference to State per capita personal income) and enrollment (“Test 2”), or (f) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in State per capita personal income (“Test 3”). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a “credit” to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of the 1988-89 fiscal year, implementing Proposition 98, determined the K-14 districts’ funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 35% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, with the Governor’s concurrence, to suspend the K-14 districts’ minimum funding formula for a one-year period. In the fall of 1989, the Legislature and the Governor utilized this provision to avoid having 40.3% of

revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIII B limit to K-14 districts.

In the 2020-21 State Budget, the State anticipates approximately an overall 7% decline in State Revenues, which without other action, would result in an approximately \$10 billion reduction in spending from the Proposition 98 minimum guarantee set forth the 2019-20 State Budget. The 2020-21 State Budget offsets this loss in several ways, including the deferral of approximately \$12.9 billion in payments into the 2021-22 fiscal year to preserve programs for school districts and community college districts and draws of approximately \$8.8 billion in reserves from the BSA, Safety Net Reserve and Public School System Stabilization Account. The 2020-21 State Budget restores up to an approximate of \$11.1 billion in the event federal funds are received by October 15, 2020, with the specific amount depending on the amount of federal funding received. See “- State Budget” herein.

Application of Proposition 98

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimum funding levels under Test 1 and Test 2 are dependent on State General Fund revenues. In past fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years’ estimated Proposition 98 minimum funding levels. The State determined that there were loans to K-14 districts of \$1.3 billion during fiscal year 1990-91, \$1.1 billion during fiscal year 1991-92, \$1.3 billion during fiscal year 1992-93 and \$787 million during fiscal year 1993-94. These loans have been combined with the K-14 1992-93 loans into one loan totaling \$1.760 billion. The State proposed that repayment of this loan would be from future years’ Proposition 98 entitlements, and would be conditioned on maintaining current funding levels per pupil for K-12 schools.

In 1992, a lawsuit, California Teachers’ Association et al. v. Gould, was filed, which challenged the validity of the off-budget loans. As part of the negotiations leading to the 1995-96 Budget Act, an agreement was reached to settle this case. The agreement provides that both the State and K-14 districts share in the repayment of prior years’ emergency loans to schools. Of the total \$1.76 billion in loans, the State will repay \$935 million, while K-14 districts will repay \$825 million. The State share of the repayment will be reflected as expenditures above the current Proposition 98 base calculation. The K-14 districts’ share of the repayment will count as appropriations that count toward satisfying the Proposition 98 guarantee, and thus are treated as from “below” the current base. Repayments are spread over the eight-year period of 1994-95 through 2001-02 to mitigate any adverse fiscal impact. In April 1996, a court settlement was reached and \$360 million in appropriations from the 1995-96 fiscal year was disbursed to districts in August 1996.

Substantially increased State General Fund revenues, above initial budget projections, in the fiscal years 1994-95 and thereafter have resulted or will result in retroactive increases in Proposition 98 appropriations from subsequent fiscal years’ budgets. Because of the State’s increasing revenues, per-pupil funding at the K-12 level has increased by about 42% from the level in place from 1991-92 through 1993-94. A significant amount of the “extra” Proposition 98 moneys in the last few years has been allocated to special programs, most particularly an initiative to allow each classroom from grades K-3 to have no more than 20 pupils by the end of the 1997-98 school year. More recently, however, the economy of the State has slowed, and it is anticipated that the State may experience budget shortfalls. For a discussion of State funding of the District, see “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA.” See also “RISK FACTORS – COVID-19 Pandemic” herein.

Proposition 39

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

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

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

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 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

Beginning in fiscal year 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and

redevelopment agencies, to school and community college districts through a local Educational Revenue Augmentation Fund (“ERAF”) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a Statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State’s voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of an initiative constitutional amendment at the November 2010 election, known as “Proposition 22.”

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting or diverting revenues to any other local government, including school and community college districts, or from temporarily shifting property taxes from cities, counties and special districts to K-14 schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. One effect of this amendment is to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies. Redevelopment agencies, through the California Redevelopment Association (“CRA”) engaged in litigation to block the transfer of payments and recoup certain payments already made under certain legislation passed in July 2009 that is beyond the reach of Proposition 22, known as “ABX4 26.” Because Proposition 22 reduced the State’s authority to use or reallocate certain revenue sources, fees and taxes for State general fund purposes, the State has to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State are more directly dependent upon the State’s general fund.

Redevelopment Agency Dissolution. On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and K-14 school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to K-14 school districts and county offices of education, totaling \$1.7 billion statewide. The District is unable to predict what affect the implementation of ABx1 26 will have on the District’s future receipt of tax increment revenues. As a result of the dissolution of California redevelopment agencies and ABx1 26, the tax increment previously paid to redevelopment agencies shall first be used to pay pass-through payments to other taxing entities and second to pay the redevelopment agencies enforceable obligations; with the remaining revenue (if any) paid to the taxing entities by the County Auditor-Controller in the same proportion as other tax revenue.

Proposition 30 and Proposition 55

The passage of the Governor’s November Tax Initiative (“Proposition 30”) on November 6, 2012 ballot resulted in an increase in the State sales tax by a quarter-cent for four years and, for seven years, raising taxes on individuals after their first \$250,000 in income and on couples after their first \$500,000 in earnings. These increased tax rates affect approximately 1 percent of California personal income tax filers and became effective in the 2012 tax year, ending at the conclusion of the 2018 tax year. The LAO estimates

that, as a result of Proposition 30, additional State tax revenues of about \$6 billion annually from 2012–13 through 2016–17 will be received by the State with lesser amounts of additional revenue available in fiscal years 2011–12, 2017–18, and 2018–19. These additional monies were available to fund programs in the 2012-13 State Budget and prevented certain “trigger cuts” included in the 2012-13 State Budget from going into effect. Proposition 30 also placed into the State Constitution certain requirements related to the transfer of certain State program responsibilities to local governments, mostly counties, including incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services.

Revenues generated by Proposition 30 accounted for an increase of approximately 14 percent over fiscal year 2011–12 in funding for schools and community colleges as set forth in the 2012–13 State Budget. Almost all of this increase was used to pay K–14 expenses from the previous year and reduce delays in certain State K–14 payments. Proposition 30 also provides for additional tax revenues aimed at balancing the State’s budget through 2018–19, providing several billion dollars annually through fiscal year 2018–19 available for purposes including funding existing State programs, ending K–14 education payment delays, and paying other State debts. Future actions of the State Legislature and the Governor will determine the use of these funds. According to the LAO, revenues raised by Proposition 30 could be subject to multibillion-dollar swings, above or below the revenues projections, due to the majority of the additional revenue coming from the personal income tax rate increases on upper-income taxpayers. These fluctuations in incomes of upper-income taxpayers could impact potential State revenue and complicate State budgeting in future years. After the proposed tax increases expire, the loss of the associated tax revenues could also create additional budget pressure in subsequent years.

The California Children’s Education and Health Care Protection Act of 2016, also known as Proposition 55, was approved by State voters on November 8, 2016. Proposition 55 extends the increase to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through the year 2030. Tax revenues received under Proposition 55 are allocated as follows: 89% to K-12 schools and 11% to community colleges. Proposition 55 did not extend the sales tax rate increase enacted under Proposition 30.

Proposition 2

Proposition 2, also known as The Rainy Day Budget Stabilization Fund Act (“Proposition 2”) was approved by California voters on November 4, 2014. Proposition 2 provides for changes to State budgeting practices, including revisions to certain conditions under which transfers are made into and from the State’s Budget Stabilization Account (the “Stabilization Account”) established by the California Balanced Budget Act of 2004 (also known as Proposition 58). Commencing in Fiscal Year 2015-16 and for each fiscal year thereafter, the State is required to make an annual transfer to the Stabilization Account in an amount equal to 1.5% of estimated State general fund revenues (the “Annual Stabilization Account Transfer”). For a Fiscal Year in which the estimated State general fund revenues allocable to capital gains taxes exceed 8% of the total estimated general fund tax revenues, supplemental transfers to the Stabilization Account (a “Supplemental Stabilization Account Transfer”) are also required. Such excess capital gains taxes, which are net of any portion thereof owed to K-14 school districts pursuant to Proposition 98, are required to be transferred to the Stabilization Account.

In addition, for each fiscal year, Proposition 2 increases the maximum size of the Stabilization Account to 10% of estimated State general fund revenues. Such excess amounts are to be expended on State infrastructure, including deferred maintenance, in any Fiscal Year in which a required transfer to the Stabilization Account would result in an amount in excess of the 10% threshold. For the period from Fiscal Year 2015-16 through Fiscal Year 2029-30, Proposition 2 requires that half of any such transfer to the Stabilization Account (annual or supplemental), shall be appropriated to reduce certain State liabilities, including repaying State interfund borrowing, reimbursing local governments for State mandated services, making certain payments owed to K-14 school districts, and reducing or prefunding accrued liabilities

associated with State-level pension and retirement benefits. After Fiscal Year 2029-30, the Governor and the Legislature are given discretion to apply up to half of any required transfer to the Stabilization Account to the reduction of such State liabilities and any amount not so applied shall be transferred to the Stabilization Account or applied to infrastructure, as set forth above.

Accordingly, the conditions under which the Governor and the Legislature may draw upon or reduce transfers to the Stabilization Account are impacted by Proposition 2. Unilateral discretion to suspend transfers to the Stabilization Account are not retained by the Governor. Neither does the Legislature retain discretion to transfer funds from the Stabilization Account for any reason, as was previously provided by law. Instead, 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 expenditure, 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, and any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the Stabilization Account are limited to the amount necessary to address the budget emergency, and no draw in any fiscal year may exceed 50% of the funds on deposit in the Stabilization Account, unless a budget emergency was declared in the preceding fiscal year.

Proposition 2 also provides for the creation of a Public School System Stabilization Account (the “Public School System Stabilization Account”) into which transfers will be made in any fiscal year in which a Supplemental Stabilization Account Transfer is required, requiring that such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would otherwise be paid to K-14 school districts as part of the minimum funding guarantee. Transfers to the Public School System Stabilization Account are only to be made if certain additional conditions are met, including that: (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 Public School System Stabilization Account 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 Public School System Stabilization Account 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 Public School System Stabilization Account transfer might be made is higher than the immediately preceding Fiscal Year, as adjusted for ADA growth and cost of living. Under Proposition 2, the size of the Public School System Stabilization Account is capped at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Any reductions to a required transfer to, or draws upon, the Public School System Stabilization Account, are subject to the budget emergency requirements as described above. However, 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, Proposition 2 also mandates draws on the Public School System Stabilization Account.

Proposition 51

The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) is a voter initiative that was approved by voters on November 8, 2016. Proposition 51 authorizes the sale and issuance of \$9 billion in general obligation bonds for the new construction and modernization of K-14 facilities.

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 districts lack 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 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 State Legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and State Legislature will select among eligible projects as part of the annual state budget process.

See “PLAN OF FINANCE” herein for information about certain funding the District expects to receive under Proposition 51. The District makes no guarantees that it will qualify for or receive Proposition 51 State facilities funding (except as described in “PLAN OF FINANCE” herein).

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111, 1A, 22, 30, 2, 62, 39, 51 and 55 were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

APPENDIX B

THE LEASED PROPERTY

The Leased Property consists of the Center for the Arts building on the District's campus at 1570 East Colorado Boulevard, Pasadena, California 91106. Construction of the Leased Property was completed in 2015. The three-story building measures over 87,000 square feet and the current insurable replacement value of the Leased Property is approximately \$46.8 million.

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APPENDIX C

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

This Appendix C contains only a brief summary of certain of the terms of the Lease Agreement and the Trust Agreement and a full review should be made of the entire Official Statement, including the cover page and the appendices thereto. Terms used herein but not defined herein will be as defined in the Official Statement and the Lease Agreement and the Trust Agreement and summaries of provisions of the documents referred to in the Lease Agreement and the Trust Agreement do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions of such documents.

DEFINITIONS

The following are definitions of certain terms used in this Appendix C or elsewhere in this Official Statement.

“Additional Lease Payments” means those payments due as provided in the Lease Agreement.

“Additional Payments” means those payments due as provided in the Lease Agreement.

“Assignment Agreement” means the Assignment Agreement, dated as of the date of the Trust Agreement, by and between the Trustee and the Lessor, and any duly authorized and executed amendments or supplements thereto.

“Authorized Denomination” means denominations of \$5,000 or any integral multiple thereof.

“Business Day” means any day (other than a Saturday, Sunday or holiday) on which banks in Los Angeles, California or New York, New York are not authorized or obligated by law or executive order to remain closed.

“Business Services Representative” means the Assistant Superintendent/Vice President, Business & Administrative Services, his or her designee and any other person representing the Superintendent/President designated in writing by the Superintendent/President to the Trustee.

“Certificate Holders” when used with respect to a Certificate, means such persons in whose name such Certificate is registered on the registration books of the Trustee.

“Certificate Year” means the annual period commencing on December 2 of a calendar year and ending on December 1 of the following calendar year, in any year during which the Certificates are or will be Outstanding; *provided, however*, that the initial Certificate Year shall begin on the Closing Date and end on December 1 of the following calendar year and the final Certificate Year shall end on the date on which the last Certificate is paid or prepaid.

“Certificates” \$_____ 2021 Certificates of Participation (Sarafian Building Project) Evidencing the Direct, Undivided Proportionate Interests of the Owners Thereof in Lease Payments to be Made by the Pasadena Area Community College District to Public Property Financing Corporation of California, executed and delivered pursuant to the Trust Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder, as the same may be amended from time to time, and any successor provisions of law.

“Continuing Disclosure Undertaking” means the Continuing Disclosure Undertaking, dated the date of delivery of the Certificates, by the Lessee, and any duly authorized and executed amendments or supplements thereto.

“Corporation” means the Public Property Financing Corporation of California, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California.

“Costs of Delivery” means all items of expense directly or indirectly payable by or reimbursable to the Lessee or the Lessor relating to the delivery of the Certificates, including but not limited to filing and recording and related costs relating to the sale of the Certificates, settlement costs, printing costs, reproduction and binding costs, financing discounts, initial fees and charges of the Trustee (as Trustee under the Trust Agreement), legal fees and charges, financing and other professional consultant fees, fees for credit ratings, fees for the Trustee’s execution, transportation and safekeeping of Certificates, and other charges and fees in connection with the foregoing.

“Costs of Delivery Fund” means the Costs of Delivery Fund established pursuant to the Trust Agreement.

“County Investment Policy” means, at any time, the investment policy stating the primary goals and authorized investments of the County Treasurer when investing public funds under the County Treasurer’s control as approved by the County’s oversight committee and the Board of Supervisors of the County as required by State law.

“County Treasurer” means the Treasurer and Tax Collector of the County of Los Angeles.

“Defeasance Obligations” means: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (5) securities eligible for “AAA” defeasance under then existing criteria of S&P or any combination thereof.

“Event of Default” means an event of default set forth in the Trust Agreement.

“Governing Board” means the Board of Trustees of the Pasadena Area Community College District.

“Improvements” means any public improvements on real property owned by the Lessee and leased to the Lessor pursuant to the Site Lease.

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

“Insurance Consultant” means an individual or firm employed by the Lessee as an independent contractor, experienced in the field of risk management.

“Interest Component” means the portion of the Lease Payments designated as interest in the Trust Agreement.

“Interest Payment Date” means February 1 and August 1 of each year, commencing August 1, 2021.

“Laws and Regulations” shall have the meaning provided in the Lease Agreement.

“Lease Agreement” means the Lease Agreement, dated as of the date of the Trust Agreement, by and between the Lessee and the Lessor, and any duly authorized and executed amendments or supplements thereto.

“Lease Payment” means any payment required to be paid by the Lessee to the Lessor pursuant to the Lease Agreement.

“Lease Payment Date” means January 15 and July 15 of each year, commencing July 15, 2021.

“Lease Payment Fund” means the fund so designated which is established pursuant to the Trust Agreement.

“Leased Property” means, collectively, all of the Leased Property and Leased Property Components of the real and/or personal property, consisting of the site and the capital improvements described in the Lease Agreement.

“Leased Property Component” means any identifiable portion or singular parcel comprising the real and/or personal property described in the Lease Agreement.

“Lessee” means the Pasadena Area Community College District, a community college district duly organized and existing under and by virtue of the laws of the State of California, as lessee under the Lease Agreement.

“Lessee Prepayment” means any payment made by the Lessee pursuant to the Lease Agreement as a prepayment of its Lease Payments.

“Lessor” means the Corporation, as lessor under the Lease Agreement, and its successors and assigns.

“Lessor Representative” means the Secretary and/or Treasurer of the Lessor, or any other person authorized by the Board of Directors of the Lessor to act on behalf of the Lessor under or with respect to the Lease Agreement, as evidenced by a certificate of the Lessor.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

“Net Insurance and Condemnation Proceeds” means any net proceeds of insurance or condemnation proceeds paid with respect to the affected portion of any Leased Property remaining after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof.

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

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

(a) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or prepayment of which funds or Defeasance Obligations 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) in accordance with the Trust Agreement; *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

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

“Payment Date” means each Interest Payment Date and Principal Payment Date.

“Permitted Encumbrances” means, with respect to the Leased Property, as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the Lessee may, pursuant to the provisions of the Lease Agreement, permit to remain unpaid; (ii) the Trust Agreement; (iii) the Site Lease; (iv) the Assignment Agreement; (v) the Lease Agreement; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which the Lessee certifies in writing will not impair the use of the Leased Property or to which the Corporation consents in writing.

“Permitted Investments” means any of the following, except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(1) “Federal Securities” means:

(a) Cash (insured at all times by the Federal Deposit Insurance Corporation);

(b) Obligations of, or obligations fully and unconditionally guaranteed as to timely payment of principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States including:

- U.S. Treasury obligations
- All Direct or Fully Guaranteed Obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association
- State and Local Government Series;

(2) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, or the principal of and interest on which are unconditionally guaranteed, by the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Government National Mortgage Association or any other agency or instrumentality of or corporation wholly owned by the United States of America when such obligations are backed by the full faith and credit of the United States for the full and timely payment of principal and interest;

(3) Obligations of any state of the United States or any political subdivision thereof, which at the time of investment are rated “Aa3” or higher by Moody’s and “AA” or higher by S&P; or which are rated by Moody’s “VMIG 1” or better and by S&P “A-1+” or better with respect to commercial paper, or “VMIG 1” and “SP-1”, respectively, with respect to municipal notes;

(4) Bank time deposits evidenced by certificates of deposit, including those placed by a third party pursuant to an agreement between the Lessee and the Trustee, deposit accounts, including time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, interest bearing money market accounts and bankers’ acceptances (having maturities of not more than 30 days), issued by any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation (including the Trustee or any of its affiliates); *provided* that (a) such bank, trust company or national banking association be rated “Aa3” or better by Moody’s and “AA-” or better by S&P; and (b) the aggregate of such bank time deposits and bankers’ acceptances issued by any bank, trust company or banking association does not exceed at any one time 10% of the aggregate of the capital stock, surplus and undivided profits of such bank, trust company or banking association and that such capital stock, surplus and undivided profits shall not be less than \$15,000,000;

(5) Repurchase or reverse repurchase agreements with any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation (including the Trustee or any of its affiliates), with subsidiaries (of a parent company), *provided* the obligations of the subsidiary under the agreement are unconditionally guaranteed by the parent, or with any government bond dealer recognized as a primary dealer by the Federal Reserve Bank of New York, which agreements are fully and continuously secured by a valid and perfected first priority security interest in obligations described in paragraph (1) or (2) of this definition, *provided* that either such bank, trust company or national banking association which (or senior debt or claims paying ability of the financial entity’s guarantor) is rated, at the time of investment, “Aa” or better by Moody’s and “AA” or better by S&P;

(6) Repurchase or reverse repurchase agreements with maturities of not more than one year entered into with financial institutions such as banks or trust companies organized under state law or national banks or banking associations (including the Trustee or any of its affiliates), insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Securities Investor Protection Corporation or with a dealer or parent holding company that is rated, at the time of investment, or whose long-term debt obligations (or senior debt or claims paying ability of the financial entity’s guarantor) are rated, at the time of investment, “Aa (stable)” or better by Moody’s and “AA (stable)” or better by S&P, *provided* such repurchase agreements are in writing, secured by obligations described in paragraphs (1) and (2) of this definition having a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements and in which the Trustee has a perfected first lien in, and retains possession of, such obligations free from all third party claims;

(7) Investment agreements, forward purchase agreements and reserve fund put agreements with any corporation, including banking or financial institutions, or agreements entered into with subsidiaries (of a parent company), *provided* the obligations of the subsidiary under the agreement are unconditionally guaranteed by the parent, the corporate debt of which (or senior debt or claims paying ability of the financial entity's guarantor) is rated, at the time of investment, "Aa" or better by Moody's and "AA" or better by S&P;

(8) Guaranteed investment contracts or similar funding agreements issued by insurance companies, *provided* that either the long term corporate debt of such insurance company, at the time of investment, is rated, at the time of investment, "Aa3" or better by Moody's and "AA-" or better by S&P or which agreements are fully and continuously secured by a valid and perfected first priority security interest in obligations described in paragraph (1) or (2) of this definition, or that the following conditions are met: (a) the market value of the collateral is maintained at levels acceptable to Moody's and S&P, (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral, (c) the Trustee has a perfected first priority security interest in the collateral, (d) the collateral is free and clear of third-party liens, and (e) failure to maintain the requisite collateral level will require the Trustee to liquidate collateral;

(9) Corporate commercial paper rated at the time of purchase "P-1" or better by Moody's and "A-1+" or better by S&P at the time of investment;

(10) Money market mutual funds having a rating in the highest investment category granted thereby from S&P or Moody's, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Trust Agreement may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(11) Deposits with the Local Agency Investment Fund of the State as permitted by law; and

(12) The Treasury Pool of the County.

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

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

"Principal Component" means the portion of the Lease Payments designated as principal represented by the Certificates.

"Principal Corporate Trust Office" means the corporate trust office of the Trustee in Los Angeles, California, or such other place designated by the Trustee except that with respect to presentation of Certificates for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency or corporate trust operations business shall be conducted.

“Principal Payment Date” means August 1 of each year, commencing August 1, 20__.

“Program Expenses” means all administrative costs of the Lessor relating to the Leased Property, the Project or the execution, sale and delivery of the Certificates, including, without limitation, taxes of any sort whatsoever payable by the Lessor as a result of its ownership of the Leased Property or its undertaking of the transactions contemplated in the Trust Agreement or in the Lease Agreement, Costs of Delivery, fees of auditors, accountants, attorneys or engineers, insurance premiums, credit enhancement fees, and 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 or to defend the Lessor.

“Project” means the financing of the design, demolition and construction of the real and/or personal property, consisting of the site and the capital improvements financed by the Lessee with the proceeds of the Certificates.

“Project Component” means any part of the real property and/or personal property and/or equipment and/or improvements financed with the proceeds of the Certificates.

“Project Costs” means, with respect to the Project Component, the contract price paid or to be paid therefor upon acquisition, delivery, installation, equipping or remodeling (if any) thereof, in accordance with a purchase order or contract therefore, together with all related costs of the Project, including, but not limited to, the administrative, engineering, legal, financial and other costs incurred by the Lessee and the Lessor in connection with the design, demolition and construction of the Project Component of the Project, including all applicable sales taxes and other charges resulting from such design, demolition and construction of such Project, and Costs of Delivery not paid from the Costs of Delivery Fund.

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

“Rating Agencies” means Moody’s and S&P.

“Rebate Fund” means the fund so designated which is established pursuant to the Trust Agreement.

“Release” shall have the meaning provided in the Lease Agreement.

“Removal” means the release of all or a portion of the Leased Property from the leasehold of the Lease Agreement and the Site Lease as provided in the Lease Agreement.

“Responsible Officer” means, when used with respect to the Trustee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any senior associate, any associate or any other officer of the Trustee within the Principal Corporate Trust Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the Principal Corporate Trust Office because of such person’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of the Trust Agreement.

“S&P” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, a limited liability company duly organized and existing under and by virtue of the laws of the State of New York, its successors and assigns.

“Site Lease” means the Site Lease by and between the Lessor, as lessee thereunder, and the Lessee, as lessor thereunder, and any duly authorized and executed amendments or supplements thereto.

“Special Counsel” means an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax status of interest on obligations issued by states and their political subdivisions.

“State” means the State of California.

“Substitution” means the release of all or a portion of the Leased Property from the leasehold of the Lease Agreement and Site Lease, and the lease of substituted real property and Improvements and/or equipment, if any, thereunder and under the Site Lease as provided in the Lease Agreement.

“Supplemental Trust Agreement” means any trust agreement duly authorized and entered into among the Lessor, the Lessee and the Trustee, supplementing, modifying or amending the Trust Agreement in accordance with the terms under the Trust Agreement.

“Tax Certificate” means the Tax Certificate delivered by the Lessee on the Closing Date.

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

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, and its successors or assigns, if any, as Trustee.

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

THE LEASE AGREEMENT

Substitution of Alternate Leased Property and Release of Leased Property

The Lessee shall have the right to substitute alternate property for the Leased Property provided for in the Lease Agreement, if expressly agreed to in writing by the Certificate Holders of the majority in the aggregate principal amount of the Certificates then Outstanding or add additional real property and/or personal property and/or equipment to the Leased Property, but only by providing the Trustee with a duly recorded amendment or supplement to the Lease Agreement in accordance with the Lease Agreement. All costs and expenses incurred in connection with any such substitution or addition shall be borne by the Lessee. Notwithstanding any substitution or addition pursuant to the provisions of the Lease Agreement relating to substitution of alternate leased property and release of leased property, there shall be no reduction in or abatement of the Lease Payments due from the Lessee under the Lease Agreement as a result of such substitution.

If the Lessee substitutes any alternate real property, or equipment, as applicable, or Improvement for the Leased Property or adds additional components to the Leased Property, written notice of such substitution or addition shall be delivered by the Lessee and to all rating agencies, if any, then rating the Certificates, the Certificate Holders and the Trustee. The Lessee shall not substitute alternate real property or equipment, as applicable, or Improvements for the Leased Property or add an additional component to the Leased Property, without first obtaining (i) an opinion of Special Counsel to the effect that such substitution or addition shall not, in and of itself, impair the exclusion from gross income for federal income tax purposes or interest payable with respect to the Certificates and (ii) a certificate of the Lessee (A) stating that the annual fair rental value of the Leased Property after the Substitution or Removal, in each year during the remaining term of the Lease Agreement, is at least equal to the maximum annual Lease Payments during the remaining term of the Lease Agreement, as determined by the Lessee on the basis of an appraisal of the Leased Property conducted by a member of the Appraisal Institute of America (MAI) designated by the Lessee, (B) demonstrating that the useful life of the Leased Property after Substitution or Removal equals or exceeds the remaining term of the Lease Agreement, and (C) stating that the Leased Property after a Substitution or Removal is as essential to the operations of the Lessee as was the Leased Property immediately prior to such Substitution or Removal.

In the event of a Substitution or Removal, there shall also be delivered to the Lessor and the Trustee (i) a policy of title insurance in an amount equal to the same proportion of the principal amount as the Principal Components of the Lease Payments attributable to the remaining portion of the real property portion of the Leased Property or the Substituted Leased Property bears to the total Principal Components of Lease Payments, insuring the Lessee's leasehold interest in the Substituted Leased Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Certificate Holders and relating to the Lease Agreement and evidence that no prior liens exist with respect to such Substituted Leased Property subject only to Permitted Encumbrances, (ii) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected, and (iii) in all instances, evidence that the Substitution or Removal, in and of itself, has not caused or will not cause a downgrade or withdrawal of the then-existing credit ratings on the Certificates.

Term of Agreement

The "Term" of the Lease Agreement shall mean the duration the Lease Agreement for the Leased Property, which will commence on the Closing Date and terminate on August 1, 20__, unless earlier terminated in accordance with the Lease Agreement, *provided, however* that if Lease Payments remain unpaid at the expiration of the Lease Agreement Term, or provision shall not have been made for their payment, then the Lease Agreement shall not terminate until the earlier of (i) August 1, 20__, (ii) the date on which the Certificates have been paid in full or (iii) the expiration of the term of the Lease Agreement in the event the Lease Agreement shall have been amended pursuant to the Lease Agreement, unless such term is sooner terminated as provided in the Lease Agreement provided; and *provided further, however*, that there shall be terminated with respect to the Leased Property, the entirety of Lessor's interest which is transferred to the Lessee upon the end of the useful life of the Leased Property in the same manner, as provided in the Lease Agreement. If by August 1, 20__, the Certificates will not be fully paid, or if the rental payable under the Lease Agreement shall have been abated at any time and for any reason, then said Term of the Lease Agreement shall be extended until ten days after all Certificates shall be fully paid, except that the Term of the Lease Agreement shall in no event be extended beyond the maximum period permitted by law. If all Certificates shall be fully paid, the Term of the Lease Agreement shall end ten days thereafter or ten days after written notice by the Lessee to the Lessor, whichever is earlier.

The Term of the Lease Agreement will end upon the earliest of any of the following events: (a) a default by the Lessee and the Lessor's subsequent election to terminate the Lease Agreement pursuant to the Lease Agreement; (b) the payment by the Lessee of all Lease Payments required under the provisions of the Lease Agreement relating to Lease Payments and any Additional Payments required under the Lease Agreement; (c) the deposit of moneys or Defeasance Obligations with the Trustee in amounts sufficient to pay all of the Lease Payments as the same shall become due, as provided pursuant to the Lease Agreement; or (d) upon the exercise by the Lessee of its option to purchase the entire interest of the Lessor in the Leased Property as provided in the Lease Agreement and payment of all amounts provided for under the Lease Agreement; provided, however, the covenants of the Lease Agreement relating to the tax exemption of the Interest Component of the Lease Payments shall survive for as long as such matters are relevant to the exclusion of the Interest Component of the Lease Payments from gross income for federal income tax purposes.

Lease Payments

Subject to the provisions of the Lease Agreement, the Lessee agrees to pay to the Lessor, its successors and assigns, as rental for the use and possession of the Leased Property, the Lease Payments in the amounts specified in the Lease Agreement, to be due and payable on each Lease Payment Date, which are intended to be sufficient in both time and amount to pay the Principal Components and Interest Components with respect to the Certificates due on the next Interest Payment Date. Delinquent Lease Payments, if any, will be made to the Trustee for application in accordance with the Trust Agreement.

Lease Payments shall be paid from any source of legally available funds of the Lessee, and so long as the Leased Property, or a sufficient portion thereof, is available for the use, the Lessee covenants to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in its budgets and to make the necessary appropriations for all such Lease Payments. During the Term of the Lease Agreement, the Lessee will furnish to the Trustee, no later than twenty (20) days following the adoption of the budget for its then-current fiscal year, and prior to the beginning of the fiscal year, a certificate of the Authorized Representative to the effect that amounts stated in the Lessee's proposed annual budget for the payment of Lease Payments due under the Lease Agreement in the fiscal year covered by such budget and approved by the Governing Board are fully adequate for the payment of all Lease Payments due under the Lease Agreement in such fiscal year, in the form set forth in the Trust Agreement as provided in the Trust Agreement. The covenants on the part of the Lessee in the Lease Agreement contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Lessee 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 Lessee to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the Lessee.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease Agreement and other amounts required for payment of the Principal Components and Interest Components with respect to any Certificates not presented for payment) shall be credited towards the Lease Payment then due and payable; and 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 and are to be used for such purpose. At such time as the moneys on hand in the Lease Payment Fund are equal to all Lease Payments remaining unpaid under the Lease Agreement, such moneys shall be applied by the Trustee, pursuant to the Trust Agreement, to such Lease Payments on behalf of the Lessee and the Lessee will not be required to make any further Lease Payments under the Lease Agreement. A

Lease Payment payable on a Lease Payment Date is consideration for the use and possession of the Leased Property to the next succeeding Lease Payment Date.

Notwithstanding any dispute between the Lessor and the Lessee, including any dispute as to the failure of any Leased Property Component to perform the task for which it is leased, the Lessee shall make all Lease Payments when due and shall not withhold any Lease Payments pending the final resolution of such dispute.

In the event the Lessee should fail to make any of the payments required by the sections of the Lease Agreement relating to Lease Payments, the payments in default shall continue as an obligation of the Lessee until the amount in default shall have been fully paid, and the Lessee agrees 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 net interest rate paid with respect to the Certificates.

The Lease Payments shall be paid by the Lessee in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Leased Property during each such period for which said payments have been paid. The parties to the Lease Agreement have agreed and determined that such payments represent at least the fair rental value of the Leased Property. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the Lessee and the general public.

The Lessee understands and agrees that, pursuant to the Assignment Agreement, the Lessor has assigned its right to receive and collect Lease Payments, Additional Payments and Prepayments thereof to the Trustee in trust for the benefit of the Certificate Holders, and the Lessee assents to such assignment. The Lessor directs the Lessee pursuant to the Lease Agreement, and the Lessee agrees to pay to the Trustee at the Trustee's Principal Office or to the Trustee at such other place as the Trustee shall direct in writing, all payments payable by the Lessee pursuant to the applicable provisions of the Lease Agreements. Lease Payments shall be subject to abatement as provided in the Lease Agreement.

Quiet Enjoyment

During the term of the Lease Agreement, the Lessor shall provide the Lessee with quiet use and enjoyment of the Leased Property, and the Lessee shall during such term peaceably and quietly have and hold and enjoy the Leased Property, 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 Agreement. The Lessor shall, at the request and expense of the Lessee, join in any legal action in which the Lessee asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor shall have the right to inspect the Leased Property as provided in the provisions of the Lease Agreement relating to access to the Leased Property and the Project.

Title to the Leased Property

During the term of the Lease Agreement, the Lessor will hold a leasehold interest in the Leased Property, and each discrete portion thereof, and any and all additions which comprise repairs, replacements or modifications thereto. The Lessee will take any and all actions, including but not limited to executing and filing any and all documents, reasonably required to maintain and evidence the Lessor's interest in the Leased Property at all times during the Term of the Lease Agreement.

Upon expiration of the Term as set forth in the Lease Agreement, unless such expiration occurs pursuant to a default by the Lessee and the Lessor has elected to terminate the Lease Agreement under the Lease Agreement, all right, title and interest of the Lessor in and to all of the Leased Property will be transferred to and vest in the Lessee, without the necessity of any additional document of transfer, except that with respect to the Leased Property Component constituting real property, the Lessor will authorize, execute and deliver to the Lessee any documents required to transfer all right, title and interest of the Lessor to such real property to the Lessee.

The Lessee will have the option to purchase the entire interest of the Lessor in the Leased Property by irrevocably making a security deposit with the Trustee as provided in the Lease Agreement or from Net Insurance and Condemnation Proceeds as provided in the Lease Agreement, by paying the purchase price therefor in the form of moneys or Defeasance Obligations, or a combination thereof, in an aggregate amount sufficient to provide for the payment of all of the total Lease Payments, as and when due, taking into account investment income to be earned on the deposit of such moneys and investments whereupon all right, title and interest of the Lessor in and to the Leased Property will vest in the Lessee without the necessity of any additional document of transfer; *provided* that the Lessee provides the Trustee, the Lessor with an opinion of Special Counsel to the effect that such deposit will not cause the Interest Components of the Lease Payments to be includable in gross income of the Certificate Holders for federal income tax purposes under the Code. In any such event, if necessary, the Lessor will authorize, execute and deliver to the Lessee any documents reasonably requested by the Lessee to terminate the Lease Agreement in order to confirm such vesting of title in the Lessee.

Additional Payments

As Additional Payments, the Lessee shall also pay such amounts as shall be required for the payment of all administrative costs of the Lessor relating to the Leased Property, the Project or the execution, sale and delivery of the Certificates, including, without limitation, the Lessee's obligation to pay all expenses, compensation and indemnification of the Trustee payable by the Lessee under the Trust Agreement (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates), taxes of any sort whatsoever payable by the Lessor as a result of its ownership of the Leased Property or its undertaking of the transactions contemplated in the Lease Agreement or, as may be related to the Lease Agreement, in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, insurance premiums, credit enhancement fees, and 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 or to defend the Lessor.

Such Additional Payments shall be billed to the Lessee by the Lessor or by the Trustee on behalf of the Lessor from time to time, together with a statement certifying that the amount billed has been paid by the Lessor or by the Trustee on behalf of the Lessor for one or more of the items above described, or that such amount is then payable by the Lessor or the Trustee, as designated on the bill to the Lessee, within fifteen (15) days after receipt of the bill by the Lessee.

Additional Payments due under the applicable provisions of the Lease Agreement shall be paid by the Lessee directly to the person or persons to whom such amounts shall be payable.

Additional Lease Payments

The Lease Agreement may be amended to provide for the execution and delivery of additional certificates of participation in Additional Lease Payments to be made by the Lessee, without the approval of the Certificate Holders, *provided* that the following shall have occurred: (i) the Lease Agreement shall have been amended, to the extent necessary, so as to increase the Lease Payments

payable by the Lessee under the Lease Agreement by an aggregate amount equal to the Principal Components and Interest Components represented by such additional certificates of participation, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such certificates; *provided, however*, that no such amendment will be made such that the sum of Lease Payments, including any such amendment to the Lease Agreement, plus Additional Payments in any year shall be in excess of the annual fair rental value of the Leased Property; and (ii) the Lessee will not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease Agreement. Notwithstanding the foregoing and anything to the contrary in the Lease Agreement, in the Trust Agreement or in any Supplemental Trust Agreement, the Lease Agreement will not be amended to provide for the execution and delivery of additional Certificates if an Event of Default, (or any event which, once all notice and grace periods have passed, would constitute an Event of Default) exists unless such default shall be cured upon execution and delivery of such additional Certificates.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Leased Property, all repair and maintenance of the Leased Property shall be the responsibility of the Lessee, and the Lessee shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the Lessee or any sublessee thereof. In exchange for the Lease Payments provided in the Lease Agreement, the Lessor agrees to provide only the Leased Property, as more specifically set forth in the Lease Agreement. The Lessor shall have no responsibility for making improvements and additions to the Leased Property other than as set forth in the Lease Agreement.

The Lessee shall also pay or cause to be paid any and all sales taxes or other taxes, levies, charges, withholdings, assessments and governmental charges of any nature whatsoever, together with any additions to tax, penalties, fines or interest thereon charged against the Leased Property, as Additional Payments pursuant to the Lease Agreement, including, without limitation, penalties, fines or interest arising out of any delay or failure by the Lessee to pay any of the foregoing or failure to file or furnish to the Lessor or the Trustee for filing in a timely manner any returns, levied pursuant to the Lease Agreement or imposed against the Lessor or the Leased Property, the rentals and other payments required under the Lease Agreement or any parts thereof or interests in the Lessee or the Lessor or the Trustee therein by any governmental authority.

Modification of the Leased Property

The Lessee shall, at its own expense, have the right to make additions, modifications, and improvements to the Leased Property if such improvements are necessary or beneficial for the use of the Leased Property. All such additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Property 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 tax status of the Interest Components of the Lease Payments; and the Leased Property, upon completion of any additions, modifications and improvements made pursuant to the Lease Agreement, shall be of a value in the aggregate which is not less than the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

The Lessee will not permit any mechanic's or other lien to be established or to remain against the Leased Property for labor or materials furnished in connection with any additions, modifications, remodeling, construction or improvements made by the Lessee pursuant to the Lease Agreement, except Permitted Encumbrances; *provided*, that if any such lien is established and the Lessee

shall first notify or cause to be notified the Lessor of the Lessee's intention to do so, the Lessee may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the liens so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Lessor with full security against any loss or forfeiture which might arise from such nonpayment with respect to the Leased Property, in form satisfactory to the Lessor. The Lessor will cooperate fully in any such contest, upon the request and at the expense of the Lessee.

Public Liability and Property Damage Insurance; Workers' Compensation Insurance

Public Liability and Property Damage. The Lessee shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the Lessee, its officers, agents and employees. Said policy or policies shall 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 the Leased Property.

Said policy or policies shall 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 in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Lessee, and may be maintained in the form of self-insurance by the Lessee.

The Net Insurance and Condemnation Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid, including, where appropriate, the application of Net Insurance and Condemnation Proceeds with respect to the prepayment of the Lease Payments. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the Lessee.

As an alternative to providing the insurance required by the applicable sections of the Lease Agreement, the Lessee may provide a self-insurance method or plan of protection which shall afford reasonable protection to the Lessor, its directors, officers, agents and employees and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State other than the Lessee. Before such method or plan may be provided by the Lessee, there shall be filed with the Trustee a certificate of an actuary, Insurance Consultant or other qualified person to the satisfaction of the Trustee, stating that, in the opinion of the signer, the substitute method or plan of protection, is in accordance with the requirements of the Lease Agreement and, when effective, would afford reasonable protection to the Lessor, its directors, officers, agents and employees and the Trustee against loss and damage from the hazards and risks covered thereby and Trustee may conclusively rely thereon. There shall also be filed a certificate of the Lessee setting forth the details of such substitute method or plan.

Workers' Compensation. The Lessee shall also maintain or require (in the case of vendors or contractors and all subcontractors) throughout the Term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State covering all employees working on the Leased Property, in the same amount and type as other workers' compensation insurance maintained by the Lessee for similar employees doing similar work (and the Lessee shall also require any other person or entity working on the Leased Property to carry the foregoing amount of

workers' compensation insurance). Workers' compensation insurance may, to the extent provided by law, be maintained in the form of self-insurance.

Fire and Theft Insurance. The Lessee shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any or all of the Leased Property by fire and lightning, with extended coverage endorsement (which extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and other hazards as are normally covered by such insurance), vandalism and malicious mischief insurance, sprinkler system leakage insurance, boiler insurance, and against loss of any of the Leased Property by theft.

Such insurance shall be in an amount equal to the greater of 100% of the replacement cost of the Leased Property (or, if under separate policies, in an aggregate amount equal to 100% of the replacement cost of the Leased Property) or the outstanding Principal Components of the Certificates, except that such insurance may be subject to deductible clauses of not to exceed \$50,000 for any one loss; *provided, however*, that in no event shall such insurance be maintained in an aggregate amount less than the aggregate Principal Components of Certificates at that time Outstanding. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the Lessee and may be maintained in the form of self-insurance by the Lessee. The Net Insurance and Condemnation Proceeds of each policy or coverage shall be applied as provided in the Lease Agreement.

Rental Interruption and Title Insurance. The Lessee shall maintain or cause to be maintained with a reputable commercial insurer throughout the Term of the Lease Agreement insurance against loss, total or partial, of the use and occupancy of the Leased Property as a result of any of the hazards covered by the Lease Agreement, in an amount not less than the maximum remaining scheduled Lease Payments for a 24-month period, except that such insurance need be maintained as to the peril of earthquake only if such insurance is available at reasonable cost on the open market from reputable insurance companies. Such insurance shall be subject to a deductible clause not to exceed \$50,000. Such insurance may be maintained as part of or in conjunction with any other rental interruption insurance carried by the Lessee but may not be maintained as self-insurance. The Net Insurance and Condemnation Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited toward the payment of the Lease Payments in the order in which such Lease Payments come due and payable. The policy shall cover all components of the Leased Property and the facilities comprising the Leased Property.

The Lessee shall, on or before the Closing Date, obtain an extended CLTA title insurance policy respecting the ownership and condition of the real property portion of the Leased Property as described in the Lease Agreement, in an amount equal to the maximum aggregate amount of Principal Components of the Certificates.

General Insurance Provisions. All policies of insurance obtained under the requirements of the Lease Agreement and any statements of self-insurance shall be in forms certified by an insurance agent, broker or consultant to the Lessee to comply with the provisions of the Lease Agreement unless waived by the Certificate Holders of the majority in principal amount of Certificates Outstanding. Any insurance policy obtained under the requirements of the Lease Agreement shall be issued by a commercial insurer rated at least "A" by S&P, and shall be written or endorsed to list the Trustee, the Lessor and the Lessee as additional named insureds and the Trustee as loss payee, with in all instances the net proceeds, if any, of the insurance policy described in the applicable sections of the Lease Agreement to be deposited in the Lease Payment Fund, and each insurance policy provided for in the Lease Agreement shall contain a provision to the effect that the insurance company shall not cancel the policy

without first giving written notice thereof to the Trustee, the Lessor and the Lessee at least ten (10) days in advance of such intended cancellation; *provided* that, the Trustee will not be responsible for the sufficiency of any insurance required pursuant to the Lease Agreement and shall be fully protected in accepting payment on account of such insurance or any adjustments, compromise or settlement of any loss agreed to by it.

The Lessee shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement, and shall promptly furnish or cause to be furnished to the Trustee a certificate to such effect accompanied by evidence of such payments.

The Lessee will deliver to the Lessor and the Trustee by March 31 of each year a certificate to the effect that the requirements of the Lease Agreement pertaining to insurance have been satisfied, together with a certificate or certificates of an Insurance Consultant evidencing such satisfaction. Upon request, the Lessee shall provide a schedule, in such detail as the Lessor or the Trustee may reasonably request, setting forth any insurance policies then in force described in the Lease Agreement, listing the names of the insurers which have issued the policies, the policy limits thereof and the hazards and risks covered thereby, or the certificate of an Insurance Consultant providing similar information. The Trustee is entitled to rely on such certificates as to the Lessee's compliance with the provisions of the insurance requirements, and the Trustee will have no further duties in this regard under the Lease Agreement.

If the Lessee chooses to self-insure for any of the risks described in the sections of the Lease Agreement relating to public liability and property damage insurance; workers' compensation insurance and fire and theft insurance for which self-insurance is permitted, it must on at least an annual basis in the month of July provide evidence to the Trustee and the Lessor to the effect that (i) the Lessee has segregated amounts meeting such requirements in a special insurance reserve account dedicated to the Leased Property, (ii) a certificate of an Insurance Consultant to the Trustee and the Lessor to the effect that the Lessee's general insurance reserves are adequate to provide the required amount of coverage, and (iii) an actuarial statement attesting to the sufficiency of the program's assets. The Trustee may conclusively rely upon such certificates.

The Lessee agrees that in the event the self-insurance program is discontinued, the actuarial soundness of the special insurance reserve account shall be maintained.

Liens

Except as otherwise provided in the Lease Agreement, the Lessee shall 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 Leased Property, or any portion thereof, other than the respective rights of the Lessor and the Lessee as provided in the Lease Agreement and Permitted Encumbrances. Except as expressly provided in the Lease Agreement, the Lessee shall 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. The Lessee shall reimburse the Lessor for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Use of the Leased Property

The Lessee represents and warrants that it has or will, as of the Closing Date, have an immediate need for, and expects to make immediate use of the Leased Property, which need is not temporary or expected to diminish in the foreseeable future. The Lessee agrees not to give priority in the

appropriation of funds for the construction, acquisition or use of any additional Equipment or facilities, as the case may be, performing functions similar to that performed by the Leased Property.

Tax Covenants

In order to maintain the exclusion from gross income for federal income tax purposes of the Interest Component of each Lease Payment due under the Lease Agreement, the Lessee covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code. In furtherance of this covenant, the Lessee agrees to comply with the Tax Certificate, which is incorporated in the Lease Agreement, as such Tax Certificate may be amended from time to time.

Advances

If the Lessee shall fail to perform any of its obligations pursuant to the Lease Agreement, the Lessor may, but will not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money on behalf of the Lessee, and the Lessee shall be obligated to repay all such advances as soon as possible, with interest at the rate of twelve percent (12%) per annum from the date of the advance to the date of repayment, but in no event shall such rate exceed the maximum legal rate of interest applicable to similar obligations of community college districts.

Agreement to Pay Program Expenses

The Lessee agrees to pay to the Trustee, as the assignee of the Lessor, all Program Expenses of the Lessor charged to the Lessee and Program Expenses charged to the Lessee by the Trustee as provided in the Trust Agreement.

Books and Records

The Lessee will at all times during the Term of the Lease Agreement keep proper books of record and account in which full, true and correct entries in conformity with applicable law will be made of all dealings and transactions in relation to its activities. The Lessee will permit the Lessor, any authorized representatives of the Lessor and the Lessor's successors and assigns at reasonable times and intervals upon prior written notice to examine and make abstracts, subject to proprietary and confidentiality policies and agreements of or binding upon the Lessee, from the Lessee's books and records and to discuss the Lessee's affairs, finances and account with the Lessee's officers and independent accountants. The Lessee will promptly notify the Lessor if at any time the Lessee shall not maintain a positive fund balance in its general fund.

Continuing Disclosure

The Lessee covenants and agrees that it will comply with and carry out all of the provisions of its Continuing Disclosure Undertaking. Notwithstanding any other provision of the Lease Agreement, failure of the Lessee to comply with the Continuing Disclosure Undertaking will not be considered an Event of Default; however, the Trustee at the written request of the Certificate Holders of at least 25% aggregate principal amount of Outstanding Certificates shall (but only to the extent indemnified to its satisfaction against any expense or liability) or any Certificate Holder 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 Lessee to comply with its obligations under the provisions of the Lease Agreement relating to continuing disclosure. For purposes of the provisions of the Lease Agreement relating to continuing disclosure, "Beneficial Owner" means any person which (i) 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 (ii) is treated as the owner of any Certificates for federal income tax purposes.

Abatement of Lease Payments in Event of Loss of Use

A proportional amount of the Lease Payments shall be abated during any period in which, by reason of condemnation, damage or destruction, there is substantial interference with the use and possession of the Leased Property, or any discrete portion thereof, by the Lessee. The amount of such abatement shall be determined by the Lessee such that the resulting Lease Payments represent fair consideration for the use and possession of the portion of the Leased Property not condemned, damaged or destroyed. Such abatement shall commence on the date of condemnation, damage or destruction and shall end with the substantial completion of the replacement or work of repair. There shall be no abatement in Lease Payments as a result of any design defects other than design defects that result in condemnation, damage or destruction with regard to the Leased Property, it being the intention of the parties to the Lease Agreement that recourse in such event would be made to the Contractor or Vendor. Except as provided in the Lease Agreement, in the event of any such condemnation, damage or destruction, the Lease Agreement shall continue in full force and effect and the Lessee waives any right to terminate the Lease Agreement by virtue of any such condemnation, damage or destruction, including any rights otherwise granted under California Civil Code Sections 1932(2) and 1933(4).

Application of Net Insurance and Condemnation Proceeds

Net Insurance and Condemnation Proceeds shall be deposited in the Net Insurance and Condemnation Proceeds Fund by the Trustee promptly upon receipt thereof and, if the Lessee's Authorized Representative notifies the Lessor and the Trustee in writing of the Lessee's determination, made within forty-five (45) days from the date of destruction or condemnation of the Property, that the replacement or repair of the affected portion of the Leased Property is not economically feasible or in the best interests of the Lessee, then such Net Insurance and Condemnation Proceeds shall be promptly transferred by the Trustee to the Prepayment Fund and applied as provided in the Lease Agreement unless, as provided in the Trust Agreement, such Net Insurance and Condemnation Proceeds together with funds then on hand in the Lease Payment Fund are insufficient to prepay all of that portion of the Certificates representing interests in the Lease Payments for the Leased Property or relevant portion thereof in which event, such Net Insurance and Condemnation Proceeds will be deposited in a separate account by the Trustee and invested and used in accordance with the Trust Agreement.

Notwithstanding the foregoing, the Lessee may within forty-five (45) days from the date of destruction or condemnation of the Leased Property determine whether to repair the damaged or condemned Leased Property or affected portion of the Leased Property, only if (i) the Net Insurance and Condemnation Proceeds available for such purpose, together with any other funds supplied by the Lessee for such purpose, are sufficient therefor, and (ii) in the event that damage or destruction results in an abatement of Lease Payments, the Lessee's Authorized Representative certifies and covenants to the Lessor and the Trustee that such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds will be available to pay in full all Lease Payments coming due during such period as described in the Lease Agreement.

All Net Insurance and Condemnation Proceeds deposited in the Net Insurance and Condemnation Proceeds Fund and not so transferred to the Prepayment Fund as provided in the Lease Agreement shall be applied to the prompt replacement or repair of the affected portion of the Leased Property by the Lessee, upon receipt of a requisition signed by the Lessee's Authorized Representative (a "Requisition") stating with respect to each payment to be made (i) the Requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and

(iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Insurance and Condemnation Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee may conclusively rely on the Requisition as to the amount of such obligation and on the representations set forth therein. Any balance of the Net Insurance and Condemnation Proceeds remaining after such replacement or repair has been completed shall, after payment of amounts due the Trustee, be paid to the Lessee upon written request of the Lessee.

Laws and Ordinances

The Lessee agrees to observe and comply with all rules, regulations and laws applicable to the Lessee with respect to the Leased Property and the Project and the operation thereof. The cost, if any, of such observance and compliance shall be borne by the Lessee, and the Lessor will not be liable therefor. The Lessee agrees further to place, keep, use, maintain and operate the Leased Property and the Project in such a manner and condition as will provide for the safety of its agents, employees, invitees, subtenants, licensees and the public.

Disclaimer of Warranties

The Lessor and its assigns make 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 Lessee of the Leased Property or any Leased Property component. The Lessee acknowledges that the Lessor is not a manufacturer of any equipment comprising the Leased Property or a dealer therein, and the Lessee is leasing the Leased Property components "as-is," it being agreed that all of the aforementioned risks are to be borne by the Lessee. In no event shall the Lessor or its assigns be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease Agreement, the Site Lease or the Trust Agreement for the existence, furnishing, functioning or use and possession of the Leased Property. In no event shall the Lessor, the Trustee or its assignees be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the existence, furnishing, functioning or the use of any item or products provided for in the Lease Agreement.

Lessee's Right to Enforce Warranties

Pursuant to the Lease Agreement, the Lessor irrevocably appoints the Lessee as its agent and attorney-in-fact during the term of the Lease Agreement, so long as the Lessee will not be in default under the Lease Agreement, 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 Project and the Leased Property which the Lessor may have against any vendor or contractor. The Lessee's sole remedy for the breach of any such warranty, indemnification or representation shall be against the vendor or contractor with respect thereto, and not against the Lessor, nor shall such matter have any effect whatsoever on the rights and obligations of the Lessor with respect to the Lease Agreement, including the right to receive full and timely Lease Payments and all other payments due under the Lease Agreement. The Lessee shall be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Lessor shall, upon the Lessee's request and at the Lessee's expense, do all things and take all such actions as the Lessee may request in connection with the assertion of any such claims and rights. The Lessee expressly acknowledges that the Lessor makes, and has made, no representation or warranties whatsoever as to the existence or availability of such warranties of the manufacturer or vendor or contractor.

Access to the Leased Property and the Project

The Lessee agrees that the Lessor, any Lessor Representative and the Lessor's successors or assigns, shall have the right (but no duty) at all reasonable times to enter upon and to examine and inspect the Leased Property and the Project. The Lessee further agrees that the Lessor, any Lessor Representative, and the Lessor's successors or assigns shall have such rights of access to the Leased Property and the Project as may be reasonably necessary to cause the proper maintenance of the Leased Property and the Project in the event of failure by the Lessee to perform its obligations under the Lease Agreement; *provided, however*, that the Lessor's assigns shall have no duty to cause such proper maintenance.

Release and Indemnification Covenants

To the extent permitted by law, the Lessee shall and, pursuant to the Lease Agreement, agrees to indemnify and save the Lessor, the Trustee and their successors, assigns, agents, officers, employees and servants harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property or the Project by the Lessee, (ii) any breach or default on the part of the Lessee in the performance of any of its obligations under the Lease Agreement, (iii) any act or negligence of the Lessee or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property or the Project, (iv) any act or negligence of any assignee or sublessee of the Lessee with respect to the Leased Property or the Project, or (v) the design, demolition and construction of the Project or the authorization of payment of the Project Costs by the Lessee. No indemnification is made under this Section or elsewhere in this Lease. Pursuant to the Lease Agreement, no indemnification is provided for claims, losses or damages, including legal fees and expenses arising out of the willful misconduct or gross negligence, under the Lease Agreement by the Lessor, its officers, agents, employees, successors or assigns. For purposes of indemnification under the Lease Agreement, the term "Leased Property" includes alternate leased property, if any, pursuant to the Lease Agreement.

Assignment by the Lessor

Certain of the Lessor's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the Lessee under the Lease Agreement, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the Lessee consents pursuant to the Lease Agreement. Except as provided in the Lease Agreement and in the Trust Agreement, the Lessor will not assign the Lease Agreement, its right to receive Lease Payments from the Lessee, or its duties and obligations under the Lease Agreement to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in the Lease Agreement.

Assignment and Subleasing by the Lessee

This Lease may be assigned by the Lessee with the prior written consent of the Certificate Holders of the majority in aggregate principal amount of Certificates then Outstanding and S&P so long as such assignment does not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Lease Payments. The Lessee may sublease the Leased Property, with the prior written consent of the Lessor, subject to all of the following conditions: (i) the Lease Agreement and the obligation of the Lessee to make Lease Payments under the Lease Agreement shall remain obligations of the Lessee; (ii) the Lessee shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Lessor and the Trustee a true and complete copy of such sublease; (iii) no sublease by the Lessee shall cause the Leased Property to be used for a purpose

other than a governmental or proprietary function authorized under the provisions of the laws of the State; (iv) no sublease shall cause the Interest Component of the Lease Payments due with respect to the Leased Property to become included within gross income for federal income tax purposes or subject to State personal income taxes, as evidenced by an opinion of Special Counsel; and (v) in the event that the Lease Agreement is assigned by the Lessee, the obligation to make Lease Payments under the Lease Agreement shall remain the obligation of the Lessee.

Amendment

Pursuant to the Lease Agreement, the Lessee will not alter, modify or cancel or agree or consent to alter, modify or cancel the Lease Agreement except as permitted by the Trust Agreement and except to provide for any Additional Lease Payments, pursuant to the Lease Agreement, or any substitution, pursuant to the Lease Agreement.

Events of Default

The following shall be “events of default” under the Lease Agreement and the terms “events of default” and “default” shall mean, whenever they are used in the Lease Agreement, any one or more of the following events: (i) failure by the Lessee to pay any Lease Payment required to be paid under the Lease Agreement by not later than ten (10) Business Days before the Payment Date immediately following each corresponding Lease Payment Date; (ii) failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Lease Agreement or otherwise with respect to the Lease Agreement or in the Trust Agreement, other than as referred to in clause (i) of the section of the Lease Agreement relating to events of default, for a period of (30) days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee by the Lessor, the Trustee or the Certificate Holders of majority in aggregate principal of the Certificates then Outstanding; *provided, however*, if the failure stated in the notice cannot be corrected within the applicable period, the Lessor or the Trustee acting at the direction of the Certificate Holders of not less than the majority in principal amount of Certificates then Outstanding, as the case may be, will not unreasonably withhold their consent to an extension of up to sixty (60) days if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected; and (iii) the filing of a voluntary petition in bankruptcy by the Lessee, or the failure by the Lessee promptly to institute judicial proceedings to lift any execution, garnishment or attachment of such consequence as will materially impair its ability to carry on its operations, or the filing of a petition by the Lessee under the Federal Bankruptcy Code, or the adjudication of the Lessee as insolvent or as a bankrupt, or any assignment by the Lessee for the benefit of its creditors, or the application for, or consent to, the appointment of any receiver, trustee, custodian or similar officer by the Lessee or the entry by the Lessee into an agreement of composition with its creditors.

The Lessor’s failure to perform any of its obligations under the Lease Agreement will not be an event permitting the nonpayment of Lease Payments by the Lessee or the termination of the Lease Agreement by the Lessee.

Remedies on Default

Upon the occurrence and continuance of an event of default specified in the section of the Lease Agreement relating to events of default, the Lessor shall, only at the direction of the Certificate Holders of the majority in aggregate principal amount of Certificates then Outstanding, proceed to: (i) protect and enforce the Lease Agreement by such judicial proceedings as the Lessor or its assignee shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Lease Agreement, or in aid of the exercise of

any power granted in the Lease Agreement, or to enforce any other legal or equitable right vested in the Lessor or its assignee by the Lease Agreement or by law; (ii) take possession of the Leased Property and exclude the Lessee from using it until the default is cured, holding the Lessee liable for the Lease Payments and other amounts payable by the Lessee prior to such taking of the Leased Property under and pursuant to the Lease Agreement and curing of such default; or (iii) take whatever actions at law or in equity appear necessary or desirable to enforce its rights as the owner of the Leased Property, including termination of the Lease Agreement and the repossession, re-letting (with an approving opinion of Special Counsel) or sale (with an approving opinion of Special Counsel) of the Leased Property.

Any abatement of Lease Payments due to damage or destruction of any Leased Property will not constitute an event of default under the Lease Agreement.

Notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall 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 under the Lease Agreement, the Lessee will surrender possession of the Leased Property to the Lessor, if requested to do so by the Lessor, or by the Trustee or the Certificate Holders of not less than a majority of the aggregate principal amount of Certificates then Outstanding in accordance with the provisions of the Trust Agreement.

No Termination; Repossession and Re-Lease on Behalf of Lessee

In the event the Lessor, at the direction of the Certificate Holders in aggregate principal amount of Certificates then Outstanding, does not elect to terminate the Lease Agreement in the manner provided for in the Lease Agreement, the Lessor with the consent of the Lessee, which consent is irrevocably given, may repossess the Leased Property and re-let it for the account of the Lessee, in which event the Lessee's obligation under the Lease Agreement will continue to accrue from year to year in accordance with the Lease Agreement and the Lessee will continue to receive the value of the use of the Leased Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the Lessee shall remain the same as prior to such default to pay Lease Payments whether the Lessor re-enters or not. The Lessee agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Lessor for any deficiency arising out of the re-letting of the Leased Property, or, in the event the Lessor is unable to re-let the Leased Property, then for the full amount of all Lease Payments to the end of the term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided above for the payment of Lease Payments under the Lease Agreement, notwithstanding such repossession by the Lessor or any suit, brought by the Lessor for the purpose of effecting such repossession of the Leased Property or the exercise of any other remedy by the Lessor.

Pursuant to the Lease Agreement, the Lessee irrevocably appoints the Lessor as the agent and attorney-in-fact of the Lessee to repossess and re-let the Leased Property in the event of default by the Lessee in the performance of any covenants contained in the Lease Agreement to be performed by the Lessee and to remove (any removal to be done with reasonable prudence) all personal property connected to or made a part of the Leased Property, to place such Property in storage or other suitable place in the County of Los Angeles, for the account of and at the expense of the Lessee, and the Lessee exempts and agrees to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-letting of the Leased Property. Pursuant to the Lease Agreement, the Lessee waives any and all claims for damages caused or which may be caused by the Lessor in repossessing the Leased Property as provided in the Lease Agreement and all claims for damages that may result from the

destruction of or the injury to the Leased Property and all claims for damage to or loss of any property belonging to the Lessee that may be in or upon the Leased Property.

The Lessee agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Lessor to re-let the Leased Property in the event of such repossession without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Lessor in effecting such re-letting shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-letting is made or the terms and conditions of such re-letting or otherwise, but that, on the contrary, in the event of such default by the Lessee the right to terminate the Lease Agreement shall vest in the Lessor to be effected in the sole and exclusive manner provided for in the Lease Agreement. The Lessee further waives the right to any rental obtained by the Lessor in excess of the Lease Payments and, pursuant to the Lease Agreement, conveys and releases such excess to the Lessor as compensation to the Lessor for its services in re-letting the Leased Property. In the event that the liability of the Lessee under the Lease Agreement is held to constitute indebtedness or liability in any year exceeding the income and revenue provided for such year, the Lessor, or the Trustee or the Certificate Holders as assignees of the Lessor, shall not exercise those certain remedies as set forth in the Lease Agreement.

Termination; Repossession and Re-Lease

In the event of the termination of the Lease Agreement by the Lessor, at the direction of the Certificate Holders in aggregate principal amount of Certificates then Outstanding, and in the manner provided in the Lease Agreement on account of default by the Lessee (and notwithstanding any repossession of the Leased Property by the Lessor in any manner whatsoever or the sale or re-letting of the Leased Property), the Lessee nevertheless agrees to pay to the Lessor all costs, losses or damages, but not Lease Payments, howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease Agreement in the case of payment of Lease Payments. Unless waived by the Certificate Holders in aggregate principal amount of Certificates then Outstanding, notwithstanding any other provision in the Lease Agreement, following an event of default, the Trustee, acting at the direction of the Certificate Holders in aggregate principal amount of Certificates then Outstanding, shall have the right to re-enter and re-let the Leased Property and to terminate the Lease Agreement. Any proceeds of the re-letting or other disposition of the Leased Property or the sale of the Improvements located on the Leased Property by the Lessor shall, after payment of the fees and expenses of the Trustee, be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Lessor from such sale or re-letting shall be the absolute property of the Lessor and the Lessee shall have no right thereto, nor shall the Lessee be entitled to any credit in the event of a surplus in the rentals received by the Lessor for the Leased Property. Neither notice to pay rent or to deliver up possession of the Leased Property given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Leased Property shall by itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the Lessee shall be or become effective by operation of law, or otherwise, unless and until the Lessor shall have given written notice to the Lessee of the election on the part of the Lessor to terminate the Lease Agreement. The Lessee covenants and agrees that no surrender of the Leased Property or of the remainder of the term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Lessor by such written notice. No such termination shall be effected whether by operation of law or acts of the parties to the Lease Agreement, except only in the manner in the Lease Agreement expressly provided.

No Remedy Exclusive

No remedy conferred in the Lease Agreement upon or reserved to the Lessor is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy

given under the Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or 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 Agreement it will not be necessary to give any notice, other than such notice as may be required pursuant to the Lease Agreement or by law.

Agreement to Pay Attorneys' Fees and Expenses

In the event either party to the Lease Agreement should default under any of the provisions of the Lease Agreement and the non-defaulting 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 in the Lease Agreement, the defaulting party agrees that it will on demand therefor pay to the non-defaulting party the reasonable fees of such attorneys and such other expenses so incurred by the non-defaulting party.

No Additional Waiver Implied by One Waiver

In the event any agreement contained in the Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and will not be deemed to waive any other breach under the Lease Agreement.

Trustee and Certificate Holders to Exercise Rights

Such rights and remedies shall be exercised by the Trustee (subject to its rights and protections set forth in the Trust Agreement) and the Certificate Holders as provided in the Trust Agreement.

Additional Covenants

The Lessee covenants and agrees with the Certificate Holders to perform all obligations and duties imposed upon the Lessee under the Lease Agreement. The Lessor covenants and agrees with the Certificate Holders to perform all obligations and duties imposed upon the Lessor under the Lease Agreement.

The Lessee 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 or refraining from action, would or might be a ground for cancellation or termination of the Lease Agreement by the Lessor under the Lease Agreement. The Lessor and the Lessee, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting its estate in the Leased Property, which may or can in any manner affect such estate of the Lessee, will deliver the same, or a copy thereof, to the Trustee.

The Lessee 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, 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 it, including its right to exist and carry on business as a community college district or similar entity, as the case may be, to the end that such rights, privileges and franchises shall be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

The Lessee shall promptly, and also upon request of the Trustee (it having no obligation to make such request) from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Leased Property, whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Certificate Holder harmless from all loss, cost, damage and expense, including attorneys' fees and expenses, which it may incur by reason of any such defect, cloud, suit, action or proceeding.

The Lessor and the Lessee 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 Certificate Holders of the rights and benefits provided in the Lease Agreement.

THE TRUST AGREEMENT

Establishment of Project Fund

The Trustee will establish a special fund designated as the "Pasadena Area Community College District Certificates of Participation, 2021 Series A Project Fund" (the "Project Fund"), shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. The Project Fund will be held and applied by the Trustee in accordance with the Trust Agreement. There will be credited to the Project Fund the proceeds from the sale of the Certificates required to be deposited therein pursuant to the Trust Agreement, all investment earnings on moneys held in the Project Fund, and any other funds from time to time deposited with the Trustee for such purposes. Upon completion of the Project, the Lessee shall file with the Trustee a written certificate of the Lessee notifying the Trustee of such completion. Upon the filing of such written certificate, all amounts remaining on deposit in the Project Fund shall be transferred to the Lease Payment Fund, and upon such transfer the Project Fund shall be closed.

Establishment of Costs of Delivery Fund

The Trustee shall establish a special fund designated as the "Pasadena Area Community College District Certificates of Participation, 2021 Series A Costs of Delivery Fund" (the "Costs of Delivery Fund"), shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. The Costs of Delivery Fund will be held and applied by the Trustee in accordance with the Trust Agreement. Amounts on deposit in the Costs of Delivery Fund shall be applied to pay Costs of Delivery, as provided in the Trust Agreement.

The Costs of Delivery Fund shall be closed 180 days after the Closing Date, and any moneys then remaining in the Costs of Delivery Fund, including any interest earnings thereon, shall be transferred to the Lease Payment Fund.

Establishment of Prepayment Fund

The Trustee shall establish when deposits are required to be made therein a special fund designated as the "Pasadena Area Community College District Certificates of Participation, 2021 Series A Prepayment Fund" (the "Prepayment Fund"), shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. The Trustee need not open such fund on its records until such time as deposits are required to be made therein. Prior to any prepayment of the Certificates, an amount at least equal to the amount necessary to prepay the Certificates shall be deposited by the Lessee into the Prepayment Fund. As provided in the Trust

Agreement, prepayments of the Certificates will be made from money available therefor. Any prepayments of the Certificates in advance of their maturity will be made on the date designated for prepayment and upon presentation and surrender of such Certificates.

Upon the Trustee's receipt of each Prepayment of Lease Payments from the Lessee under the Lease Agreement, the Trustee shall give prompt notice to the Lessee of such receipt and the amount of said Prepayment. All amounts representing Prepayments under the Trust Agreement shall be deposited into the Prepayment Fund.

Prepayment from Net Insurance and Condemnation Proceeds

Upon the receipt of Net Insurance and Condemnation Proceeds from the Lessee, the Trustee shall promptly deposit such moneys into the Net Insurance and Condemnation Proceeds Fund and shall promptly provide notice thereof to the Lessee; the Lessee shall then deliver a Written Order to the Trustee, directing the Trustee to retain the Net Insurance Proceeds in the Net Insurance and Condemnation Proceeds Fund to be used to replace or repair the Leased Property, or to deposit such Net Insurance and Condemnation Proceeds into either (i) the Prepayment Fund, or (ii) the Lease Payment Fund as a credit against the Lease Payments, as may be required by the Lease Agreement.

The Certificates are subject to prepayment on any Payment Date, in whole or in part, from Net Insurance and Condemnation Proceeds deposited in the Prepayment Fund at least 45 days prior to a Payment Date and credited towards the Prepayment made by the Lessee pursuant to the Lease Agreement, at a prepayment price equal to the principal amount thereof, together with interest accrued to the date fixed for prepayment, without premium. In the event of a prepayment of Certificates from Net Insurance and Condemnation Proceeds when fewer than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment from the Outstanding Certificates, proportionately by maturity in Authorized Denominations. The Trustee shall promptly notify the Lessee and the Lessor in writing of the Certificates so selected for prepayment.

In the event that Net Insurance Proceeds are sufficient, together with other moneys as may be provided by the Lessee, to prepay the Lease Payments in full, payments from Net Insurance Proceeds may be applied to the prepayment of Certificates.

Whenever Net Insurance and Condemnation Proceeds are set aside for prepayment of Certificates in accordance with the Trust Agreement, such Net Insurance and Condemnation Proceeds shall, promptly upon receipt and upon the Trustee's receipt of written instructions, be invested by the Trustee at the written direction of the Business Services Representative, upon consultation with the Lessee, in Permitted Investments maturing in time and amount sufficient to provide payment in full of the principal and interest with respect to the Certificates selected for prepayment. The Lessee shall provide the Trustee with revised mandatory prepayment schedules.

In the event the Lessee elects to repair or replace the Leased Property with Net Insurance and Condemnation Proceeds and does not receive sufficient Net Insurance and Condemnation Proceeds for that purpose, the Lessee shall use its best efforts to provide sufficient funds, if necessary, in excess of such Net Insurance and Condemnation Proceeds to repair or replace the Leased Property and to make Lease Payments pursuant to the Lease Agreement.

In the event that the Lessee shall have delivered a Written Order directing the Trustee to retain the Net Insurance Proceeds in the Net Insurance and Condemnation Proceeds Fund, the Trustee shall apply such moneys in accordance with the Trust Agreement.

The Lessee will be permitted to request the replacement or repair of the Leased Property only if (i) the Net Insurance Proceeds available for such purpose, together with any other funds supplied by the Lessee for such purpose, are sufficient therefor, (ii) in the event that damage or destruction results in an abatement of Lease Payments, the Lessee Representative certifies and covenants to the Trustee that such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds will be available to pay in full all Lease Payments coming due during such period as described in the Lease Agreement, (iii) the Certificate Holders of the majority in aggregate principal amount of Certificates Outstanding shall have consented, in writing, to such repair or replacement, or (iv) such requirements are waived by the Certificate Holders of the majority in aggregate principal amount of Certificates Outstanding.

If, following the use by the Lessee of Net Insurance Proceeds for the purposes described above, there remains an excess amount, the Lessee shall deposit such excess Net Insurance Proceeds into the Lease Payment Fund and it shall be afforded a credit against its immediately succeeding Lease Payments due.

Surplus

Any funds remaining in the Prepayment Fund after prepayment, or provision having been made therefor satisfactory to the Trustee, including payment of any accrued interest and payment of any such applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the Lessee.

Lease Payments; Lease Payment Fund

The Lessor has, pursuant to the Assignment Agreement, assigned and set over to the Trustee certain of its rights in the Lease Agreement and the Site Lease (excepting only its rights to indemnification and to give approvals and consents), including but not limited to all of the Lessor's rights to receive and collect all of the Lease Payments, Additional Payments (except those Additional Payments payable to the Trustee), Additional Lease Payments, Prepayments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease Agreement or pursuant to the Trust Agreement. All Lease Payments, Additional Payments, Additional Lease Payments, Prepayments and such other amounts to which the Lessor may at any time be entitled shall be paid by the Lessee directly to the Trustee, and all of the Lease Payments, Additional Payments, Additional Lease Payments and Prepayments collected or received by the Lessor shall be deemed to be held and to have been collected or received by the Lessor as the agent of the Trustee, and if received by the Lessor at any time shall be deposited by the Lessor with the Trustee within one Business Day after the receipt thereof, and all the Lease Payments, Additional Payments, Additional Lease Payments, Prepayments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund (except as provided in the Lease Agreement or the Trust Agreement).

The Lessor and the Lessee, as their interests may appear, pursuant to the Trust Agreement, grant to the Trustee for the benefit of the Certificate Holders, a lien on and a security interest in all moneys in the funds and accounts held by the Trustee under the Trust Agreement, except moneys held in the Rebate Fund, including without limitation, the Lease Payment Fund, the Prepayment Fund, Net Insurance and Condemnation Proceeds Fund, and all such moneys will be held by the Trustee in trust and applied to the purposes specified in the Trust Agreement and in the Lease Agreement.

The Lessor and Lessee, pursuant to the Trust Agreement grant to the Trustee for the benefit of the Certificate Holders a lien on and a security interest in the Leased Property for the maximum Term of the Lease Agreement, which interest shall be evidenced by the filing of appropriate security

instruments, signed by the Lessor, granting the Trustee a first perfected security interest in the Leased Property. Unless otherwise agreed to in writing by the Certificate Holders of not less than a majority in principal amount of Certificates then Outstanding, no lien on the Leased Property (except laborers' and mechanics' liens) senior to such lien shall be permitted.

The Lease Payments are pursuant to the Trust Agreement irrevocably pledged to and shall be used for the punctual payment of the Interest Component and the Principal Component, and the Lease Payments will not be used for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first and exclusive lien on the Lease Payments for the benefit of the Certificate Holders, as their interests may appear, in accordance with the terms of the Trust Agreement.

Establishment of Rebate Fund

The Trustee shall establish a special fund designated as the "Pasadena Area Community College District Certificates of Participation, 2021 Series A Rebate Fund" (the "Rebate Fund"). So long as any Certificates are Outstanding, neither the Lessee nor the Lessor shall have any beneficial right or interest in the Rebate Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as set forth in the Trust Agreement. The Trustee may rely conclusively on the Lessee's (or its agent's) determinations, calculations and certifications with regard to the calculation of rebate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Lessee's (or its agent's) calculations with regard to rebate.

Establishment of Lease Payment Fund

The Trustee shall establish a special fund designated as the "Pasadena Area Community College District Certificates of Participation, 2021 Series A Lease Payment Fund" (the "Lease Payment Fund"). All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Certificate Holders. So long as any Certificates are Outstanding, neither the Lessee nor the Lessor shall 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 shall be used and applied by the Trustee as set forth in the Trust Agreement.

Deposits

There shall be deposited into the Lease Payment Fund all Lease Payments, Additional Payments (except those payable to the Trustee as its fees and expenses) and Lessee Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement, the Lease Agreement and any other moneys required to be deposited therein pursuant to the Lease Agreement or pursuant to the Trust Agreement. On or prior to each Lease Payment Date, the Trustee shall notify the Lessee of the amounts on deposit in the Lease Payment Fund to be credited toward the Lease Payments due from the Lessee on the next succeeding Lease Payment Date.

Application of Moneys

Except as provided in the Trust Agreement, all amounts in any account in the Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the Principal Component and Interest Component as the same shall become due and payable, in accordance with the provisions of the Trust Agreement. This pledge shall constitute a first and exclusive lien on the Lease Payments in accordance with the terms of the Trust Agreement.

Except as provided in the previous paragraph, the Trustee shall apply moneys on deposit in the Lease Payment Fund in the following order of priority:

- 1) On or before each Interest Payment Date, an amount sufficient to pay the Interest Component coming due and payable on such date shall be set aside;
- 2) On or before each Principal Payment Date, an amount sufficient to pay the Principal Component with respect to the Certificates coming due and payable on such date shall be set aside by the Trustee and mailed (or sent by wire transfer, as appropriate) to the Certificate Holders of the Certificates; and
- 3) To the extent that Lessee Prepayments shall be deposited to the Prepayment Fund by the date which is forty-five (45) days prior each date set for prepayment of Certificates pursuant to the Trust Agreement, the amount prepaid shall be deposited into the Prepayment Fund to be applied for the prepayment of Certificates in accordance with the Trust Agreement.

Surplus

Any funds remaining in the Lease Payment Fund after prepayment and payment of all Certificates Outstanding, or provision having been made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the Lessee.

Investment Earnings

The Trustee shall deposit all earnings resulting from the investment of moneys in any fund or account held under the Trust Agreement as provided in the Trust Agreement.

Recordation and Filing

The Trustee shall cooperate fully with the Lessee, at the expense of the Lessee, with respect to the Lessee's filing and recording any amendments or supplements to the Site Lease and the Lease Agreement, all in such manner, at such times and in such places required in order fully to perfect, preserve and protect the security of the Certificate Holders. It is not anticipated that financing statements recorded on the Closing Date will be renewed or continuation statements filed in connection therewith unless otherwise directly instructed by the Lessor, upon consultation with the Lessee. The Lessee and Lessor will do whatever else necessary or reasonably required in order to perfect and continue such security interest and assignment of the Lease Agreement.

Preservation of Lien

The Trustee, at the written request and at the expense of the Lessee, and the Lessee covenant and agree to take such action as is necessary from time to time under the Trust Agreement and under applicable law to preserve the priority of the pledge of the Lease Payments and other amounts pledged under the Trust Agreement.

Net Insurance Proceeds and Condemnation Proceeds Fund

The Trustee shall establish a special fund, at such time as deposits are required to be made therein, to be designated as the "Pasadena Area Community College District Certificates of Participation, 2021 Series A Net Insurance and Condemnation Proceeds Fund" (the "Net Insurance and

Condemnation Proceeds Fund”) and shall administer such fund in accordance with the provisions of the Trust Agreement. All moneys at any time on deposit in the Net Insurance and Condemnation Proceeds Fund will be held by the Trustee in trust for the benefit of the Certificate Holders, and applied solely as provided in the Trust Agreement.

Any Net Insurance and Condemnation Proceeds collected by the Lessee shall be transferred to the Trustee pursuant to the Lease Agreement and deposited by the Trustee in the Net Insurance and Condemnation Proceeds Fund to be held in trust and applied and disbursed by the Trustee as provided in the Lease Agreement.

If any portion of the Leased Property is damaged or destroyed, or taken by condemnation proceedings, the Net Insurance and Condemnation Proceeds therefrom shall be deposited in the Net Insurance and Condemnation Proceeds Fund promptly upon receipt thereof and the Lessee shall certify to the Trustee within forty-five (45) days (i) as to whether the Leased Property has been damaged or destroyed, or taken in whole or in part, (ii) as to whether the remaining portion of the Leased Property is still useful for the purposes originally intended, and (iii) as to whether it desires that any available Net Insurance and Condemnation Proceeds from such damages recovery or condemnation proceedings be applied for replacement of the Leased Property and, if so, that sufficient funds, together with such Net Insurance and Condemnation Proceeds, have been appropriated to pay the total cost of such replacement. If such certification is to the effect that the Leased Property has been damaged or destroyed, or taken in whole or in part to such extent that the remaining portion of Leased Property is no longer useful for the purposes originally intended, the Trustee shall transfer all of such Net Insurance and Condemnation Proceeds to the Prepayment Fund to be applied to the partial prepayment of Certificates. If such certification is to the effect that the Leased Property has been damaged or destroyed, or taken in part and that the remaining portion of the Leased Property is still useful for the purposes originally intended, the Trustee shall transfer such Net Insurance and Condemnation Proceeds to the Lease Payment Fund to be applied to the restoration of the Project upon requisition therefor by the Lessee; *provided* that, if such certification is also to the effect that the Lessee desires that any available Net Insurance and Condemnation Proceeds be applied for replacement of the Leased Property and if the Lessee further certifies that sufficient funds, together with such Net Insurance and Condemnation Proceeds, have been appropriated or are otherwise available to pay the total cost of such replacement, the Trustee will disburse such Net Insurance and Condemnation Proceeds to the Lessee upon receipt of the requisition therefor in order for the Lessee to cause the Leased Property to be replaced or improved to at least the same good order, repair and condition as it was in prior to the damage or destruction or condemnation proceedings, insofar as the same may be accomplished with said funds, and the Trustee shall transfer any excess Net Insurance and Condemnation Proceeds to the Lease Payment Fund to be credited against the Lessee’s next Lease Payment. If such certification is to the effect that the Leased Property has been damaged or destroyed, or taken in part and that the remaining portion of the Leased Property is still useful for the purposes originally intended, and the Trustee transfers funds to the Net Insurance and Condemnation Proceeds Fund, but the Lessee does not certify that there are sufficient funds to complete the replacement of the Leased Property, then the Trustee shall transfer all of such Net Insurance and Condemnation Proceeds to the related Prepayment Fund to be applied to the prepayment of the Certificates. The Lessee has covenanted in the Lease Agreement to use its best efforts to provide sufficient construction funds to make all required Lease Payments in excess of the amount of rental interruption insurance, if necessary, in order to ensure completion of the reconstruction, repair, restoration, modification or improvement of the Leased Property and the Leased Property Components.

After all of the Certificates have been retired and the entire amount of the Principal Components and Interest Components of the Certificates have been paid in full or provision having been made therefor satisfactory to the Trustee, including payment of the Trustee’s fees and expenses, the

Trustee shall then pay any remaining moneys in the Net Insurance and Condemnation Proceeds Fund to the Lessee.

The Lessor and the Trustee shall cooperate fully with the Lessee, at the expense of the Lessee, with respect to the Lessee's filing any proof of loss with respect to any insurance policy maintained pursuant to the Lease Agreement and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to any part of the Leased Property; *provided* that the Trustee will not be obligated to take any action if it has not been indemnified as provided in the Trust Agreement.

Moneys In Funds; Investment

The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Certificate Holders, with the exception of moneys held in the Rebate Fund, which are held in trust for rebate to the United States Government, and for the purposes in the Trust Agreement specified, and such moneys, and any income or interest earned thereon, shall 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 Lessor, the Trustee or the Lessee or any Certificate Holder, or any of them other than the lien in favor of Trustee permitted pursuant to the Trust Agreement.

Moneys held by the Trustee under the Trust Agreement, upon written order of the Business Services Representative (who are pursuant to the Trust Agreement designated as the agents of the Lessee for these purposes) upon consultation with the Lessee, shall be invested and reinvested by the Trustee in Permitted Investments. Investments shall not include corporate debt other than commercial paper rated in the highest category by the Rating Agencies. The Business Services Representative upon consultation with the Lessee, shall by written order filed with the Trustee direct such investment in specific Permitted Investments identified in such written order. Such investments, if registerable, shall be registered in the name of the Trustee or its nominee for the benefit of the Certificate Holders and held by the Trustee or held in the name of the Trustee at a bank's trust department or separate safekeeping department in accordance with the Code and as approved by the Business Services Representative. Such investment direction will be made giving full consideration for the time at which funds are required to be available based upon information provided by the Lessee. The Trustee and its affiliates may act as sponsor, advisor, purchaser or agent in the making or disposing of any investment. The Trustee covenants that in the absence of a written order of the Business Services Representative or his designee directing investments under the Trust Agreement, the Trustee shall hold such funds uninvested pending the receipt of written investment instruction. The Trustee will not be responsible for investments complying with yield restriction requirements, other than to follow the investment instructions of the Business Services Representative. The Lessor and the Lessee acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Lessor or the Lessee the right to receive brokerage confirmations of securities transactions as they occur, at no additional cost, the Lessor and the Lessee specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Lessee periodic cash transaction statements as provided in the Trust Agreement which shall include detail for all investment transactions made by the Trustee under the Trust Agreement.

Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement shall be credited to the fund or account from which the investment was made, except as otherwise provided in the Trust Agreement. All earnings resulting from the investment of moneys deposited in any other fund or account held under the Trust Agreement will be retained in the fund or account in which earned and shall be applied for the purpose for which such fund or account is established.

The Trustee shall furnish to the Lessee, the Business Services Representative each month an accounting statement of all investments made by the Trustee in addition to accounting for the receipts and disbursements of the Lessee. The Trustee will not be responsible or liable for any loss suffered in connection with any investment of funds made in accordance with the Trust Agreement, except for its own negligence and willful misconduct.

With respect to all funds and accounts, the Trustee shall, at the expense of the Lessee, determine the value of investments held under the Trust Agreement no less often than monthly, calculated as follows: (i) the value of the securities as computed on the basis of the closing bid price quoted by Interactive Data Systems, Inc.; (ii) the valuation of the securities performed by a nationally recognized and accepted pricing service whose valuation method consists of the composite average of various bid price quotes on the valuation date; (iii) the valuation of collateral based on the lower of two dealer bids on the valuation date, which dealers or their parent holding companies are rated at least investment grade by S&P and Moody's, are market makers in the securities being valued; (iv) as to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and (v) as to any investment not specified above, the value thereof established by the Lessee, as notified in writing to the Trustee. In making any valuations under the Trust Agreement, the Trustee may utilize pricing services (including brokers and dealers in securities) available to it, including those within its regular accounting system and may conclusively rely thereon. Any Permitted Investment shall be deemed to mature on the earliest date that the issuer thereof may be required to repay the principal thereof at principal without penalty. The Trustee shall sell, or present for prepayment or redemption, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Trustee shall have no duty or obligation to verify the legality of Permitted Investments directed by the Lessee or the Business Services Representative. Each written investment direction of the Lessee or the Business Services Representative shall be deemed a certification that such investments are Permitted Investments as defined in the Trust Agreement.

The Trustee

The Lessor will maintain either U.S. Bank National Association, or a successor Trustee which successor Trustee is a commercial bank, national banking association, banking corporation or trust company having an office in Los Angeles, California, which, together with the corporate parent of such Trustee, has a combined capital (exclusive of borrowed 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, banking corporation or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purpose of the Trust Agreement, the combined capital and surplus of such bank, national banking association, banking corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee is pursuant to the Trust Agreement authorized to pay the Certificates when duly presented for payment at maturity, or upon prepayment as provided in the Trust Agreement or Certificates prior to maturity and to cancel all Certificates upon payment or prepayment thereof. The Trustee shall keep accurate records of all funds administered by it and of all Certificates paid and discharged. The Trustee shall be compensated for its services rendered pursuant to the provisions of the Trust Agreement.

The Business Services Representative so long as no Event of Default shall have happened and be continuing, may remove the Trustee initially appointed, and any successor thereto, for good cause and may appoint a successor or successors thereto; *provided*, that any such successor shall be a commercial bank, national banking association, banking corporation or trust company meeting the requirements set forth in the applicable section of the Trust Agreement. In addition, the Trustee may be removed at any time, for any breach of the trust set forth in the Trust Agreement.

The Trustee may resign by giving prior written notice to the Lessor and to the Business Services Representative. Upon receiving such notice of resignation, the Lessor and the Business Services Representative shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor thereto shall become effective upon acceptance of appointment by such successor. Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed. Upon such acceptance, the successor trustee shall mail notice thereof to the Certificate Holders at their respective addresses set forth on the Certificate registration books maintained pursuant to the Trust Agreement. In the event that neither the Lessor nor the Business Services Representative names a successor Trustee within 30 days of the Trustee's removal or receipt of notice of the Trustee's resignation, then the Trustee may petition a federal or state court of proper jurisdiction to seek the immediate appointment of a successor Trustee.

Every successor Trustee appointed pursuant to the Trust Agreement shall satisfy the requirements of the applicable section of the Trust Agreement. Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed.

The recitals of facts in the Trust Agreement, in the Assignment Agreement and in the Certificates contained shall be taken as statements of the Lessee, and the Trustee assumes no, nor shall it have any, responsibility or liability for the correctness of the same, and makes no representations as to the validity or sufficiency of the Trust Agreement or the Certificates as to the value or condition of the trust estate or any part thereof, as to the title of the Lessee thereto, as to the security afforded thereby or by the Trust Agreement, as to the tax status of the Interest Component with respect to the Certificates, or as to the technical or financial viability of the Lessee, and shall incur no responsibility nor have any liability in respect thereof. The Trustee will not be accountable in any manner whatsoever for the use or application by the Lessee of the Certificates or the proceeds thereof or of any moneys paid to the Lessee pursuant to the terms of the Trust Agreement. The Trustee shall, however, be responsible for its representations in relation to the execution of the Certificates. The Trustee will not be liable in connection with the performance of its duties under the Trust Agreement except for its own negligence or willful misconduct. The Trustee may execute any of the trusts or powers under the Trust Agreement or perform any duties under the Trust Agreement either directly or through agents or attorneys, and the Trustee will not be directly responsible for any misconduct or negligence on the part of any agent (other than an employee) or attorney appointed with due care. The Lessee will not be deemed an agent of the Trustee for any purpose, and the Trustee will not be responsible for the compliance by the Lessee with its duties under the Trust Agreement in connection with the transactions contemplated in the Trust Agreement. The Trustee may become the Certificate Holder with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of their 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 Certificate Holders, whether or not such committee shall represent the Certificate Holders of not less than the majority in principal amount of the Certificates then Outstanding. No provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Trust Agreement or thereunder, or in the exercise of its rights or powers.

In accepting the trusts created pursuant to the Trust Agreement, the Trustee acts solely as Trustee for the Certificate Holders and not in its individual capacity and all persons, including without limitation the Certificate Holders, Lessor and Lessee having any claim against the Trustee arising from the Trust Agreement shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment except as otherwise provided in the Trust Agreement. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the Lessor and the Lessee of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease Agreement or the Trust Agreement for the existence, furnishing or use of the Project.

The Trustee will not be accountable for the use or application by the Lessee or any other party of any funds which the Trustee has released in accordance with the provisions of the Trust Agreement. Every provision of the Trust Agreement, the Lease Agreement, the Site Lease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of the Trust Agreement, including without limitation, the applicable article of the Trust Agreement. The Trustee is authorized and directed to execute in its capacity as Trustee under the Trust Agreement or the Assignment Agreement.

The Trustee is not responsible for any official statement or any other offering material prepared or distributed with respect to the Certificates. The Trustee will not be liable for any action taken or not taken by it in accordance with the written direction of the Certificate Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding relating to the time, method and place of conducting any proceeding or remedy available to the Trustee, or in the exercise of any trust or power conferred to the Trustee under the Trust Agreement.

Prior to taking any action under the applicable article of the Trust Agreement at the request of the Certificate Holders, the Trustee may require that a satisfactory indemnity bond be furnished by the Certificate Holders for the reimbursement of all expenses to which it may incur and to protect it against all liability, except liability which is adjudicated to have resulted from its own negligence or willful misconduct in connection with any action so taken under the applicable articles of the Trust Agreement.

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 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 pertaining to the project, 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 have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Trust Agreement and delivered using Electronic Means ("Electronic Means") will mean the following communications methods: S.W.I.F.T., email, facsimile transmission, secure electronic transmission containing applicable authorization codes,

passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services under the Trust Agreement); *provided, however*, that the Lessee will provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by the Lessee whenever a person is to be added or deleted from the listing. If the Lessee elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee’s understanding of such Instructions will be deemed controlling. The Lessee understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The Lessee will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Lessee and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Lessee. 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 directions conflict or are inconsistent with a subsequent written instruction. The Lessee agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions 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; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Lessee; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of default which may have occurred under the Trust Agreement, perform such duties and only such duties are specifically set forth in the Trust Agreement. The Trustee shall, during the existence of any Event of Default, which has not been cured, exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

Any company or national banking association into which the Trustee may be merged or converted or with which it may be consolidated or any company, banking corporation or national banking association resulting from any merger, conversion or consolidation to which it shall be a party or any company, banking corporation or national banking association to which the Trustee may sell or transfer all or substantially all of its corporate trust business, *provided* that such company or national banking association shall meet the requirements set forth in the Trust Agreement, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Trust Agreement to the contrary notwithstanding. Notice of such merger or consolidation shall be given to the Lessor and the Business Services Representative.

The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, voucher, waiver or other paper or document which it shall 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 shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, including, but not limited to, the legality of any investment in which Trustee is instructed to invest, but may, in the absence of negligence or bad faith on its part, accept and rely upon the same as conclusive

evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the Lessee, with regard to legal questions and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee under the Trust Agreement in good faith in accordance therewith.

Whenever in the administration of its duties under the Trust Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be in the Trust Agreement specifically prescribed), in the absence of negligence or bad faith on its part, shall be deemed to be conclusively proved and established by the certificate of the Lessee's Authorized Signatory or the Lessor Representative and such certificate shall be full warranty to the Trustee, in the absence of negligence or 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 deem reasonable to the Trustee.

The Trustee may be or become a Certificate Holder with the same rights it would have if it were not Trustee; may acquire and dispose of any bonds or other evidence of indebtedness of the Lessee 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 the Certificate Holders whether or not such committee shall represent the Certificate Holders of the majority in principal amount of the Certificates then Outstanding.

The Trustee will not be deemed to have knowledge of any Event of Default under the Trust Agreement unless and until a Responsible Officer shall have actual knowledge thereof, or shall have received written notice thereof, at its Principal Corporate Trust Office. Except as otherwise expressly provided in the Trust Agreement, the Trustee will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Trust Agreement or of any of the documents executed in connection with the Certificates, or as to the existence of an Event of Default thereunder.

The permissive right of the Trustee to do things enumerated in the Trust Agreement will not be construed as a duty and the Trustee will not be answerable for other than its gross negligence or willful default. The Trustee will not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

In acting or omitting to act pursuant to the Lease Agreement, the Site Lease, or any other agreement executed in connection with the Trust Agreement or thereof to which the Trustee is a party, the Trustee shall be entitled to all of the rights, immunities and indemnities accorded to it under the Trust Agreement.

The Lessee shall on demand pay to the Trustee reasonable compensation for the Trustee's regular services under the Trust Agreement as provided in the written fee schedule of the Trustee furnished to the Lessee and shall reimburse the Trustee, for all advances (with interest on such advances at the maximum rate allowed by law) and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys or other experts employed by the Trustee in the exercise and performance of its powers and duties under the Trust Agreement and the Trustee shall have a lien therefor on all funds and property attributable to a defaulting party, at any time held by it under the Trust Agreement, which lien will not be prior and superior to the lien of the Certificate Holders unless there has occurred an Event of Default in which event the lien of the Trustee shall be prior and superior to the lien of the Certificate Holders. The Lessee's obligations under

the Trust Agreement shall remain valid and binding, notwithstanding the maturity and payment of the Certificates. The compensation of the Trustee under the Trust Agreement will not be limited by any provision of law in regard to the compensation of a trustee of an express trust. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Indemnification of Trustee

To the extent permitted by law, the Lessee shall indemnify and save the Trustee and its officers, directors, employees, agents, successors or assigns harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the actions of any other party, including but not limited to the ownership, operation or use of Leased Property by the Lessee, or (ii) the Trustee's exercise and performance of its powers and duties under the Trust Agreement, under the Lease Agreement, the Site Lease and any other document or transaction contemplated in connection with the Trust Agreement or therewith. No indemnification will be made under the applicable section of the Trust Agreement or elsewhere in the Trust Agreement for negligence or willful misconduct under the Trust Agreement by the Trustee, its officers or employees. The Lessee's obligations under the Trust Agreement shall remain valid and binding notwithstanding the defeasance, maturity and payment of the Certificates or the resignation or removal of the Trustee.

Modification or Amendment of Agreements

The Trust Agreement and the rights and obligations of the Certificate Holders and the Lease Agreement and the Site Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, which shall become effective when the written consent of the Corporation shall have been filed with the Trustee, without any further agreement, action or consent. Any such supplemental agreement shall be provided by the Lessee to S&P at least (10) days prior to the effective date thereof.

Certificates actually known by a Responsible Officer of the Trustee to be owned or held by or for the account of the Lessee or the Lessor or by any person directly or indirectly controlled by, or under direct or indirect common control of, the Lessee or the Lessor (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 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 unless 100% in aggregate principal amount of the Certificates are so owned. Upon request of the Trustee, the Lessor or the Lessee shall specify to the Trustee those Certificates disqualified pursuant to the applicable section of the Trust Agreement and the Trustee may conclusively rely on such certification.

From and after the time any supplemental agreement becomes effective pursuant to the applicable article of the Trust Agreement, the Trust Agreement or the Lease Agreement, shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the parties to the Trust Agreement or thereto and all Certificate Holders of Certificates Outstanding, as the case may be, shall thereafter be determined, exercised and enforced under the Trust Agreement and thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement shall be deemed to be part of the terms and conditions of the Trust Agreement or the Lease Agreement, as the case may be, for any and all purposes.

The Lessee may determine that Certificates delivered after the effective date of any action taken as provided in the Trust Agreement shall bear a notation, by endorsement, in form approved

by the Lessee, as to such action. In that case, upon demand of the Certificate Holder of any Certificate Outstanding at such effective date and presentation of his Certificate for that purpose at the office of the Trustee, a suitable notation will be made on such Certificate. The Lessee may determine that new Certificates, so modified as in the opinion of the Lessee is necessary to conform to such Certificate Holder's action, shall be prepared, executed and delivered. In that case, upon demand of the Certificate Holder of any Certificate then Outstanding, such new Certificate shall be exchanged in the Principal Corporate Trust Office of the Trustee without cost to such Certificate Holders, for a Certificate of the same character then Outstanding, upon surrender of such Certificate.

Subject to the applicable section of the Trust Agreement, the provisions of the applicable article of the Trust Agreement shall not prevent any Certificate Holder from accepting any amendment as to the particular Certificates held by such Certificate Holder.

The Trustee will not be obligated to execute any supplemental agreement affecting its rights, duties, protections, immunities and indemnities accorded to it under the Trust Agreement. Prior to its execution of a supplemental agreement, the Trustee is entitled to receive, at the expense of the Lessee, an opinion of counsel stating that the execution of such amendment is authorized or permitted under the Trust Agreement.

Covenants; Notices

The Lessee covenants and agrees with the Certificate Holders to perform all obligations and duties imposed on them, respectively, under the Trust Agreement and under the Lease Agreement. The Lessor covenants and agrees with the Certificate Holders to perform all obligations and duties imposed under the Lease Agreement.

The Lessee 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 or refraining from action, would or might be a ground for cancellation or termination of the Lease Agreement by the Lessor thereunder. The Lessor and the Lessee, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting the estate, in the Leased Property and the Project, which may or can in any manner affect such estate of the Lessee, will deliver the same, or a copy thereof, to the Trustee.

Pursuant to the Lease Agreement, the Lessee shall supply to the Trustee, prior to the beginning of the fiscal year, a certification that the Lessee has made adequate provision in its proposed annual budget for the payment of Lease Payments due under the Lease Agreement in the fiscal year covered by such budget. The certification given by the Lessee to the Trustee shall be to the effect that the amounts so budgeted are fully adequate for the payment of all Lease Payments due under the Lease Agreement in such fiscal year. If the certification states that the amounts so budgeted are not stated to be adequate for the payment of Lease Payments due under the Lease Agreement, the Trustee will notify the Lessee to take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the Lessee in the ensuing fiscal year for the payment of Lease Payments due under the Lease Agreement and will notify the Trustee of the proceedings then taken or proposed to be taken by the Lessee; and the Trustee shall forward a copy of such notice to the Business Services Representative and the Lessee. The Trustee shall be protected in relying upon any certification or such notice from the Lessee, and the Trustee shall have no further responsibility for the evaluation of such budget data. The Lessee shall keep the Trustee and the Business Services Representative advised of all proceedings thereafter taken by the Lessee.

Pursuant to the Trust Agreement, the Lessee authorizes the Trustee or the Business Services Representative to invest funds and amounts attributable to the Leased Property and the Project in any investment consistent with the County Investment Policy. If the Trustee invests funds pursuant to instructions pursuant to the Trust Agreement, the Trustee will be deemed to have complied with the County Investment Policy. To the extent permitted by law, the Lessee shall and agrees, pursuant to the Trust Agreement, to indemnify and save the Lessor, the Trustee and the Business Services Representative and each of their respective successors, assigns, agents, officers, employees and servants harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of any act or negligence with respect to the investment of funds and accounts pursuant to the Lease Agreement or the Trust Agreement.

Notwithstanding any other provision in the Trust Agreement, failure of the Lessee to perform in accordance with the Continuing Disclosure Undertaking shall not constitute a default or an Event of Default under the Trust Agreement, and the rights and remedies provided by the Trust Agreement upon the occurrence of an Event of Default shall not apply to any such failure, but the Continuing Disclosure Undertaking may be enforced only as provided therein.

Limited Liability of the Lessee

Except for the payment of Lease Payments, Additional Payments and Prepayments when due in accordance with the Lease Agreement and the performance of the other covenants and agreements of the Lessee contained in the Trust Agreement and in the Lease Agreement, the Lessee shall have no obligation or liability to any of the other parties or to the Certificate Holders with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Certificate Holders by the Trustee.

No Liability of the Lessee or Lessor for Trustee Performance

Except as expressly provided in the Trust Agreement, neither the Lessee nor the Lessor shall have any obligation or liability to any of the other parties or to the Certificate Holder with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Limited Liability of Trustee

The Trustee shall have no obligation or responsibility for providing information to the Certificate Holders concerning the investment character of the Certificates, for the sufficiency or collection of the Lease Payments or other moneys required to be paid to it under the Lease Agreement (except as provided in the Trust Agreement) or for the actions or representations of any other party to the Trust Agreement. The Trustee shall have no obligation or liability to any of the other parties or the Certificate Holders with respect to the Trust Agreement or the failure or refusal of any other party to perform any covenant or agreement made by any of them under the Trust Agreement and the Lease Agreement, but shall be responsible solely for the performance of the duties and obligations expressly imposed upon it under the Trust Agreement. The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates contained shall be taken as statements, covenants and agreements of the Lessee or the Lessor (as the case may be), and the Trustee assumes no responsibility for the correctness of the same, makes no representations as to the validity or sufficiency of the Trust Agreement or of the Certificates, shall incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates assigned to or imposed upon it. The Trustee will not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct.

Opinion of Counsel

Before being required to take any action, the Trustee may require an opinion of Independent Counsel acceptable to the Trustee which opinion will be made available to the other parties to the Trust Agreement upon request, which counsel may be counsel to any of the parties to the Trust Agreement, or a verified certificate of any party to the Trust Agreement, or both, concerning the proposed action. If it does so in good faith, the Trustee shall be absolutely protected in relying thereon. The Trustee will not be responsible for the sufficiency of the Lease Agreement, its right to receive moneys pursuant to the Lease Agreement or the value of or title to the premises upon which the Project is located. The Trustee will not be responsible or liable for any losses suffered in connection with any investment of funds made by it under the terms of and in accordance with the Trust Agreement.

Limitation of Rights to Parties and Certificate Holders

Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the Lessee, the Lessor, the Trustee, and the Certificate Holders, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision of the Trust Agreement; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the Lessee, the Lessor, the Trustee and the Certificate Holders.

Assignment of Rights; Events of Default and Remedies of Certificate Holders

Pursuant to the Assignment Agreement, the Lessor has transferred, assigned and set over to the Trustee for the benefit of the Certificate Holders (1) all of the Lessor's rights to receive Lease Payments and Prepayments without recourse to be paid by the Lessee under and pursuant to the Lease Agreement and the Site Lease and (2) effective immediately upon the occurrence of an Event of Default under the Lease Agreement or the Site Lease and without further action on the part of the Lessor, such rights and remedies of the Lessor under the Lease Agreement and the Site Lease, as applicable, as may be necessary or convenient (i) to enforce payment of the Lease Payments, Prepayments and any other amounts required to be deposited in the Lease Payment Fund, the Net Insurance and Condemnation Proceeds Fund and Prepayment Fund, or (ii) otherwise to protect the interests of the Certificate Holders or the Trustee upon the occurrence of an Event of Default.

The following shall be "Events of Default" under the Trust Agreement:

(a) An Event of Default shall have occurred under the Lease Agreement or the Site Lease.

(b) Failure by a Lessee or the Lessor to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement or the Lease Agreement, other than such failure as may constitute an Event of Default under clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee and Lessor by the Trustee or to the Lessee and the Lessor by the Certificate Holders of not less than a majority in aggregate principal amount of the Certificates then Outstanding or if the failure stated in the notice cannot be corrected within such thirty (30) day period, where the Lessee shall fail to institute corrective action within such thirty (30) day period and diligently pursue the same to completion.

If an Event of Default shall occur and be continuing, the Trustee shall give notice of such Event of Default to the Certificate Holders. Such notice shall identify the party in default and shall provide a brief description of such Event of Default. The Trustee in its discretion may withhold such

notice if it deems it in the best interests of the Certificate Holders. The notice provided in the applicable provisions of the Trust Agreement shall be given by registered or certified mail to the Certificate Holders within thirty (30) days of such occurrence of the Event of Default.

If an Event of Default shall occur, 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 Agreement under which such Event of Default has occurred; *provided, however*, that notwithstanding anything in the Trust Agreement or in the Lease Agreement to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare the Lease Payments not then in default to be immediately due and payable.

Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Lessee, the Lessor, the Trustee and the registered Certificate Holders, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the Lessee shall be for the sole and exclusive benefit of the Lessee, the Lessor, the Trustee and the registered Certificate Holders.

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the applicable articles of the Trust Agreement or the Lease Agreement and any other funds then held by the Trustee, shall be deposited into the Lease Payment Fund and be applied by the Trustee 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:

(a) First, to the payment of the fees, costs and expenses of the Trustee (including reasonable compensation to its agents, attorneys and counsel) incurred in connection with the performance of its powers and duties under the Trust Agreement and the Lease Agreement;

(b) Second, to the payment to the persons entitled thereto of all amounts representing the Interest Component 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 Interest Component 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;

(c) Third, to the payment to the persons entitled thereto of the unpaid Principal Component which shall have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest due with respect to the overdue Principal Component or Interest Component at a rate equal to the rate paid on the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due on the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amount of the Principal Component due on such date to the persons entitled thereto, without any discrimination or preference;

(d) Fourth, to the extent not included in (a), (b), or (c) above to the payment of the fees, costs and expenses of the Certificate Holders (including reasonable compensation to its or their agents, attorneys and counsel) in declaring an Event of Default.

If one or more Events of Default shall occur and be continuing, the Trustee in its discretion may, and upon the written request of the Certificate Holders of not less than a majority in principal amount of the Certificates then Outstanding received by the Trustee at its Principal Corporate Trust Office, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce

its rights or the rights of the Certificate Holders 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 in the Lease Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as shall be deemed most effectual in support of any of its rights or duties under the Trust Agreement. Nothing in the Trust Agreement shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Certificate Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Certificates or the rights of any Certificate Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Certificate Holder in any such proceeding without the approval of the Certificate Holders so affected.

Nothing in the Trust Agreement or in the Certificates shall affect or impair the obligations of the Lessee, which obligations are absolute and unconditional, to pay or prepay the Lease Payments as provided in the Lease Agreement. No delay or omission of the Trustee or of any Certificate Holder of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the applicable article of the Trust Agreement to the Trustee or to the Certificate Holders may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Certificate Holders.

No remedy conferred in the Trust Agreement upon or reserved to the Trustee or to the Certificate Holders is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing, at law or in equity or by statute or otherwise.

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

No Certificate Holder of any Certificate executed and delivered under the Trust Agreement shall 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 Certificate Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease Agreement; (b) the Certificate Holders of not less than a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers in the Trust Agreement before granted or to institute such action, suit or proceeding in its own name; (c) said Certificate Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared pursuant to the Trust Agreement, in every case, to be conditions precedent to the exercise by any

Certificate Holder of Certificates of any remedy under the Trust Agreement; it being understood and intended that no one or more Certificate Holders shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal benefit of all Certificate Holders of the Outstanding Certificates.

The right of any Certificate Holder of any Certificate to receive payment of said Certificate Holder'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 Certificate Holder, notwithstanding the provisions of the Trust Agreement.

In the event that the Lessee or the Lessor should default under any of the provisions of the Trust Agreement and the non-defaulting party or parties 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 in the Trust Agreement, the defaulting party agrees that it will on demand therefor pay to the non-defaulting party the reasonable fees of such attorneys and such other expenses so incurred by the non-defaulting party or parties; *provided, however*, that the Trustee will not be required to expend its own funds for any payment described in the provisions of the Trust Agreement regarding the agreement to pay attorneys' fees and expenses.

The Lessor shall not have any obligation or liability to the Certificate Holders with respect to the payment when due of the Lease Payments by the Lessee, or with respect to the performance by the Lessee of the other agreements and covenants required to be performed by it contained in the Lease Agreement or in 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.

Defeasance

Defeasance shall be deemed to occur if any or all Outstanding Certificates are paid and discharged in any one or more of the following ways: (a) by well and truly paying or causing to be paid the Principal Components and Interest Components and prepayment premiums, if any, on all or a portion of the Certificates Outstanding, as and when the same become due and payable; (b) if prior to maturity and having given notice of prepayment by irrevocably depositing with the Trustee, in trust, at or before maturity, an amount of cash which, together with available amounts then on deposit in the Lease Payment Fund is sufficient to pay all or a portion of the Certificates Outstanding, including all Principal Components, Interest Components, and prepayment premium, if any; (c) by irrevocably depositing with the Trustee, in trust, noncallable, nonprepayable Defeasance Obligations in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit and available in the Lease Payment Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Certificates (including all Principal Components and Interest Components represented thereby and prepayment premium, if any) at or before their maturity date and the fees and expenses of the Trustee have been paid in full; or (d) by irrevocably depositing with the Trustee, security for the payment of all or a portion of Lease Payments as more particularly described in the Lease Agreement, said security to be held by the Trustee as agent for the Lessee to be applied by the Trustee to pay the Lease Payments as the same become due and payable and make a Prepayment in full on the Lease Payment Date pursuant to the Lease Agreement.

To accomplish defeasance, the Lessee shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant verifying the sufficiency of the escrow established to pay the Certificates in full on the maturity or prepayment date (a "Verification"), (ii) an escrow deposit agreement, (iii) an opinion of nationally recognized special counsel addressed to the Trustee to the effect that the Certificates are no longer "Outstanding" under the

Trust Agreement and (iv) a certificate of discharge of the Trustee which may rely on the Verification with respect to the Certificates; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed to the Lessee and the Trustee. The Certificate shall be deemed "Outstanding" under the Trust Agreement unless and until they are in fact paid and retired or the above criteria are met.

Notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Lessor, the Trustee and the Lessee with respect to all or a portion of Outstanding Certificates shall cease and terminate, except only the obligations of the Lessee under the Trust Agreement, the obligation of the Trustee pursuant to the Trust Agreement and its obligations to pay or cause to be paid, from Lease Payments paid by or on behalf of the Lessee from funds deposited pursuant to the Trust Agreement, to the Certificate Holders of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to such paragraphs, the Certificates shall continue to evidence and represent direct and proportionate interests of the Certificate Holders thereof in Lease Payments.

Any funds held by the Trustee, at the time of one of the events described in the applicable provisions of the Trust Agreement, which are not required for the payment to be made to Certificate Holders, as verified by a certified public accountant, shall be paid over to the Lessee pursuant to the Lessee's written request therefor; *provided* that the fees and expenses of the Trustee have been fully paid.

APPENDIX D

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) 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 "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Trustee, the District, the Corporation, the County and the Underwriter of the Certificates have no responsibility for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, or interest in the Certificates.

The Depository Trust Company ("DTC") 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 maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings' rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The foregoing internet address is included for reference only, and the information on this internet site is not incorporated by reference herein.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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 prepayments, 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.

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

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

Principal, premium, if any and interest payments evidenced by the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or Trustee, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and

disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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APPENDIX E

PROPOSED FORM OF SPECIAL COUNSEL OPINION

Upon the delivery of the Certificates, Norton Rose Fulbright US LLP, Special Counsel, proposes to deliver it approving opinion in substantially the following form:

[Delivery Date]

Board of Trustees
Pasadena Area Community College District
1570 East Colorado Boulevard
Pasadena, California 91106

Public Property Financing Corporation of California
2945 Townsgate Road, Suite 200
Westlake Village, California 91361

Re: \$_____ 2021 Certificates of Participation (Sarafian Building Project) Evidencing the Direct, Undivided Proportionate Interests of the Owners Thereof in Lease Payments to be Made by the Pasadena Area Community College District to Public Property Financing Corporation of California

Ladies and Gentlemen:

We have acted as Special Counsel to the Pasadena Area Community College District (the “District”) in connection with the execution and delivery of the above-captioned Certificates of Participation (the “Certificates”), representing and evidencing undivided interests in lease payments (the “Lease Payments”) relating to the Lease Agreement, dated as of March 1, 2021 (the “Lease Agreement”), by and between the District and the Public Property Financing Corporation of California (the “Corporation”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of March 1, 2021 (the “Trust Agreement”), by and among the District, the Corporation and U.S. Bank National Association, as trustee (the “Trustee”), and pursuant to the authorizing resolutions of the District and the Corporation. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Trust Agreement and the Lease Agreement, as applicable.

As Special Counsel, we have examined and rely upon copies certified to us as being true and complete copies of the proceedings of the District and the Corporation in connection with the execution and delivery of the Certificates. We have also examined and rely upon such certificates of officers of the District, the Trustee and others as we have considered necessary for the purposes of this opinion, including certifications of officers of the District relating to the expected use and investment of proceeds of the Certificates and certain other funds of the District.

Based upon the foregoing, we are of the opinion that:

1. The Trust Agreement has been duly and validly authorized, executed and delivered by the District, and assuming the Trust Agreement constitutes the legally valid and binding obligation of the Trustee and the Corporation, constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its terms, and the Certificates are entitled to the benefits of the Trust Agreement.

2. The Lease Agreement has been duly and validly authorized, executed and delivered by the District, and constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its terms.

3. The Site Lease, dated as of March 1, 2021 (the “Site Lease”), by and between the District and the Corporation, has been duly and validly authorized, executed and delivered by the District, and constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its terms.

4. It is further our opinion, based upon the foregoing, that pursuant to section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date hereof (the “Code”), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance with the provisions of the Trust Agreement, the Lease Agreement and the Tax Exemption Certificate of even date herewith being delivered by the District and the Corporation in connection with the execution and delivery of the Lease Agreement (the “Tax Certificate”) and in reliance upon the representations and certifications of the District and the Corporation made in the Tax Certificate pertaining to the use, expenditure, and investment of the proceeds of the Certificates, when the Certificates are delivered to and paid for by the initial purchaser thereof, the component of each Lease Payment designated as interest in the Lease Agreement (the “Payment Interest”), and the allocable portion thereof distributable in respect of the Certificates (each a “Certificate Interest Distribution”) for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owner thereof, and (2) will not be included in computing the alternative minimum taxable income of the owner thereof.

5. In our opinion, under existing law, the Payment Interest and the Certificate Interest Distribution are exempt from personal income taxes of the State of California.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of Payment Interest and the Certificate Interest Distribution or the acquisition or disposition of the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, owners of an interest in a financial asset securitization investment trust, individuals otherwise qualifying for the earned income tax credit, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

The opinions expressed in paragraphs 1 through 3 above are qualified to the extent the enforceability of the Certificates, the Trust Agreement, the Lease Agreement and the Site Lease may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally or as to the availability of any particular remedy. The enforceability of the Certificates, the Trust Agreement, the Lease Agreement and the Site Lease is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment

based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

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APPENDIX F

THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS

The following information concerning the Los Angeles County Pooled Surplus Investments Fund has been provided by the Treasurer and has not been confirmed or verified by the District. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The Treasurer and Tax Collector (the “Treasurer”) of Los Angeles County has the delegated authority to invest funds on deposit in the County Treasury (the “Treasury Pool”). As of December 31, 2020, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

<u>Local Agency</u>	<u>Invested Funds (in billions)</u>
County of Los Angeles and Special Districts	\$19.957
Schools and Community Colleges	17.441
Discretionary Participants	<u>3.892</u>
Total	\$41.290

The Treasury Pool participation composition is as follows:

Non-Discretionary Participants	90.58%
Discretionary Participants:	
Independent Public Agencies	8.66%
County Bond Proceeds and Repayment Funds	<u>0.76%</u>
Total	100.00%

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer’s prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the California Government Code, which governs legal investments by local agencies in the State, and by a more restrictive Investment Policy (the “Investment Policy”) developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 31, 2020, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the “Investment Report”) summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the County Board of Supervisors. According to the Investment Report dated January 29, 2021, the December 31, 2020 book value of the Treasury Pool was approximately \$41.290 billion, and the corresponding market value was approximately \$41.297 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer’s Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor’s staff also reviews each investment trade

for accuracy and compliance with the Board adopted Investment Policy. On a quarterly basis, the County's outside independent auditor (External Auditor) reviews the cash and investment reconciliations for completeness and accuracy. Additionally, the External Auditor reviews investment transactions on a quarterly basis for conformance with the approved Investment Policy and annually accounts for all investments.

The following table identifies the types of securities held by the Treasury Pool as of December 31, 2020:

<u>Type of Investment</u>	<u>% of Pool</u>
Certificates of Deposit	7.14
U.S. Government and Agency Obligations	59.53
Bankers Acceptances	0.00
Commercial Paper	33.06
Municipal Obligations	0.07
Corporate Notes & Deposit Notes	0.20
Repurchase Agreements	0.00
Asset Backed Instruments	0.00
Other	0.00
	<hr/> 100.00

The Treasury Pool is highly liquid. As of December 31, 2020, approximately 47% of the investments mature within 60 days, with an average of 869 days to maturity for the entire portfolio.

APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this “Disclosure Undertaking”) is executed and delivered by Pasadena Area Community College District (the “District”) as of March __, 2021 in connection with the execution and delivery of \$_____ aggregate principal amount 2021 Certificates of Participation (Sarafian Building Project) Evidencing the Direct, Undivided Proportionate Interests of the Owners thereof in Lease Payments to be Made by the Pasadena Area Community College District to Public Property Financing Corporation of California (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of March 1, 2021 (the “Trust Agreement”), by and among the District, Public Property Financing Corporation of California (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In consideration of the execution and delivery of the Certificates by the District and the purchase of such Certificates by the Underwriters described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the District for the benefit of the Certificate holders and in order to assist Piper Sandler & Co. (the “Underwriters”) in complying with Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Trust Agreement, 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 4 and 5 of this Disclosure Undertaking.

“Certificate holder” or “Holder” means any holder of the Certificates or any beneficial owner of the Certificates so long as they are immobilized with DTC.

“Commission” means the Securities and Exchange Commission.

“Dissemination Agent” shall mean Digital Assurance Certification, L.L.C. (“DAC”) or any alternate or successor dissemination agent, designated in writing by the Superintendent/President or the Assistant Superintendent, Vice President Business and Administrative Services (or otherwise by the District), which Dissemination Agent has evidenced its acceptance in writing.

“Financial Obligation” as used in this Disclosure Undertaking is defined in the Rule as (i) a debt obligation; (ii) derivative instrument entered into in connection with, or pledged as a security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Listed Event” means any of the events listed in Section 6 of this Disclosure Undertaking.

“MSRB” shall mean the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (“EMMA”) website located at <http://emma.msrb.org>, or any other entity designated or authorized by the Commission.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Certificates have been assigned. The Final Official Statement relating to the Certificates is dated February __, 2020.

SECTION 4. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent (if other than the District), not later than 240 days after the end of the District’s fiscal year (currently ending June 30), commencing on or prior to February 25, 2022 with the report for the fiscal year ending June 30, 2021, to provide to the MSRB, in a format prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 5 of this Disclosure Undertaking. As of the date of this Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access system. Information regarding requirement for submissions to EMMA is available at <http://emma.msrb.org>.

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 5 of this Disclosure Undertaking; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report. If the District does not have audited financial statements available when it submits the relevant Annual Report, it shall submit unaudited financial statements, as described in Section 5(a) below.

(b) Not later than 15 Business Days prior to the filing date required in paragraph (a) above for providing the Annual Report to the MSRB, 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 MSRB an Annual Report by the date required in paragraph (a) above, the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent (if other than the District) shall:

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

SECTION 5. Content of Annual Report. The District’s Annual Report shall contain or incorporate by reference the following:

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

(b) Operating data, including the following information with respect to the District's preceding fiscal year (to the extent not included in the audited financial statements described in paragraph (a) above):

- (i) Outstanding indebtedness and lease obligations;
- (ii) General fund budget for the then-current fiscal year;
- (iii) Full-time equivalent students, or equivalent information, as may be reasonably available;
- (iv) Assessed valuations; and
- (v) Largest local secured taxpayers.

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

SECTION 6. Reporting of Designated Listed Events.

(a) The District agrees to provide or cause to be provided to the MSRB notice of the occurrence of any of the following events with respect to the Certificates not later than ten (10) Business Days after the occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on any debt service reserves reflecting financial difficulties;
- (iii) Unscheduled draws on any credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;
- (v) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes;
- (ix) Bankruptcy, insolvency, receivership or similar event of the District; or
- (x) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

For purposes of item (ix) above, the described event shall be deemed to occur when any of the following shall occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law

in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or other governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority have supervision or jurisdiction over substantially all of the assets or business of the District.

(b) 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, not later than ten (10) business days after the occurrence of the event:

(i) Unless described in paragraph 6(a)(v) hereof, other material notices or determinations with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;

(ii) Modifications to rights of Owners;

(iii) Optional, unscheduled or contingent Certificate calls;

(iv) Release, substitution or sale of property securing repayment of the Certificates, if applicable;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) Appointment of a successor or additional Trustee or the change of name of a Trustee; or

(viii) Incurrence of a Financial Obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect security holders.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) If the District determines that the occurrence of a Listed Event described in Section 6(b) hereof is material under applicable federal security laws, the District shall within ten (10) business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Undertaking shall terminate when the District is no longer an obligated person with respect to

the Certificates, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Certificates.

SECTION 8. Dissemination Agent. The Superintendent/President or Assistant Superintendent, Vice President Business and Administrative Services may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is no other designated Dissemination Agent in place, the District shall act as the Dissemination Agent.

The Dissemination Agent, if other than the District, shall be paid compensation for its services provided hereunder, and reimbursement for its costs and expenses. The Dissemination Agent shall not be responsible for the form or content of any document provided by the District hereunder.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Undertaking, the District may amend this Disclosure Undertaking under the following conditions, provided no amendment to this Disclosure Undertaking shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person, or type of business conducted;

(b) This Disclosure Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Special Counsel) or by the written approval of the Certificate holders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Undertaking, the District shall have no obligation under this Disclosure Undertaking to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Undertaking.

SECTION 11. Default. The District shall give notice to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Undertaking, any Certificate holder 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 Undertaking. A default under this Disclosure Undertaking shall not be deemed an event of

default under the Trust Agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the District to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriters and Holders from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 13. Record Keeping. The District shall maintain records of all Annual Reports and notices of material Listed Events including the content of such disclosure, the names of the entities with whom the such disclosure were filed and the date of filing such disclosure.

SECTION 14. Governing Law. This Disclosure Undertaking shall be governed by the laws the State of California, applicable to contracts made and performed in such State of California.

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IN WITNESS WHEREOF, Pasadena Area Community College District has executed this Continuing Disclosure Undertaking as of the date first set forth herein.

PASADENA AREA COMMUNITY COLLEGE
DISTRICT

By: _____
Superintendent/President

[Continuing Disclosure Undertaking]

ACCEPTED BY:

DIGITAL ASSURANCE CERTIFICATION, L.L.C.

By: _____
Name
Title

[Continuing Disclosure Undertaking]

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Pasadena Area Community College District

Name of Issue: \$_____ Pasadena Area Community College District Certificates of Participation, 2021 Series A

Date of Issuance: _____, 2021

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Certificates as required by Section 4(a) of the Disclosure Undertaking dated as of _____, 2021. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

[ISSUER/DISSEMINATION AGENT]

By: _____

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APPENDIX H

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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Financial Statements

June 30, 2020

Pasadena Area Community College District



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Independent Auditor's Report

Board of Trustees
Pasadena Area Community College District
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Pasadena Area Community College District (the District) as of and for the year ended June 30, 2020, 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 misstatements, 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. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the management's discussion and analysis on pages 4 through 12 and other required supplementary information on pages 74 through 83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, as required by the audit requirements of *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 are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards and the other supplementary information listed in the table of contents are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 Schedule of Expenditures of Federal Awards and other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 the District's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
February 17, 2021



INTRODUCTION

This section of our annual financial report offers a narrative overview and analysis of the financial activities of the Pasadena Area Community College District (the District) for the year ended June 30, 2020. This analysis is presented with comparative information from the years ended June 30, 2020 and June 30, 2019 to highlight changes from one year to the next. This section of our report should be read in conjunction with the basic financial statements, including footnotes. Responsibility for the completeness and accuracy of this information rests with the District management.

USING THIS ANNUAL REPORT

As required by generally accepted accounting principles, the annual report consists of three basic financial statements that provide information on the District's activities as a whole; the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Pasadena Area Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities*. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The government-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term liabilities. The Statement of Revenues, Expenses, and Changes in Net Position focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. This approach is intended to summarize and simplify the user's analysis of the cost of various District services to student and the public. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

As recommended by the California Community Colleges Chancellor's Office, the District follows the Business-Type Activity (BTA) model for financial statement reporting purposes.

FINANCIAL HIGHLIGHTS

- The District ended the year with a General Unrestricted Fund Balance of \$31,006,437 which consists of primarily of one-time carry over funds. It is important to note that the carryover balance is one-time in nature and not a recurring funding source. A portion of the carryover balance is set aside to meet the State Chancellor's Office recommended reserve level of five percent (\$8.7 million).

The remaining reserves has been earmarked to address or partially address certain unfunded cost escalation in the coming years, mid-year cuts and deferred maintenance. An example of potential uses includes projected cuts in fiscal year 2020-2021 and 2021-2022 due to the fiscal impact of COVID-19.

- Salaries and benefits of the Academic, Classified, and Administrative salaries of District employees represent 91.07 percent of the total General Unrestricted Fund Expenditures (excluding any transfers). This represents an increase of .28 percent from the prior year percentage of 90.79 percent.
- As a condition of the passage of the District's \$150 million General Obligation Bond, Measure P, a Citizens' Oversight Committee was formed under Proposition 39 requirements and met quarterly. The meetings are generally held at 6:00 pm every quarter during the months of January, April, August, and October at Pasadena City College and are open to the public.
- The District provided Federal, State, and local student financial aid including fee waivers to qualifying District Students in the amount of approximately \$66.8 million. This represents an increase of \$7.9 million from the 2018-2019 fiscal year. This aid is provided through grants, loans, scholarships, and tuition reductions from the Federal Government, State Chancellor's Office, and local funding.
- The District's primary funding source is apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the 2019-2020 fiscal year, total reported FTES were 23,940. There is a slight increase in reported FTES of 60 from fiscal year 2018-2019. The Student Center Funding Formula FTES was based upon P1 of 23,995 as allowed by the Emergency Protection for Apportionment Calculation pursuant to California Code of Regulations title 5 section 58146.
- Accounts receivable increased significantly at year end due economic uncertainty of the pandemic of COVID-19 with the State holding back a significant portion of our apportionment.
- The District reports a liability for its proportionate share of Net Pension Liability (NPL) that reflected a reduction for State pension support provided to the District. This is a result of GASB Statements No. 68 and No. 71, which requires that the District report its proportionate share of the net pension liabilities, pension expense, and deferred inflow and outflow of resources. As a result of implementing GASB Statement No. 68, the District's aggregate net pension liability as of June 30, 2020 was \$183,462,592.
- During the 2017-2018 fiscal year, the District established a Governmental Accounting Standards Board (GASB) Statement No. 74 irrevocable trust with Public Agency Retirement Services (PARS) to fund other postemployment benefit (OPEB) liabilities. Through June 30, 2020, the District has contributed approximately \$13.0 million to this trust.
- During the 2017-2018 fiscal year, the District established an irrevocable pension stability trust with Public Agency Retirement Services (PARS) to assist in stabilizing the District's funding for increasing future State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS) liabilities. Through June 30, 2020, the District has contributed \$4.0 million to this trust.

- The District's Change in Net Position for the current fiscal year is a decrease of \$6.6 million. This is primarily due to the increase in salaries and benefits expense in relation to the rising aggregate net pension liability balances as of June 30, 2020.

THE DISTRICT AS A WHOLE

Net Position

Condensed financial information is as follows:

Table 1

	2020	2019	\$ Change	% Change
Assets				
Current Assets				
Cash and investments	\$ 91,747,134	\$ 93,955,473	\$ (2,208,339)	-2.4%
Accounts receivable	24,754,838	15,120,272	9,634,566	63.7%
Other current assets	1,130,167	1,332,454	(202,287)	-15.2%
Total current assets	117,632,139	110,408,199	7,223,940	6.5%
Capital Assets (net)	189,247,867	194,652,954	(5,405,087)	-2.8%
Total assets	306,880,006	305,061,153	1,818,853	0.6%
Deferred Outflows of Resources				
Deferred charges on refunding	2,274,512	2,337,216	(62,704)	-2.7%
Deferred outflows of resources related to OPEB	5,344	6,171	(827)	-13.4%
Deferred outflows of resources related to pensions	50,180,696	47,131,587	3,049,109	6.5%
Total deferred outflows of resources	52,460,552	49,474,974	2,985,578	6.0%
Total assets and deferred outflows of resources	\$ 359,340,558	\$ 354,536,127	\$ 4,804,431	7.1%
Liabilities				
Current Liabilities				
Accounts payable and interest payable	\$ 17,524,955	\$ 14,540,529	\$ 2,984,426	20.5%
Unearned revenue	14,414,269	15,115,202	(700,933)	-4.6%
Current portion of long-term liabilities	3,920,000	4,408,826	(488,826)	-11.1%
Total current liabilities	35,859,224	34,064,557	1,794,667	5.3%
Long-Term Liabilities	285,276,772	276,493,389	8,783,383	3.2%
Total liabilities	321,135,996	310,557,946	10,578,050	3.4%
Deferred Inflows of Resources				
Deferred inflows of resources related to OPEB	4,231,322	2,861,658	1,369,664	47.9%
Deferred inflows of resources related to pensions	13,900,740	14,403,715	(502,975)	-3.5%
Total deferred inflows of resources	18,132,062	17,265,373	866,689	5.0%
Total liabilities and deferred inflows of resources	339,268,058	327,823,319	11,444,739	3.5%
Net Position				
Net investment in capital assets	116,608,500	118,289,236	(1,680,736)	-1.4%
Restricted	29,818,889	25,545,399	4,273,490	16.7%
Unrestricted deficit	(126,354,889)	(117,121,827)	(9,233,062)	7.9%
Total net position	20,072,500	26,712,808	(6,640,308)	-24.9%
Total liabilities and net position	\$ 359,340,558	\$ 354,536,127	\$ 4,804,431	1.4%

This schedule has been prepared from the District's Statement of Net Position, which is presented on an accrual basis of accounting whereby capital assets are capitalized, depreciated, and all liabilities of the District are recognized.

Capital Assets, net of depreciation is stated at the net historical value (original cost) of land, building, construction in progress, and equipment less accumulated depreciation.

Long-term liabilities consist primarily of the general obligation bond issue, aggregate net other postemployment benefits (OPEB) liability, compensated absences, load banking, claims liability, and aggregate net pension liability (NPL) for CalSTRS and CalPERS. Long-term liabilities increased by \$8.8 million primarily due to increases in the NPL, offset by current year payments against the other long-term liabilities.

Operating Results for the Year

The results of this year's operations for the District as a whole are reported in the Statement of Revenues, Expenses, and Changes in Net Position on page 15.

Table 2

	2020	2019	\$ Change	% Change
Operating Revenues				
Tuition and fees	\$ 24,469,915	\$ 26,998,842	\$ (2,528,927)	-9.4%
Grants and contracts	37,833,084	38,846,690	(1,013,606)	-2.6%
Total operating revenues	<u>62,302,999</u>	<u>65,845,532</u>	<u>(3,542,533)</u>	<u>-5.4%</u>
Operating Expenses				
Salaries and benefits	181,216,138	169,883,790	11,332,348	6.7%
Supplies, maintenance and other operating	33,503,294	36,965,323	(3,462,029)	-9.4%
Student aid	54,043,012	44,132,060	9,910,952	22.5%
Depreciation	8,140,967	8,334,397	(193,430)	-2.3%
Total operating expenses	<u>276,903,411</u>	<u>259,315,570</u>	<u>17,587,841</u>	<u>6.8%</u>
Loss on operations	<u>(214,600,412)</u>	<u>(193,470,038)</u>	<u>(21,130,374)</u>	<u>10.9%</u>
Nonoperating Revenues (Expenses)				
State apportionments	100,371,109	94,580,976	5,790,133	6.1%
Property taxes	45,873,984	46,793,218	(919,234)	-2.0%
Other State revenues	6,299,994	6,240,551	59,443	1.0%
Financial aid grants	52,760,206	42,758,387	10,001,819	23.4%
Net interest expense	(409,727)	(1,675,739)	1,266,012	-75.5%
Other nonoperating revenues	1,361,801	5,297,096	(3,935,295)	-74.3%
Total Nonoperating Revenues (Expenses)	<u>206,257,367</u>	<u>193,994,489</u>	<u>12,262,878</u>	<u>6.3%</u>
Other Revenues	<u>1,702,737</u>	<u>3,341,576</u>	<u>(1,638,839)</u>	<u>-49.0%</u>
Net Increase (Decrease) in Net Position	<u>\$ (6,640,308)</u>	<u>\$ 3,866,027</u>	<u>\$ (10,506,335)</u>	<u>-271.8%</u>

The operating revenue for the District is specifically defined as revenues from users of the colleges' facilities and programs. Excluded from the operating revenues are the components of the primary source of District funding. The District's primary revenue sources are local property taxes, student enrollment fees, and State apportionment, which increased in fiscal year 2019-2020. Property taxes levied and received from property within the District's boundaries decreased by \$0.9 million during the year. These revenue sources are not from the direct users of the educational services (Students), they are considered Nonoperating Revenues. As a result, the operating loss of \$214.6 million is balanced by the other funding sources. Total District expenditures were more than the total District revenues by \$6.6 million for the year ended June 30, 2020.

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

During 2019-2020, the District's interest income was \$1.4 million and interest expense was \$1.8 million. Interest income is primarily derived from cash held in the Los Angeles County Treasury. Interest income has decreased approximately \$82 thousand from the 2018-2019 fiscal year due to a decrease in the interest rate yield. A decrease of \$1.3 million in interest expense for the year is the result of decreases in the accrued interest payable and lower interest payments associated with the issuance of the 2020 Refunding General Obligation Bonds.

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

Table 3

Year ended June 30, 2020:

	Salaries & Employee Benefits	Supplies, Material, Other Expenses, and Services	Student Aid	Depreciation	Total
Instructional activities	\$ 102,626,339	\$ 4,950,044	\$ -	\$ -	\$ 107,576,383
Academic support	16,146,455	2,643,278	-	-	18,789,733
Student services	26,251,655	3,771,396	-	-	30,023,051
Plant operations and maintenance	8,452,567	4,389,048	-	-	12,841,615
Instructional support services	22,772,966	10,680,242	-	-	33,453,208
Community services and economic development	1,083,785	309,825	-	-	1,393,610
Ancillary services and auxiliary operations	3,882,371	1,153,425	-	-	5,035,796
Student aid	-	310,940	54,043,012	-	54,353,952
Physical property and related acquisitions	-	5,295,096	-	-	5,295,096
Unallocated depreciation	-	-	-	8,140,967	8,140,967
Total	\$ 181,216,138	\$ 33,503,294	\$ 54,043,012	\$ 8,140,967	\$ 276,903,411

Changes in Cash Position

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

Table 4

	2020	2019	Change
Cash Provided by (Used in)			
Operating activities	\$ (189,860,835)	\$ (189,289,912)	\$ (570,923)
Noncapital financing activities	186,469,763	191,605,454	(5,135,691)
Capital financing activities	23,021	(2,985,539)	3,008,560
Investing activities	1,159,712	1,470,465	(310,753)
Net Increase (Decrease) in Cash	(2,208,339)	800,468	(3,008,807)
Cash and Cash Equivalents, Beginning of Year	93,955,473	93,155,005	800,468
Cash and Cash Equivalents, End of Year	<u>\$ 91,747,134</u>	<u>\$ 93,955,473</u>	<u>\$ (2,208,339)</u>

The primary operating receipts are student tuition and fees. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff. Noncapital financing activities include receipts from State apportionment and property taxes. Capital financing activities relate to the spending of Measure P bond proceeds.

While State apportionment and property taxes are the primary source of noncapital related revenue, the GASB accounting standards require that this source of revenue is nonoperating as it comes from the general resources of the State and not from the primary users of the District's programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

CAPITAL ASSET AND LONG-TERM LIABILITIES

Capital Assets

Capital assets, net of depreciation, are the historical value (original cost) of land, buildings, construction in progress, and equipment less accumulated depreciation. Gross capital assets increased overall due to continuing construction on Measure P projects. Current year depreciation expense was approximately \$8.1 million for a net reduction in our capital asset balance of approximately \$5.4 million.

Note 6 in the financial statements provides additional information on capital assets. A summary of capital assets is presented below.

Table 5

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Land and construction in progress	\$ 12,504,434	\$ 1,299,190	\$ (1,257,587)	\$ 12,546,037
Buildings and improvements	303,042,168	1,257,588	-	304,299,756
Equipment	30,620,946	1,482,559	(443,494)	31,660,011
Subtotal	346,167,548	4,039,337	(1,701,081)	348,505,804
Accumulated depreciation	(151,514,594)	(8,140,967)	397,624	(159,257,937)
	<u>\$ 194,652,954</u>	<u>\$ (4,101,630)</u>	<u>\$ (1,303,457)</u>	<u>\$ 189,247,867</u>

Long-Term Liabilities including OPEB and Pensions

Long-term liabilities consist primarily of general obligation bonds, aggregate net pension liability, and the aggregate net other postemployment benefits (OPEB) liability. At June 30, 2020, the District had approximately \$76.2 million in liability outstanding due to the issuance of general obligation bonds. At June 30, 2020, the District's aggregate net pension liability was approximately \$183.5 million. Note 13 to the financial statements provides additional information on the District's aggregate net pension liability.

The District is also obligated to employees of the District for vacation and load banking benefits.

Notes 10-13 in the financial statements provides additional information on long-term liabilities. A summary of long-term liabilities is presented below.

Table 6

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
General obligation bonds	\$ 81,402,857	\$ 25,848,113	\$ (31,043,152)	\$ 76,207,818
Aggregate net OPEB liability	19,753,129	4,054	(783,381)	18,973,802
Aggregate net pension liability	170,063,976	13,398,616	-	183,462,592
Other long-term liabilities	9,682,253	1,432,395	(562,088)	10,552,560
Total Long-Term Liabilities	<u>\$ 280,902,215</u>	<u>\$ 40,683,178</u>	<u>\$ (32,388,621)</u>	<u>\$ 289,196,772</u>
Amount due within one year				<u>\$ 3,920,000</u>

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revises its budget to provide for unanticipated changes in revenues and expenditures. The Board of Trustees adopted the final amendment to the budget for the 2019-2020 fiscal year on June 17, 2020.

The District's final revised budget for the unrestricted General Fund anticipated that income would be \$174,077,450 and total expenses would be \$176,189,140. The actual results was total income was \$176,118,080 and total expenses were \$175,469,306.

ECONOMIC FACTORS AFFECTING THE FUTURE OF PASADENA AREA COMMUNITY COLLEGE DISTRICT

The financial strength and stability of the District is closely aligned with California's economic position as State apportionments, State Mandated Cost Reimbursements, and property taxes allocated to the District represent approximately 84.7 percent of the unrestricted General Fund.

The budget outlooks deteriorated precipitously due to the COVID-19 pandemic and the ensuing recession. The State of California administration originally projected a \$5.6 billion surplus and over \$21 billion in reserves. The State entered a deep economic and unexpected recession in the fourth quarter of fiscal year 2019/2020. The recession, combined with the \$5.7 billion in new spending related to the COVID-19 response, transformed the projected surplus to a \$54.3 billion deficit.

In response to the recession, Congress approved a \$2 trillion economic relief package, also known as the Coronavirus Aid, Relief, and Economic Security (CARES) act. The CARES act was signed into law by the President on March 27, 2020. The CARES funding provides direct fiscal relief to taxpayers, state and local governments and small business. In addition to these direct federal payments, district's received federal and state relief funds through the Budget Act, in the form of \$120 million COVID-19 response block grant. Pasadena City College was awarded \$16.2 million from the CARES Act - Higher Education Emergency Relief Fund, and \$2.6 million from the CARES Act Coronavirus Relief Fund, known as the Block Grant which includes both the Federal and State portion.

Throughout 2020-21 emergency conditions under Title 5, section 58146 will continue to be in effect. The Chancellors Office issued 24 Executive Orders that suspended sections of Title 5 with a focus of ensuring continuity of education, student access, and reduce barriers that hinder continuity of services during an emergency. The Budget Act preserved funding for most of CCC programs at the 2019-2020 levels. To meet budget reductions targets while maintaining and expanding funding the budget deferred payments to the community colleges from one fiscal year into the next for both 2019-2020 and 2020-2021. Pasadena City College deferrals amounted to \$32 million comprised of \$25,066,375 from apportionment for the unrestricted general fund and \$6,930,240 from apportionment for the restricted general fund in fiscal year 2020-2021.

There are several factors, decisions, or conditions that may have a significant impact on the financial positions or results from operations of the District during the pandemic and restrictions imposed by the State Government. However, the District has mitigated the deferred cash flow through a Tax and Revenue Anticipation Note, and utilizing the CARES and Block Grants to supplement COVID related expenses and ensure success of our students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact Pasadena Area Community College District, 1570 East Colorado Boulevard, Pasadena, California 91106 or call (626) 585-7170.

Pasadena Area Community College District

Statement of Net Position

June 30, 2020

Assets

Current Assets

Cash and cash equivalents	\$ 681,781
Investments	91,065,353
Accounts receivable	19,835,017
Student receivables, net	4,883,666
Due from fiduciary funds	36,155
Prepaid expenses	989,667
Other current assets	140,500

Total current assets	<u>117,632,139</u>
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Noncurrent Assets

Nondepreciable capital assets	12,546,037
Depreciable capital assets, net of depreciation	<u>176,701,830</u>

Total noncurrent assets	<u>189,247,867</u>
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Total assets	<u>306,880,006</u>
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Deferred Outflows of Resources

Deferred charges on refunding	2,274,512
Deferred outflows of resources related to OPEB	5,344
Deferred outflows of resources related to pensions	<u>50,180,696</u>

Total deferred outflows of resources	<u>52,460,552</u>
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Pasadena Area Community College District

Statement of Net Position

June 30, 2020

Liabilities

Current Liabilities

Accounts payable	\$ 16,388,936
Accrued interest payable	1,136,019
Unearned revenue	14,414,269
Long-term liabilities other than OPEB and pensions due within one year	<u>3,920,000</u>
Total current liabilities	<u>35,859,224</u>

Noncurrent Liabilities

Long-term liabilities other than OPEB and pensions due in more than one year	82,840,378
Aggregate net other postemployment benefits (OPEB) liability	18,973,802
Aggregate net pension liability	<u>183,462,592</u>
Total noncurrent liabilities	<u>285,276,772</u>
Total liabilities	<u>321,135,996</u>

Deferred Inflows of Resources

Deferred inflows of resources related to OPEB	4,231,322
Deferred inflows of resources related to pensions	<u>13,900,740</u>
Total deferred inflows of resources	<u>18,132,062</u>

Net Position

Net investment in capital assets	116,608,500
Restricted for:	
Debt service	5,359,061
Capital projects	20,837,175
Educational programs	2,683,767
Other activities	938,886
Unrestricted deficit	<u>(126,354,889)</u>
Total net position	<u>\$ 20,072,500</u>

Pasadena Area Community College District
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020

Operating Revenues	
Student tuition and fees	\$ 37,225,278
Less: Scholarship discount and allowance	(12,755,363)
Net tuition and fees	<u>24,469,915</u>
Grants and Contracts, noncapital	
Federal	8,849,329
State	28,224,794
Local	<u>758,961</u>
Grants and contracts, noncapital	<u>37,833,084</u>
Total operating revenues	<u>62,302,999</u>
Operating Expenses	
Salaries	123,641,105
Employee benefits	57,575,033
Supplies, materials, and other operating expenses and services	28,330,184
Student financial aid	54,043,012
Equipment, maintenance, and repairs	5,173,110
Depreciation	<u>8,140,967</u>
Total operating expenses	<u>276,903,411</u>
Operating loss	<u>(214,600,412)</u>
Nonoperating Revenues (Expenses)	
State apportionments, noncapital	100,371,109
Local property taxes, levied for general purposes	39,022,298
Taxes levied for other specific purposes	6,851,686
Federal financial aid grants, noncapital	43,663,162
State financial aid grants, noncapital	9,097,044
State taxes and other revenues	6,299,994
Investment income	1,317,775
Interest expense on capital related debt	(1,798,451)
Investment income on capital asset-related debt	70,949
Transfer to fiduciary funds	(359,336)
Other nonoperating revenue	<u>1,721,137</u>
Total nonoperating revenues (expenses)	<u>206,257,367</u>
Loss before other revenues	<u>(8,343,045)</u>
Other Revenues (Losses)	
Loss on disposal of capital assets	(45,870)
State revenues, capital	1,130,498
Local revenues, capital	<u>618,109</u>
Total other revenues (losses)	<u>1,702,737</u>
Change in Net Position	(6,640,308)
Net Position, Beginning of Year	<u>26,712,808</u>
Net Position, End of Year	<u><u>\$ 20,072,500</u></u>

Pasadena Area Community College District

Statement of Cash Flows

Year Ended June 30, 2020

Operating Activities	
Tuition and fees	\$ 24,097,195
Federal, state, and local grants and contracts, noncapital	40,336,735
Payments to or on behalf of employees	(168,866,766)
Payments to vendors for supplies and services	(31,384,987)
Payments to students for scholarships and grants	(54,043,012)
Net Cash Flows from Operating Activities	<u>(189,860,835)</u>
Noncapital Financing Activities	
State apportionments	89,020,123
Noncapital grants and contracts	52,760,206
Property taxes - nondebt related	39,022,298
State taxes and other apportionments	6,278,717
Other nonoperating payments	(611,581)
Net Cash Flows from Noncapital Financing Activities	<u>186,469,763</u>
Capital Financing Activities	
Purchase of capital assets	(2,288,178)
Proceeds from capital debt	25,848,113
State revenue, capital projects	2,121,906
Local revenue, capital projects	618,109
Property taxes - related to capital debt	6,851,686
Principal paid on capital debt	(29,145,000)
Interest paid on capital debt	(4,054,564)
Interest received on capital asset-related debt	70,949
Net Cash Flows from Capital Financing Activities	<u>23,021</u>
Investing Activities	
Interest received from investments	<u>1,159,712</u>
Net Change in Cash and Cash Equivalents	(2,208,339)
Cash and Cash Equivalents, Beginning of Year	<u>93,955,473</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 91,747,134</u></u>

Pasadena Area Community College District

Statement of Cash Flows

Year Ended June 30, 2020

Reconciliation of net operating loss to net cash
flows from operating activities

Operating Loss	\$ (214,600,412)
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation expense	8,140,967
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Receivables	1,873,576
Prepaid expenses and other assets	202,287
Deferred outflows of resources related to pensions	(3,049,109)
Deferred outflows of resources related to OPEB	827
Accounts payable and accrued liabilities	2,957,389
Unearned revenue	257,355
Compensated absences, load banking, and SERP	870,307
Deferred inflows of resources related to pensions	(502,975)
Deferred inflows of resources related to OPEB	1,369,664
Aggregate net pension liability	13,398,616
Aggregate net OPEB liability	(779,327)
Total adjustments	<u>24,739,577</u>

Net Cash Flows from Operating Activities \$ (189,860,835)

Cash and Cash Equivalents Consist of the Following:

Cash in banks	\$ 681,781
Investments	1,289,469
Cash in county treasury	<u>89,775,884</u>
Total cash and cash equivalents	<u><u>\$ 91,747,134</u></u>

Noncash Transactions

Amortization of debt premium	\$ 1,898,152
Amortization of deferred charges on refunding	\$ 336,176

Pasadena Area Community College District

Fiduciary Funds

Statement of Net Position

June 30, 2020

	Retiree OPEB Trust	Other Trust Funds
Assets		
Cash and cash equivalents	\$ -	\$ 3,426,037
Investments	13,568,618	6,231,529
Accounts receivable	-	223,364
Prepaid expenses	-	4,125
Total assets	13,568,618	9,885,055
Liabilities		
Accounts payable	-	241,531
Due to primary government	-	36,155
Total liabilities	-	277,686
Net Position		
Restricted for postemployment benefits other than pensions	13,568,618	-
Restricted	-	5,645,354
Unrestricted	-	3,962,015
Total net position	\$ 13,568,618	\$ 9,607,369

Pasadena Area Community College District

Fiduciary Funds

Statement of Changes in Net Position

Year Ended June 30, 2020

	Retiree OPEB Trust	Other Trust Funds
Additions		
District contributions	\$ 1,259,116	\$ 359,336
Interest and investment income, net of fees	820,027	392,693
Local revenues	-	1,635,340
Transfers from primary government	-	359,336
Total additions	2,079,143	2,746,705
Deductions		
Classified salaries	-	305,034
Employee benefits	1,259,116	57,464
Books and supplies	-	436,952
Services and operating expenditures	28,401	907,805
Capital outlay	-	21,147
Student aid	-	64,009
Total deductions	1,287,517	1,792,411
Change in Net Position	791,626	954,294
Net Position - Beginning of Year	12,776,992	8,653,075
Net Position - End of Year	\$ 13,568,618	\$ 9,607,369

Note 1 - Organization

Pasadena Area Community College District (the District) was established in 1967 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and two education centers located within Pasadena and Rosemead. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

Note 2 - Summary of Significant Accounting Policies**Financial Reporting Entity**

The District has adopted accounting policies to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the District. The District has no component units.

The District has analyzed the financial and accountability relationship with the Pasadena City College Foundation (the Foundation) in conjunction with the GASB Statement No. 61 criteria. The Foundation is a separate, not for profit organization, and the District does provide and receive direct benefits to and from the Foundation. However, it has been determined that all criteria under GASB Statement No. 61 have not been met to require inclusion of the Foundation's financial statements in the District's annual report. Information on the Foundation may be requested through the Pasadena City College Foundation.

Basis of Accounting - Measurement Focus and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. This presentation provides a comprehensive government-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with

the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

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. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. For the District, operating revenues consist primarily of student fees and non-capital federal, state, and local grants and contracts.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Position - Primary Government
 - Statement of Revenues, Expenses, and Changes in Net Position - Primary Government
 - Statement of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, fixed income investments held by the Bookstore for expenses related to the close-out of the fund, 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 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.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectable accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$708,557 for the year ended June 30, 2020.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at acquisition value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed.

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

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide financial statements.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. The current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid within the fund from which the employees who have accumulated the leave are paid. The District also participates in "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period. The liability for this benefit is reported on the government-wide financial statements.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. 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, retirement 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. Retirement credit for unused sick leave is applicable to all academic 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.

Debt Issuance Costs, Premiums, and Discounts

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, which approximates the effective interest method.

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 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. The deferred charges on refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred amounts related to pension and OPEB related items relate to differences between expected and actual earnings on investments, changes of assumptions, and other pension and OPEB related changes.

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 and for OPEB related items. The deferred amounts related to pension and OPEB related items relate to differences between expected and actual earnings on investments, changes of assumptions, and other pension and OPEB related changes.

Pensions

For purposes of measuring the net pension liability, 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. The aggregate net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the District Plan and MPP. For this purpose, the District Plan and 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. The aggregate net OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Unearned Revenue

Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized. Unearned revenue includes (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Noncurrent Liabilities

Noncurrent liabilities include bonds payable, compensated absences, claims payable, and load banking liabilities with maturities greater than one year.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position related to net 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 \$29,818,889 of restricted net position.

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and No. 35. Classifications are as follows:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances, and Federal, State, and local grants and contracts.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and No. 35.

Classification of Expenses - Nearly all of the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. 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 Los Angeles bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed a General Obligation Bond in 2002 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

Scholarships, Discounts, and Allowances

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, Direct Loans, Federal Supplemental Educational Opportunity Grants (FSEOG), and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

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.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

Change in Accounting Principles

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases

The provisions of this Statement have been implemented as of June 30, 2020, with the exception of Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements and Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The District has already implemented these standards as of June 30, 2020.

New Accounting Pronouncements

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

As a result of the implementation of GASB Statement No. 95, 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. The effects of this change on the District's financial statements have not yet been determined.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying

the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reporting.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.
- The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits.
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

As a result of the implementation of GASB Statement No. 95, the removal of LIBOR as an appropriate benchmark interest rate (paragraph 11b) is effective for reporting periods ending after December 31, 2021. Paragraph 13 and 14 related to lease modifications is effective for reporting periods beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement

(SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The effects of this change on the District's financial statements have not yet been determined.

Note 3 - Deposits and Investments

Policies and Practices

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool. The District is considered to be an involuntary participant in the external investment pool. The fair value of the District's investment in the pool is reported in the accompanying 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.

Investment in County Treasury

The District deposits all receipts and collections of monies with their County Treasurer. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, 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

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2020, consist of the following:

Primary government	\$ 91,747,134
Fiduciary Funds	23,226,184
Total deposits and investments	<u>\$ 114,973,318</u>
Cash on hand and in banks	\$ 3,683,292
Cash in revolving	424,526
Cash in county treasury	89,775,884
Investments	21,089,616
Total deposits and investments	<u>\$ 114,973,318</u>

Interest Rate Risk and Credit 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 primarily investing in the Los Angeles County Investment Pool and mutual funds. 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.

Investment Type	Reported Amount	Weighted Average Days to Maturity	Average Credit Rating
Los Angeles County Investment Pool	\$ 89,775,884	590	N/A
Mutual Funds	19,213,972	N/A	N/A
Corporate Bonds	488,297	569	BBB+
U.S. Treasury Bills	830,759	1375	N/A
Municipal Bonds	259,463	206	AA
CMO and Asset-Backed Securities	140,177	2027	B-
CD's and BAs	156,948	241	N/A
Total	<u>\$ 110,865,500</u>		

Custodial Credit Risk -- Deposits and Investments**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, 2020, the District's bank balance of \$4,144,322 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of June 30, 2020, the District's investment balance of \$19,589,616 was exposed to custodial credit risk because it was uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District's investment policy limits the amount of securities that can be held by counterparties to no more than 10% of total investments in one issuer for commercial paper, mutual funds and money market mutual funds and 30% for Banker's Acceptance.

Note 4 - Fair Value Measurements

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

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

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

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

Pasadena Area Community College District

Notes to Financial Statements

June 30, 2020

The District's fair value measurements are as follows at June 30, 2020:

Investment Type	Reported Amount	Level 1 Inputs	Level 2 Inputs
Mutual Funds	\$ 19,213,972	\$ 19,213,972	\$ -
Corporate Bonds	488,297	-	488,297
U.S. Treasury Bills	830,759	-	830,759
Municipal Bonds	259,463	-	259,463
CMO and Asset-Backed Securities	140,177	-	140,177
CD's and BAs	156,948	-	156,948
Total	<u>\$ 21,089,616</u>	<u>\$ 19,213,972</u>	<u>\$ 1,875,644</u>

All assets have been valued using a market approach, with quoted market prices.

Note 5 - Accounts Receivable

Accounts receivable at June 30, 2020, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government
Federal Government	
Categorical aid	\$ 5,474,409
Other federal	2,942
State Government	
Apportionment	11,318,525
Categorical aid	253,439
Lottery	1,276,694
State construction	87,787
PCC Foundation	355,589
Interest	164,329
Other local	901,303
Total	<u>\$ 19,835,017</u>
Student receivables	\$ 5,592,223
Less allowance for bad debt	(708,557)
Student receivables, net	<u>\$ 4,883,666</u>

Pasadena Area Community College District

Notes to Financial Statements

June 30, 2020

	Fiduciary Funds
Other local	\$ 223,364

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Capital Assets Not Being Depreciated				
Land	\$ 12,270,718	\$ -	\$ -	\$ 12,270,718
Construction in progress	233,716	1,299,190	(1,257,587)	275,319
Total Capital Assets Not Being Depreciated	12,504,434	1,299,190	(1,257,587)	12,546,037
Capital Assets Being Depreciated				
Buildings and improvements	284,025,266	959,153	-	284,984,419
Site improvements	19,016,902	298,435	-	19,315,337
Equipment	30,620,946	1,482,559	(443,494)	31,660,011
Total Capital Assets Being Depreciated	333,663,114	2,740,147	(443,494)	335,959,767
Total Capital Assets	346,167,548	4,039,337	(1,701,081)	348,505,804
Less Accumulated Depreciation				
Buildings and improvements	(116,203,602)	(5,582,980)	-	(121,786,582)
Site improvements	(13,123,347)	(721,105)	-	(13,844,452)
Equipment	(22,187,645)	(1,836,882)	397,624	(23,626,903)
Total Accumulated Depreciation	(151,514,594)	(8,140,967)	397,624	(159,257,937)
Net Capital Assets	\$ 194,652,954	\$ (4,101,630)	\$ (1,303,457)	\$ 189,247,867

Depreciation expense for the year was \$8,140,967.

Note 7 - Accounts Payable

Accounts payable at June 30, 2020, consisted of the following:

	Primary Government
Accrued payroll and benefits	\$ 9,355,330
Construction	1,345,367
Vendor payables	5,688,239
	<u>16,388,936</u>
Total	<u>\$ 16,388,936</u>
	Fiduciary Funds
Vendor payables	\$ 241,531
	<u>241,531</u>

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2020, consisted of the following:

	Primary Government
Federal categorical aid	\$ 12,809
State categorical aid	9,236,512
Lottery	988,927
Scheduled maintenance	2,296,181
Student fees	1,371,366
Other local	508,474
	<u>14,414,269</u>
Total	<u>\$ 14,414,269</u>

Note 9 - Interfund Transactions**Interfund Receivables and Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2020, there was a balance of \$36,155 that was owed to the primary government from the fiduciary funds.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2019-2020 fiscal year, the amount transferred to the fiduciary funds from the primary government amounted to \$359,336.

Note 10 - Long-Term Liabilities Other than OPEB and Pensions**Summary**

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

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Bonds Payable					
General obligation bonds, 2009 Series D	\$ 1,840,000	\$ -	\$ (1,840,000)	\$ -	\$ -
Unamortized debt premium	73,585	-	(73,585)	-	-
General obligation bonds, 2009 Series E	25,295,000	-	(25,295,000)	-	-
Unamortized debt premium	1,045,487	-	(1,045,487)	-	-
General obligation bonds, Refunding Bonds 2014	13,900,000	-	(1,495,000)	12,405,000	1,525,000
Unamortized debt premium	1,555,178	-	(200,668)	1,354,510	-
General obligation bonds, Refunding Bonds 2016	32,395,000	-	(515,000)	31,880,000	2,180,000
Unamortized debt premium	5,298,607	-	(412,879)	4,885,728	-
General obligation bonds, Refunding Bonds 2020	-	22,165,000	-	22,165,000	215,000
Unamortized debt premium	-	3,683,113	(165,533)	3,517,580	-
Total bonds payable	81,402,857	25,848,113	(31,043,152)	76,207,818	3,920,000
Other Liabilities					
Compensated absences	2,523,107	1,432,395	-	3,955,502	-
Load banking	672,228	-	(3,262)	668,966	-
Claims liability	5,928,092	-	-	5,928,092	-
Supplemental employee retirement plan (SERP)	558,826	-	(558,826)	-	-
Total other liabilities	9,682,253	1,432,395	(562,088)	10,552,560	-
Total long-term liabilities	\$ 91,085,110	\$ 27,280,508	\$ (31,605,240)	\$ 86,760,378	\$ 3,920,000

Description of Long-Term Liabilities

Payments on the general obligation bonds are made by the Bond Interest Redemption Fund with local property tax collections. The compensated absences and load banking are paid by the fund for which the employees' salaries are paid from. The District's General Fund makes payments for the supplemental employee retirement incentive plan. The Internal Service fund makes payments for the claims liability.

Bonded Debt**2009 General Obligation Bonds**

During September 2009, the District issued the General Obligation Bonds, Series 2009D and 2009E in the amount of \$52,000,000. The bonds mature beginning on August 1, 2011 through August 1, 2034, with interest yields ranging from 3.00 to 6.65 percent. The bonds issued included \$25,295,000 of current interest Build America Bonds (Series 2009E Bonds) and \$26,705,000 of current interest bonds (Series 2009D Bonds). At June 30, 2020, the principal balance outstanding was paid in full.

The District has designated the Series 2009E Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the Stimulus Act), the interest on which is not excluded from gross income for Federal income tax purposes, but is exempt from State of California personal income taxes. The District expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable on such Series 2009E Bonds. The District is obligated to make all payments of principal and interest on the Series 2009E Bonds from the sources described in the official statement whether or not it receives cash subsidy payments pursuant to the Stimulus Act. Effective March 1, 2013, the subsidy percentage was reduced by 8.7 percent, to 26.3 percent as a result of sequestration by the Federal government. The sequestration percentage was adjusted to 6.2 percent as of October 1, 2018, resulting in a subsidy of \$548,690 for the current year.

2014 General Obligation Refunding Bonds

During April 2014, the District issued the \$16,980,000 2014 General Obligation Refunding Bonds, Series A. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability.

The bonds have a final maturity to occur on August 1, 2026, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$19,812,097 (representing the principal amount of \$16,980,000 plus premium on issuance of \$2,832,097) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series 2006B and pay the costs associated with the issuance of the refunding bonds. At June 30, 2020, the principal balance outstanding was \$12,405,000. Unamortized premium received on issuance of the bonds amounted to \$1,354,510 as of June 30, 2020.

2016 General Obligation Refunding Bonds

During May 2016, the District issued the 2016 General Obligation Refunding Bonds in the amount of \$33,995,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic gain of \$7,157,913 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted to present value.

The bonds have a final maturity to occur on August 1, 2031, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$40,771,030 (representing the principal amount of \$33,995,000 plus premium on issuance of \$6,776,030) from the issuance were used to advance refund a portion of the District's outstanding 2002 General Obligation Bonds, Series 2006B, advance a portion of the District's outstanding 2002 General Obligation Bonds, Series 2009D, and pay the costs associated with the issuance of the refunding bonds. At June 30, 2020, the principal balance outstanding was \$31,880,000. Unamortized premium received on issuance of the bonds amounted to \$4,885,728 as of June 30, 2020.

2020 General Obligation Refunding Bonds

During February 2020, the District issued the 2020 General Obligation Refunding Bonds in the amount of \$22,165,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic gain of \$9,626,191 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted to present value.

The bonds have a final maturity to occur on August 1, 2027, with interest rate of 4.00 percent. The net proceeds from the issuance were used to refund on a current basis the District's outstanding 2002 General Obligation Bonds, Series 2009E and pay the costs associated with the issuance of the refunding bonds. At June 30, 2020, the principal balance outstanding was \$22,165,000. Unamortized premium received on issuance of the bonds amounted to \$3,517,580 as of June 30, 2020.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2019	Issued	Redeemed	Bonds Outstanding June 30, 2020
9/30/2009	8/1/2019	3.00%-5.00%	\$ 26,705,000	\$ 1,840,000	\$ -	\$ (1,840,000)	\$ -
9/30/2009	8/1/2034	6.50%-6.65%	25,295,000	25,295,000	-	(25,295,000)	-
4/2/2014	8/1/2026	2.00%-5.00%	16,980,000	13,900,000	-	(1,495,000)	12,405,000
5/12/2016	8/1/2031	2.00%-5.00%	33,995,000	32,395,000	-	(515,000)	31,880,000
2/26/2020	8/1/2027	4.00%	22,165,000	-	22,165,000	-	22,165,000
				<u>\$ 73,430,000</u>	<u>\$ 22,165,000</u>	<u>\$ (29,145,000)</u>	<u>\$ 66,450,000</u>

Pasadena Area Community College District

Notes to Financial Statements

June 30, 2020

The 2014 General Obligation Refunding Bonds mature through 2027 as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2021	\$ 1,525,000	\$ 582,125	\$ 2,107,125
2022	1,600,000	504,000	2,104,000
2023	1,680,000	422,000	2,102,000
2024	1,765,000	335,875	2,100,875
2025	1,850,000	245,500	2,095,500
2026-2027	3,985,000	201,625	4,186,625
Total	<u>\$ 12,405,000</u>	<u>\$ 2,291,125</u>	<u>\$ 14,696,125</u>

The 2016 General Obligation Refunding Bonds mature through 2032 as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2021	\$ 2,180,000	\$ 1,377,350	\$ 3,557,350
2022	2,265,000	1,288,450	3,553,450
2023	2,360,000	1,184,150	3,544,150
2024	2,475,000	1,063,275	3,538,275
2025	2,600,000	936,400	3,536,400
2026-2030	13,895,000	2,703,150	16,598,150
2031-2032	6,105,000	246,700	6,351,700
Total	<u>\$ 31,880,000</u>	<u>\$ 8,799,475</u>	<u>\$ 40,679,475</u>

The 2020 General Obligation Refunding Bonds mature through 2028 as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2021	\$ 215,000	\$ 781,326	\$ 996,326
2022	-	878,000	878,000
2023	2,630,000	825,400	3,455,400
2024	3,065,000	711,500	3,776,500
2025	3,480,000	580,600	4,060,600
2026-2028	12,775,000	789,700	13,564,700
Total	<u>\$ 22,165,000</u>	<u>\$ 4,566,526</u>	<u>\$ 26,731,526</u>

Compensated Absences

At June 30, 2020, the liability for compensated absences was \$3,955,502.

Load Banking

At June 30, 2020, the liability for load banking was \$668,966.

Early Retirement Incentive

The District has entered into various Supplemental Employee Retirement Plan (SERP) to provide certain benefits to employees participating in the early retirement incentive programs. At June 30, 2020, the liability for the SERP was paid in full.

Note 11 - Aggregate Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2020, the District reported an aggregate net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Aggregate Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 18,215,598	\$ 5,344	\$ 4,231,322	\$ 587,110
Medicare Premium Payment (MPP) Program	758,204	-	-	4,054
Total	<u>\$ 18,973,802</u>	<u>\$ 5,344</u>	<u>\$ 4,231,322</u>	<u>\$ 591,164</u>

The details of each plan are as follows:

District Plan**Plan Administration**

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

Management of the plan is vested in the District management. Management of the trustee assets is vested with the Public Agency Retirement Services (PARS), Irrevocable Trust Management Services.

Plan Membership

At June 30, 2020, Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	45
Active employees	<u>850</u>
	<u>895</u>

Retiree Health Benefit OPEB Trust

The Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by PARS as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California Government Code Section 53600.5 which specifies that the trustee's primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary of the Trust. The financial activity of the Trust has been discretely presented.

Benefits Provided

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

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Faculty Association (FA), the local California Service Employees Association (CSEA), and unrepresented groups. The voluntary contributions are 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, FA, CSEA, and the unrepresented groups. For the measurement period of June 30, 2020, the District contributed \$1,259,116 to the Plan, all of which was used for current premiums.

Investment**Investment Policy**

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Bonds - U.S. & International	60.0%
Equities - U.S. & International	40.0%

Rate of Return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 6.18 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability of the District

The District's net OPEB liability of \$18,215,598 was measured as of June 30, 2020, and the total OPEB liability used to calculate the net 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, 2020, were as follows:

Total OPEB liability	\$ 31,784,216
Plan fiduciary net position	<u>13,568,618</u>
District's net OPEB liability	<u>\$ 18,215,598</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>42.69%</u>

Actuarial Assumptions

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

Inflation	2.25 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	5.25 percent, net of investment expense, including inflation
Healthcare cost trend rates	6.00 percent for 2019-2020, decreasing to 4.50% for 2022-2023 and after
Retirees' share of benefit-related costs	CFT employees hired on or after July 1, 2011 pay any premium increases after year of retirement; all other eligible retiree groups are paid for entirely by the District.

The discount rate was based on the expected long-term rate of return for Vanguard's Conservative Strategy.

Mortality rates were based on the RP-2014 Employee and Health Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100 percent of scale MP-2016 for years 2014 through 2029, 50 percent of MP-2016 for years 2030 through 2049, and 20 percent of MP-2016 for 2050 and thereafter.

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actual experience study through July 1, 2019.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2020, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
U.S. Equities - Large Cap	13.82%
U.S. Equities - Medium & Small Cap	12.10%
International Equities	3.72%
U.S. Investment Grade Bonds	3.69%
International Bonds	4.20%

Discount Rate

The discount rate used to measure the total OPEB liability was 5.25 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2019	\$ 31,775,971	\$ 12,776,992	\$ 18,998,979
Service cost	1,488,553	-	1,488,553
Interest	1,714,076	-	1,714,076
Differences between expected and actual experience	(1,028,194)	-	(1,028,194)
Contributions - employer	-	1,259,116	(1,259,116)
Net investment income	-	820,027	(820,027)
Changes of assumptions	(907,074)	-	(907,074)
Benefit payments	(1,259,116)	(1,259,116)	-
Administrative expense	-	(28,401)	28,401
Net change in total OPEB liability	8,245	791,626	(783,381)
Balance at June 30, 2020	\$ 31,784,216	\$ 13,568,618	\$ 18,215,598

The ultimate healthcare trend rate assumption changed from 5.0 percent to 4.5 percent since the previous valuation. There were no changes to benefit terms since the previous valuation.

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 (4.25%)	\$ 20,538,687
Current discount rate (5.25%)	18,215,598
1% increase (6.25%)	16,063,984

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 (5.0% decreasing to 3.5%)	\$ 15,143,915
Current healthcare cost trend rate (6.0% decreasing to 4.5%)	18,215,598
1% increase (7.0% decreasing to 5.5%)	21,755,659

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

At June 30, 2020, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,344	\$ 941,399
Changes of assumptions	-	3,060,396
Net difference between projected and actual earnings on OPEB plan investments	-	229,527
Total	<u>\$ 5,344</u>	<u>\$ 4,231,322</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ (704,674)
2022	(704,674)
2023	(702,558)
2024	(664,765)
2025	(664,765)
Thereafter	(784,542)
Total	<u>\$ (4,225,978)</u>

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, 2018 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 contributions. In accordance with California *Education Code* Section 25930, contributions 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, 2020, the District reported a liability of \$758,204 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. 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 entities, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2019 and June 30, 2018, was 0.2036 percent and 0.1970, respectively, resulting in a net increase in the proportionate share of 0.0066 percent.

For the year ended June 30, 2020, the District recognized OPEB expense of \$4,054.

Actuarial Methods and Assumptions

The June 30, 2019 total OPEB liability was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total OPEB liability to June 30, 2019, using the assumptions listed in the following table:

Measurement Date	June 30, 2019	June 30, 2018
Valuation Date	June 30, 2018	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.50%	3.87%
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, 2018, 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.

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 380 or an average of 0.23 percent of the potentially eligible population (165,422).

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, 2019, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2019, is 3.50 percent. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.50 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2019, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.37 percent from 3.87 percent as of June 30, 2018.

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 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%)	\$ 827,374
Current discount rate (3.50%)	758,204
1% increase (4.50%)	694,606

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 rates, as well as what the net OPEB liability would be if it were calculated using the Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rates	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 710,664
Current Medicare costs trend rates (3.7% Part A and 4.1% Part B)	758,204
1% increase (4.7% Part A and 5.1% Part B)	853,164

Note 12 - Risk Management**Property and Liability Insurance Coverages**

The District is exposed to various risks of loss related to torts and liability; theft of, damage to and destruction of assets; errors and omissions and injuries to employees. The District obtains coverage for these risks as a member of various joint powers authorities or through the purchase of coverage from a risk retention group. The District has coverage up to \$55,000,000 for liability and tort risks. This coverage is subject to a \$50,000 self-insured retention for each general liability claim and \$25,000 for each property damage claim. The District

participates in a JPA to provide excess insurance coverage above the self-insured retention level. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

Workers' Compensation

For fiscal year 2019-2020, the District participated in the Schools Alliance for Workers' Compensation Excess Group Purchase (SAWCX II) Joint Powers Authority (JPA), an insurance purchasing pool. The District is self insured for the first \$500,000 of each workers' compensation claim. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to community college districts that can meet the JPA's selection criteria.

Claims Liabilities

The District 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 represent the changes in approximate aggregate liabilities for the District from July 1, 2018 to June 30, 2020:

	Workers' Compensation	Property and Liability
Liability Balance, July 1, 2018	\$ 4,938,245	\$ 225,000
Claims and changes in estimates	3,380,866	923,152
Claims payments	(2,616,019)	(923,152)
Liability Balance, June 30, 2019	5,703,092	225,000
Claims and changes in estimates	1,122,041	1,091,976
Claims payments	(1,122,041)	(1,091,976)
Liability Balance, June 30, 2020	<u>\$ 5,703,092</u>	<u>\$ 225,000</u>
Assets Available to Pay Claims at June 30, 2020	<u>\$ 9,919,916</u>	<u>\$ 2,575,279</u>

Note 13 - 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 California State Teachers' Retirement System (CalSTRS) and classified employees are members of California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2020, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Aggregate Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 103,947,383	\$ 31,792,418	\$ 12,360,831	\$ 12,474,526
CalPERS - Schools Risk Pool	64,034,102	15,772,550	1,288,055	10,683,558
CalPERS - Misc. Pool Plan (Bookstore)	1,356,900	239,715	48,304	297,823
\$1,440 Lifetime Benefit	14,124,207	2,376,013	203,550	1,063,068
Total	<u>\$ 183,462,592</u>	<u>\$ 50,180,696</u>	<u>\$ 13,900,740</u>	<u>\$ 24,518,975</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by 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, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	10.205%
Required employer contribution rate	17.10%	17.10%
Required State contribution rate	10.328%	10.328%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above, and the District's total contributions were \$10,897,459.

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

At June 30, 2020, 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	\$ 103,947,383
State's proportionate share of net pension liability associated with the District	56,710,237
	<hr/>
Total	<u>\$ 160,657,620</u>

The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2019 and June 30, 2018, was 0.1151 percent and 0.1098 percent, respectively, resulting in a net increase in the proportionate share of 0.0053 percent.

Pasadena Area Community College District

Notes to Financial Statements

June 30, 2020

For the year ended June 30, 2020, the District recognized pension expense of \$12,474,526. In addition, the District recognized pension expense and revenue of \$8,445,377 for support provided by the State. At June 30, 2020, 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	\$ 10,897,459	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	7,485,475	5,427,629
Differences between projected and actual earnings on pension plan investments	-	4,004,085
Differences between expected and actual experience in the measurement of the total pension liability	262,412	2,929,117
Changes of assumptions	13,147,072	-
Total	<u>\$ 31,792,418</u>	<u>\$ 12,360,831</u>

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

The deferred outflows/(inflows) of resources related to the difference between projected and actual earning 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
2021	\$ (403,881)
2022	(3,178,773)
2023	(659,962)
2024	238,531
Total	<u>\$ (4,004,085)</u>

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, 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
2021	\$ 2,612,809
2022	2,612,811
2023	2,205,531
2024	4,213,085
2025	544,605
Thereafter	349,372
Total	<u>\$ 12,538,213</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
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, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.80%
Fixed income	12%	1.30%
Real estate	13%	3.60%
Private equity	13%	6.30%
Risk mitigating strategies	9%	1.80%
Inflation sensitive	4%	3.30%
Cash/liquidity	2%	-0.40%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 154,786,257
Current discount rate (7.10%)	103,947,383
1% increase (8.10%)	61,792,274

California Public Employees' Retirement System (CalPERS) - Schools Risk Pool**Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.000%
Required employer contribution rate	19.721%	19.721%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2020, are presented above, and the total District contributions were \$6,617,767.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$64,034,102. The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2019 and June 30, 2018, was 0.2197 percent and 0.2111 percent, respectively, resulting in a net increase in the proportionate share of 0.0086 percent.

For the year ended June 30, 2020, the District recognized pension expense of \$10,683,558. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS - Schools Risk Pool	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 6,617,767	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	1,455,115	694,127
Differences between projected and actual earnings on pension plan investments	-	593,928
Differences between expected and actual experience in the measurement of the total pension liability	4,651,446	-
Changes of assumptions	3,048,222	-
Total	<u>\$ 15,772,550</u>	<u>\$ 1,288,055</u>

The deferred outflow 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,	CalPERS - Schools Risk Pool
	Deferred Outflows/(Inflows) of Resources
2021	\$ 586,273
2022	(1,171,062)
2023	(177,459)
2024	168,320
Total	<u>\$ (593,928)</u>

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, 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 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	CalPERS - Schools Risk Pool
	Deferred Outflows/(Inflows) of Resources
2021	\$ 4,713,774
2022	2,405,992
2023	1,218,991
2024	121,899
Total	<u>\$ 8,460,656</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and services

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of Scale MP-2016.

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

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

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

Discount Rate	CalPERS - Schools Risk Pool
	Net Pension Liability
1% decrease (6.15%)	\$ 92,300,948
Current discount rate (7.15%)	64,034,102
1% increase (8.15%)	40,584,801

California Public Employees' Retirement System (CalPERS) – Miscellaneous Pool Plan (Bookstore)**Plan Description**

Qualified employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Plan under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Public Agency Cost-Sharing Multiple-Employer Plan is comprised of a Miscellaneous Risk Pool and a Safety Risk Pool. The District sponsors one Miscellaneous Pool Plan (the Plan) for employees of the District Bookstore. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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, 2018, annual actuarial valuation report, Miscellaneous Risk Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The CalPERS Miscellaneous Risk Pool is closed to new entrants and no current employees are covered by the plan.

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	<u>Miscellaneous Pool Plan (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 60
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	60
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required unfunded liability payment to CalPERS	\$76,320	\$0

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions for the year ended June 30, 2020 was \$76,320.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS Miscellaneous Risk Pool net pension liability \$1,356,900. The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2019 and June 30, 2018, was 0.0316 percent and 0.0312 percent, respectively, resulting in a net increase in the proportionate share of 0.0004 percent.

For the year ended June 30, 2020, the District recognized pension expense of \$297,823 for CalPERS Miscellaneous Risk Pool. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS - Miscellaneous Pool Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 76,320	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	8,537	4,838
Differences between projected and actual earnings on pension plan investments	-	22,101
Differences between expected and actual experiences in the measurement of the total pension liability	94,588	-
Changes of assumptions	60,270	21,365
Total	<u>\$ 239,715</u>	<u>\$ 48,304</u>

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

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

Year Ended June 30,	CalPERS - Miscellaneous Pool Plan Deferred Outflows/(Inflows) of Resources
2021	\$ 14,229
2022	(18,815)
2023	(21,978)
2024	4,463
Total	<u>\$ (22,101)</u>

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, 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 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	CalPERS - Miscellaneous Pool Plan Deferred Outflows/(Inflows) of Resources
2021	\$ 97,796
2022	24,080
2023	15,316
Total	<u>\$ 137,192</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying updated procedures to a financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and services

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90 percent of Scale MP-2016.

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	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

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

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

Discount Rate	CalPERS - Miscellaneous Pool Plan Net Pension Liability
1% decrease (6.15%)	\$ 2,176,539
Current discount rate (7.15%)	1,356,900
1% increase (8.15%)	680,346

\$1,440 Lifetime Benefit Plan**Plan Description**

The District administers and contributes to a single-employer defined benefit pension plan for eligible retirees upon retirement from the District and reaching the age of 65. An annual payment of \$1,440 is contributed by the District to eligible retirees. This plan is subject to the reporting requirements under GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. There are 850 active employees who may become eligible to retire and receive benefits in the future, 45 retirees with deferred benefits, and 423 retirees receiving District-paid benefits as of the July 1, 2019 valuation date. The measurement date for the total pension liability is June 30, 2020. As of June 30, 2020, there are no assets accumulated in a trust that meets the criteria in GASB Statement No. 73, paragraph 4.

Benefits Provided

The District provides an annual payment of \$1,440 to eligible retirees to help offset the costs of healthcare coverage. To be eligible for the benefit, regular full-time employees of the District, excluding hourly and adjunct employees, must have completed at least 14 years of service to the District, with the exception that classified employees who are members of CFT Local 6525 hired on or after July 1, 2011, who must have at least 22 years of service to be eligible. Benefits take effect upon the eligible retiree reaching the age of 65. There is no requirement for the \$1,440 to be spent on health insurance and is treated as taxable income to the retiree and is thus considered to be a pension plan rather than a retiree health benefit plan falling within the scope of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The benefit is paid in full during the first year of eligibility and there are no spousal or survivor benefits paid under this plan.

This benefit is payable in addition to pension benefits that may be payable under one of the District's other pension plans (CalPERS, CalSTRS, or a supplemental employee retirement plan).

The \$1,440 Lifetime Benefit provisions and benefits in effect at June 30, 2020, are summarized as follows:

	CFT Local #6525	All Other Regular, Full-Time Employees
Hire date	On or after July 1, 2011	N/A
Benefit formula	\$1,440	\$1,440
Benefit vesting schedule	22 years of service	14 years of service
Benefit payments	Annual for life	Annual for life
Vesting age	65	65
Required employee contribution rate	N/A	N/A
Required employer contribution rate	\$1,440 per retiree	\$1,440 per retiree

Contributions

The District provides an annual contribution of \$1,440 to all eligible retirees in the plan. Total District contributions for the year ended June 30, 2020 were \$632,004, inclusion of an implicit subsidy.

Changes in the Total Pension Liability (TPL)

	<u>Total Pension Liability</u>
Balance at June 30, 2019	\$ 11,731,532
Service cost	326,443
Interest	309,638
Difference between expected and actual experience	216,306
Changes of assumptions	2,172,292
Benefit payments	<u>(632,004)</u>
Net change in total pension liability	<u>2,392,675</u>
Balance at June 30, 2020	<u>\$ 14,124,207</u>

There was a change in the discount rate from 3.50 percent to 2.20 percent since the previous valuation. There were no changes to benefit terms since the previous valuation.

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

As of June 30, 2020, the District reported a total pension liability for the \$1,440 Lifetime Benefit plan totaling \$14,124,207. The net pension liability was measured as of June 30, 2020. The District's total pension liability was based on a projection of the District's long-term contributions to the pension plan and was actuarially determined.

For the year ended June 30, 2020, the District recognized pension expense of \$1,063,068. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Differences between expected and actual experience	\$ 213,218	\$ -
Changes of assumptions	<u>2,162,795</u>	<u>203,550</u>
Total	<u>\$ 2,376,013</u>	<u>\$ 203,550</u>

The deferred outflows/(inflows) of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2021	\$ 494,837
2022	494,837
2023	494,837
2024	493,400
2025	398,102
Total	<u>\$ 2,376,013</u>

Year Ended June 30,	Deferred Inflows of Resources
2021	\$ (67,850)
2022	(67,850)
2023	(67,850)
Total	<u>\$ (203,550)</u>

Actuarial Methods and Assumptions

Total pension liability for the Plan was determined by applying updated procedures to the financial reporting actuarial valuation as of July 1, 2019 and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of July 1, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	July 1, 2019
Measurement date	June 30, 2020
Experience study	Through July 1, 2019
Actuarial cost method	Entry age, level percent of pay
Discount rate	2.20%, net of investment expenses
Inflation rate	2.25%

The mortality tables used were the RP-2014 Employee and Healthy Annuitant Mortality Table for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

Discount Rate

The discount rate used to measure the total pension liability was 2.20 percent. The discount rate was based on the Bond Buyer 20-Bond General Obligation Index.

The following presents the District's total pension liability calculated using the current discount rate, as well as what the total 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	Total Pension Liability
1% decrease (1.20%)	\$ 16,236,576
Current discount rate (2.20%)	14,124,207
1% increase (3.20%)	12,404,169

Accumulation Program for Part-Time and Limited Services Employees (APPLE)**Plan Description**

The Accumulation Program for Part-Time and Limited Service Employees (APPLE) is a defined contribution plan qualifying under Section 401(a) and 501 of the Internal Revenue Code. This plan covers part-time, seasonal, and temporary employees and those employees not covered by Section 3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of the plan members and the District are established and may be amended by APPLE Administration Committee.

Funding Plan

Contributions of 3.75 percent of covered compensation of eligible employees are made by the employee. Total District contributions were made in the amount of \$538,493 during the fiscal year. The total amount of covered compensation was \$14,359,813. Total required contribution rate is 7.50 percent, 3.75 percent represents the District's contribution, and the remaining 3.75 percent is contributed by the employee.

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 for the fiscal year ended June 30, 2020, which amounted to \$5,923,565 (10.328 percent) of salaries subject to CalSTRS. 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. No contributions were made for CalPERS for the year ended June 30, 2020. 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.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated an additional 2019–2020 contribution on-behalf of school employers of \$1.1 billion for CalSTRS. A proportionate share of these contributions has been recorded in these financial statements.

Note 14 - Participation in Public Entity Risk Pools and Joint Powers Authorities

The District is a member of the Intelcom Intelligent Telecommunications (intelecom), Statewide Association of Community Colleges (SWACC) and Schools Alliance for Workers' Compensation Excess Group Purchase (SAWCX II) Joint Powers Authority JPAs. Intelcom provides for the design, development, and distribution of educational media materials. Intelcom is governed by a council comprised of a member of each of the participating Districts. The District pays SWACC and SAWCXII annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the District beyond the District's representation on the governing boards.

The relationships between the District and the JPAs are such that no JPAs are a component unit of the District for financial reporting purposes.

Note 15 - Commitments and Contingencies**Grants**

The District receives 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. 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, 2020.

Litigation

The District is involved in various litigation 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, 2020.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2021	\$ 359,780
2022	128,192
2023	128,192
2024	128,192
2025	128,192
2026-2030	677,486
2031-2035	701,380
2036-2040	746,430
2041-2045	325,991
2046-2050	241,575
2051-2055	241,575
Total	<u>\$ 3,806,985</u>

Rental expenditures for the year ended June 30, 2020, amounted to \$1,335,915.

Note 16 - Subsequent Events

Subsequent to year end, the District has been negatively impacted by the effects of the world-wide coronavirus pandemic. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the District's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.



Required Supplementary Information
June 30, 2020

Pasadena Area Community College District

Pasadena Area Community College District
Schedule of Changes in the District's Net OPEB Liability and Related Ratios
Year Ended June 30, 2020

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 1,488,553	\$ 1,670,370	\$ 2,102,668
Interest	1,714,076	1,623,517	1,189,667
Differences between expected and actual experience	(1,028,194)	6,997	(46,340)
Changes of assumptions	(907,074)	-	(3,493,635)
Benefit payments	(1,259,116)	(1,557,337)	(1,373,478)
Net change in total OPEB liability	8,245	1,743,547	(1,621,118)
Total OPEB liability - beginning	31,775,971	30,032,424	31,653,542
Total OPEB liability - ending (a)	<u>\$ 31,784,216</u>	<u>\$ 31,775,971</u>	<u>\$ 30,032,424</u>
Plan fiduciary net position			
Contributions - employer	\$ 1,259,116	\$ 3,557,337	\$ 11,373,478
Net investment income	820,027	789,545	10,578
Benefit payments	(1,259,116)	(1,557,337)	(1,373,478)
Administrative expense	(28,401)	(23,131)	-
Net change in plan fiduciary net position	791,626	2,766,414	10,010,578
Plan fiduciary net position - beginning	12,776,992	10,010,578	-
Plan fiduciary net position - ending (b)	<u>\$ 13,568,618</u>	<u>\$ 12,776,992</u>	<u>\$ 10,010,578</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 18,215,598</u>	<u>\$ 18,998,979</u>	<u>\$ 20,021,846</u>
Plan fiduciary net position as a percentage of the total OPEB liability	42.69%	40.21%	33.33%
Covered-employee payroll	\$ 80,769,736	\$ 114,727,786	\$ 111,386,200
District's net OPEB liability as a percentage of covered-employee payroll	22.55%	16.56%	17.98%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018

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

Pasadena Area Community College District
Schedule of OPEB Investment Returns
Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	<u>6.18%</u>	<u>7.45%</u>	<u>0.11%</u>

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

Pasadena Area Community College District
Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program
Year Ended June 30, 2020

Year ended June 30,	2020	2019	2018
District's proportion of the net OPEB liability	0.2036%	0.1970%	0.1954%
District's proportionate share of the net OPEB liability	\$ 758,204	\$ 754,150	\$ 821,853
District's covered payroll	N/A ¹	N/A ¹	N/A ¹
District's proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A ¹	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	-0.81%	-0.40%	0.01%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

¹ 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.

Pasadena Area Community College District
Schedule of the District's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
CalSTRS						
District's proportion of the net pension liability	0.1151%	0.1098%	0.1079%	0.1049%	0.1220%	0.1160%
District's proportionate share of the net pension liability	\$ 103,947,383	\$ 100,885,824	\$ 99,788,463	\$ 84,925,050	\$ 82,135,280	\$ 67,786,920
State's proportionate share of the net pension liability associated with the District	56,710,237	57,761,852	59,034,012	48,353,434	43,440,392	40,933,080
Total	<u>\$ 160,657,620</u>	<u>\$ 158,647,676</u>	<u>\$ 158,822,475</u>	<u>\$ 133,278,484</u>	<u>\$ 125,575,672</u>	<u>\$ 108,720,000</u>
District's covered payroll	<u>\$ 63,056,499</u>	<u>\$ 65,140,457</u>	<u>\$ 59,175,731</u>	<u>\$ 54,376,431</u>	<u>\$ 54,725,507</u>	<u>\$ 51,472,000</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	164.85%	154.87%	168.63%	156.18%	150.09%	131.70%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%	77%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS - Schools Risk Pool						
District's proportion of the net pension liability	0.2197%	0.2111%	0.2127%	0.2259%	0.2295%	0.2236%
District's proportionate share of the net pension liability	<u>\$ 64,034,102</u>	<u>\$ 56,272,597</u>	<u>\$ 50,775,459</u>	<u>\$ 44,615,390</u>	<u>\$ 33,828,527</u>	<u>\$ 25,384,044</u>
District's covered payroll	<u>\$ 30,517,916</u>	<u>\$ 28,013,611</u>	<u>\$ 27,273,488</u>	<u>\$ 27,621,423</u>	<u>\$ 23,320,559</u>	<u>\$ 23,477,000</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	209.82%	200.88%	186.17%	161.52%	145.06%	108.12%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%	83%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Pasadena Area Community College District
Schedule of the District's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2020

CalPERS - Miscellaneous Pool Plan (Bookstore)	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.0316%	0.0312%	0.0296%	0.0301%	0.0306%	0.0310%
District's proportionate share of the net pension liability	\$ 1,356,900	\$ 1,174,023	\$ 1,188,974	\$ 844,426	\$ 642,798	\$ 613,542
District's covered payroll	N/A ⁺	\$ 560,725	\$ 692,875	\$ 445,964	\$ 402,360	\$ 396,471
District's proportionate share of the net pension liability as a percentage of its covered payroll	N/A ⁺	209.38%	171.60%	189.35%	159.76%	154.75%
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	75%	74%	79%	83%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

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

⁺ As of June 30, 2018, the District no longer operates the Bookstore. The required employer contributions made to fund the Plan's unfunded liability balance.

Pasadena Area Community College District
Schedule of the District's Contributions for Pensions
Year Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
CalSTRS						
Contractually required contribution	\$ 10,897,459	\$ 10,265,598	\$ 9,399,768	\$ 7,444,307	\$ 5,834,591	\$ 4,859,625
Contributions in relation to the contractually required contribution	10,897,459	10,265,598	9,399,768	7,444,307	5,834,591	4,859,625
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 63,727,830</u>	<u>\$ 63,056,499</u>	<u>\$ 65,140,457</u>	<u>\$ 59,175,731</u>	<u>\$ 54,376,431</u>	<u>\$ 54,725,507</u>
Contributions as a percentage of covered payroll	<u>17.10%</u>	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS - Schools Risk Pool						
Contractually required contribution	\$ 6,617,767	\$ 5,512,146	\$ 4,350,794	\$ 3,787,742	\$ 3,272,310	\$ 2,745,063
Contributions in relation to the contractually required contribution	6,617,767	5,512,146	4,350,794	3,787,742	3,272,310	2,745,063
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 33,556,955</u>	<u>\$ 30,517,916</u>	<u>\$ 28,013,611</u>	<u>\$ 27,273,488</u>	<u>\$ 27,621,423</u>	<u>\$ 23,320,559</u>
Contributions as a percentage of covered payroll	<u>19.721%</u>	<u>18.062%</u>	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

Pasadena Area Community College District
Schedule of the District's Contributions for Pensions
Year Ended June 30, 2020

CalPERS - Miscellaneous Pool Plan (Bookstore)	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 76,320	\$ 59,772	\$ 53,824	\$ 66,225	\$ 41,711	\$ 49,611
Contributions in relation to the contractually required contribution	76,320	59,772	53,824	66,225	41,711	49,611
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>\$ 560,725</u>	<u>\$ 692,875</u>	<u>\$ 445,964</u>	<u>\$ 402,360</u>
Contributions as a percentage of covered payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>9.599%</u>	<u>9.558%</u>	<u>9.353%</u>	<u>12.330%</u>

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

¹ As of June 30, 2018, the District no longer operates the Bookstore. The required employer contributions made to fund the Plan's unfunded liability balance.

Pasadena Area Community College District
Schedule of Changes in the District's \$1,440 Lifetime Benefit Plan
Total Pension Liability and Related Ratios
Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 326,443	\$ 252,560	\$ 264,759
Interest	309,638	437,376	415,403
Differences between expected and actual experiences	216,306	42,980	8,617
Changes of assumptions	2,172,292	528,828	(407,100)
Benefit payments	<u>(632,004)</u>	<u>(642,240)</u>	<u>(588,960)</u>
Net change in total pension liability	2,392,675	619,504	(307,281)
Total pension liability - beginning	<u>11,731,532</u>	<u>11,112,028</u>	<u>11,419,309</u>
Total pension liability - ending	<u><u>\$ 14,124,207</u></u>	<u><u>\$ 11,731,532</u></u>	<u><u>\$ 11,112,028</u></u>
Covered payroll	<u>\$ 80,769,736</u>	<u>\$ 114,727,786</u>	<u>\$ 111,386,200</u>
District's total pension liability as a percentage of covered payroll	<u>17.49%</u>	<u>10.23%</u>	<u>9.98%</u>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018

Note 1 - Purpose of Schedules**Schedule of Changes in the District's Net OPEB Liability and Related Ratios**

This schedule present 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 – There were no changes in the benefit terms since the previous valuation.

Changes in Assumptions – The ultimate healthcare trend rate assumption was changed from 5.0 percent to 4.5 percent since the previous valuation.

Schedule of OPEB Investment Returns

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

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

This schedule presents information on the District's proportional 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 3.87 percent to 3.50 percent since the previous valuation.

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

This schedule present information on the District's proportionate share of the net pension liability (NPL), the Plans' fiduciary net positions 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 the CalSTRS and CalPERS plans.

Changes in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions for Pensions

This schedule presents information on the District's required contributions, 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.

Schedule of Changes in the District's \$1,440 Lifetime Benefit Plan Total Pension Liability and Related Ratios

This schedule present information on the District's changes in the \$1,440 Lifetime Benefit total pension liability, including beginning and ending balances and related ratios. 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.

Changes in Assumptions – The plan discount rate was changed from 3.50 percent to 2.20 percent since the previous valuation date.



Supplementary Information
June 30, 2020

Pasadena Area Community College District

Pasadena Area Community College District (the District) was established in 1967, and is located in Los Angeles County. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
James A. Osterling	President	March 2024
Berlinda Brown	Vice President	March 2022
Linda S. Wah	Clerk	March 2022
Sandra Chen Lau	Member	March 2022
Anthony R. Fellow, Ph.D.	Member	March 2022
John H. Martin	Member	March 2024
Tamara Silver	Member	March 2024

ADMINISTRATION

Erika Endrijonas, Ph.D.	Superintendent/President and Board of Trustees Secretary
Robert H Bell, Ed.D.	Assistant Superintendent/Senior Vice President, Non-Credit and Offsite Campuses
Terrence D. Giugni, Ph.D.	Assistant Superintendent/Vice President, Instruction
Michael Bush, Ed.D.	Assistant Superintendent/Vice President, Business and Administrative Services
Robert S. Blizinski	Assistant Superintendent/Vice President, Human Resources
Cynthia Olivo, Ph.D.	Assistant Superintendent/Vice President, Student Services

AUXILIARY ORGANIZATIONS IN GOOD STANDING

Pasadena College Foundation, established 1979
 Master Agreement revised 2017
 Ms. Bobbi Abram, Executive Director

Pasadena Area Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
TRIO Cluster			
TRIO - Student Support Services	84.042A		\$ 322,917
TRIO - Talent Search-Pasadena/Rosemead	84.044A		355,738
TRIO - Talent Search-El Monte	84.044A		353,265
TRIO - Upward Bound-Pasadena	84.047A		345,451
TRIO - Upward Bound-El Monte/Rosemead	84.047A		290,435
TRIO - Upward Bound Math and Science-Pasadena	84.047M		305,000
TRIO - Upward Bound Math and Science-El Monte	84.047M		276,324
Subtotal TRIO Cluster			2,249,130
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		868,610
Federal Direct Student Loans	84.268		1,154,640
Federal Work-Study Program	84.033		759,401
Federal Pell Grant Program	84.063		37,421,431
Federal Pell Grant Program - Administrative Allowance	84.063		50,805
Subtotal Student Financial Assistance Cluster			40,254,887
COVID-19: CARES Act Higher Education Emergency Relief Fund (HEERF) - Institutional Portion	84.425F		701,341
COVID-19: CARES Act HEERF- Student Portion	84.425E		4,218,481
Subtotal			4,919,822
Childcare Means Parents In School (CCAMPIS)	84.335A		396,945
STEM GPS (Guided Pathway Solution)	84.031C		1,371,770
Higher Education - Institutional Aid	84.031S		158,578
Safe Pathway to Degree Completion for Hispanic and Other At-Risk Students	84.031S		669,730
Subtotal			2,200,078
Passed through Cal State L.A. University Auxiliary Services, Inc. STEM Education Consortium	84.116F	PCC231225	50,008
Passed through the California Community Colleges Chancellor's Office			
Career and Technical Education Act (Perkins Title I-Part C)	84.048A	19-C01-040	930,111
CTE Transitions	84.048A	19-C01-040	46,697
Subtotal			976,808
Passed through the California Department of Education			
Adult Basic Education & ELA	84.002A	14508	188,851
Adult Secondary Education (ASE)	84.002	13978	54,145
Subtotal			242,996
Total U.S. Department of Education			51,290,674

See Note to Supplementary Information

Pasadena Area Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Forest Reserve	10.665		\$ 1,747
Passed through the California Department of Education			
Child and Adult Care Food Program	10.558	13666	23,449
Summer Food Math Science Upward Bound	10.559	13004	16,875
Total U.S. Department of Agriculture			42,071
Small Business Administration			
Passed through Long Beach Community College District			
		CN 99753.6, CN	
Small Business Development	59.037	99765.5	\$ 236,771
COVID 19 Small Business Development	59.037	CN 99758.8	22,283
Total Small Business Administration			259,054
Research and Development Cluster			
National Science Foundation			
Early Career Undergraduate Research Experience (secure)	47.076		91,365
Passed through California State University, Northridge			
Nanotech Professional Development Partnership	47.076	6075-PCC-0630	9,998
Total National Science Foundation			101,363
National Institutes of Health			
Passed through California State University, Northridge			
Trans-NIH Research Support Common Fund: BUILD PODER	93.310	A15-0012-5018	18,716
Total Research and Development Cluster			120,079
U.S. Department of Health and Human Services			
Passed through the California Community			
Colleges Chancellor's Office			
Foster and Kinship Care Education Program (FKCE)	93.658	[1]	44,907
Passed through the California Community			
Colleges Chancellor's Office			
Temporary Assistance for Needy Families (TANF)	93.558	[1]	78,413
Passed through the County of Los Angeles, Department			
of Public Social Services			
Temporary Assistance for Needy Families (TANF)	93.558	CCCP18009	70,000
Subtotal			148,413
CCDF Cluster			
Passed through the California Department of Education			
Child Care and Development Block Grant	93.575	15136	18,455
Child Care Mandatory and Matching Funds of the			
Child Care and Development Fund	93.596	13609	40,148
Subtotal CCDF Cluster			58,603
Total U.S. Department of Health and Human Services			251,923
Total Expenditures of Federal Awards			\$ 51,963,801

Pasadena Area Community College District
Schedule of Expenditures of State Awards
Year Ended June 30, 2020

Program	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior Year	Total Entitlement	Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	
AB 104 - AEBG	\$ 1,908,812	\$ -	\$ 1,908,812	\$ 1,908,812	\$ -	\$ -	\$ 1,908,812	\$ 1,908,812
AB 798 Textbook Affordability Program	-	22,550	22,550	22,550	-	15,810	6,740	6,740
AB798 Textbook Affordability Prgm-Implementation	-	41,650	41,650	41,650	-	34,434	7,216	7,216
Associate Degree Nursing	151,824	-	151,824	151,824	-	77,984	73,840	73,840
Biotechnology ISPIC Grant	-	11,127	11,127	11,127	-	11,127	-	-
Bridges to Stem Cell Research	560,726	-	560,726	1,450,004	-	1,095,731	354,273	354,273
Bridges to the Future	9,630	-	9,630	-	5,079	-	5,079	5,079
Cal Grant "B"	3,335,000	12,540	3,347,540	3,804,551	58,649	-	3,863,200	3,863,200
Cal Grant "C"	74,000	-	74,000	105,939	-	-	105,939	105,939
California College Promise	920,577	493,827	1,414,404	1,414,404	-	695,677	718,727	718,727
California College Promise Financial Aid Grant	1,000,000	-	1,000,000	1,000,000	-	73,713	926,287	926,287
Calworks	467,062	-	467,062	467,062	-	23,311	443,751	443,751
Campus Safety	-	25,428	25,428	25,428	-	6,778	18,650	18,650
Child and Adult Care Food Program	3,638	1,520	5,158	1,008	-	-	1,008	1,008
Child Development Consortium	18,200	80	18,280	18,280	-	852	17,428	17,428
Child Development: General (CCDF)	201,710	-	201,710	202,356	2,136	28,255	176,237	176,237
Child Development: State Preschool (CSPP)	213,215	-	213,215	199,439	817	45,189	155,067	155,067
Cooperative Agencies Foster Youth Education Support (CAFYES)	633,383	-	633,383	633,383	-	264,381	369,002	369,002
Cooperative Agencies Resources For Education (CARE)	119,161	-	119,161	119,161	-	-	119,161	119,161
CTE: Strong Workforce Program (SWP) Regional-Round 2-Year 1	62,000	646,871	708,871	563,809	-	-	563,809	563,809
CTE: Strong Workforce Program (SWP) Regional-Round 2-Year 2	13,308	815,874	829,182	182,608	-	-	182,608	182,608
CTE: Strong Workforce Program (SWP) Regional-Round 2-Year 3	682,192	-	682,192	-	-	-	-	-
CTE: Strong Workforce Program (SWP)-Local-Round 1	-	57,407	57,407	3,665,738	-	3,548,012	117,726	117,726
CTE: Strong Workforce Program (SWP)-Local-Round 2-Year 1	-	1,653,612	1,653,612	1,054,263	-	-	1,054,263	1,054,263
CTE: Strong Workforce Program (SWP)-Local-Round 2-Year 2	-	1,766,076	1,766,076	236,725	-	-	236,725	236,725
CTE: Strong Workforce Program (SWP)-Local-Round 2-Year 3	1,485,181	-	1,485,181	5,678	-	-	5,678	5,678
Disabled Students Program and Services (DSPS)	1,315,961	-	1,315,961	1,317,838	-	53,132	1,264,706	1,264,706
Extended Opportunity Program and Services (EOPS)	1,084,991	-	1,084,991	1,084,991	-	-	1,084,991	1,084,991
Financial Aid Technology	65,948	147,293	213,241	213,241	-	121,081	92,160	92,160
Foster Care Education Program	68,641	-	68,641	68,641	-	-	68,641	68,641
Gig Economy Project	-	5,790	5,790	5,790	-	2,351	3,439	3,439
GO_Biz - CIP	50,000	36,207	86,207	36,207	34,843	-	71,050	71,050

Pasadena Area Community College District
Schedule of Expenditures of State Awards
Year Ended June 30, 2020

Program	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior Year	Total Entitlement	Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	
GO_Biz - TAEP	\$ 50,000	\$ 111,854	\$ 161,854	\$ 29,398	\$ 94,557	\$ -	\$ 123,955	\$ 123,955
Guided Pathways	576,199	1,088,352	1,664,551	1,664,551	-	1,123,203	541,348	541,348
Hunger Free Campus	87,895	180,212	268,107	268,107	-	186,775	81,332	81,332
Incarcerated Students Reentry Program	113,636	-	113,636	45,455	-	9,944	35,511	35,511
Instructional Equipment	290,612	329,055	619,667	619,667	-	233,554	386,113	386,113
Mental Health Services	-	135,356	135,356	135,356	-	-	135,356	135,356
MESA	74,515	-	74,515	-	54,858	-	54,858	54,858
Nasdaq	2,500	-	2,500	-	2,500	-	2,500	2,500
Professional Development	-	71,368	71,368	71,368	-	70,912	456	456
Promise Scholars Program	-	100,000	100,000	100,000	-	98,527	1,473	1,473
SFAA Augmentation	620,490	-	620,490	627,618	-	-	627,618	627,618
Staff Diversity - AB1725	50,000	14,802	64,802	64,802	-	42,496	22,306	22,306
Student Equity and Achievement	7,613,299	1,732,301	9,345,600	9,345,600	-	1,290,330	8,055,270	8,055,270
Student Financial Aid Administration	250,042	-	250,042	252,914	-	-	252,914	252,914
Student Success Completion Grant	3,815,841	-	3,815,841	3,841,262	-	649	3,840,613	3,840,613
Veteran's Center	97,214	33,596	130,810	130,811	-	47,206	83,605	83,605
Veteran's Resource Center Grant Program	200,000	-	200,000	80,000	-	35,098	44,902	44,902
	<u>\$ 28,287,403</u>	<u>\$ 9,534,748</u>	<u>\$ 37,822,151</u>	<u>\$ 37,289,416</u>	<u>\$ 253,439</u>	<u>\$ 9,236,512</u>	<u>\$ 28,306,343</u>	<u>\$ 28,306,343</u>

Pasadena Area Community College District
Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance
Year Ended June 30, 2020

Categories	Annual Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2019 only)			
1. Noncredit*	114.52	-	114.52
2. Credit	1,555.61	-	1,555.61
			-
B. Summer Intersession (Summer 2020 - Prior to July 1, 2020)			
1. Noncredit*	-	-	-
2. Credit	1,541.61	-	1,541.61
			-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			-
(a) Weekly Census Contact Hours	14,565.05	-	14,565.05
(b) Daily Census Contact Hours	1,860.19	-	1,860.19
			-
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	674.70	-	674.70
(b) Credit	444.90	-	444.90
			-
3. Alternative Attendance Accounting Procedure Courses			
(a) Weekly Census Procedure Courses	1,689.68	-	1,689.68
(b) Daily Census Procedure Courses	1,494.04	-	1,494.04
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
	23,940.30	-	23,940.30
D. Total FTES			
	23,940.30	-	23,940.30
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	-	-	-
F. Basic Skills Courses and Immigrant Education			
1. Noncredit*	662.80	-	662.80
2. Credit	191.68	-	191.68
CCFS-320 Addendum			
CDCP Noncredit FTES	665.88	-	665.88
Centers FTES			
1. Noncredit*	623.95	-	623.95
2. Credit	625.18	-	625.18

* Including Career Development and College Preparation (CDCP) FTES.

Pasadena Area Community College District
Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation
Year Ended June 30, 2020

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799			
		Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>								
Instructional Salaries								
Contract or Regular	1100	\$ 36,218,545	\$ -	\$ 36,218,545	\$ 36,495,550	\$ -	\$ 36,495,550	
Other	1300	28,782,893	-	28,782,893	28,782,893	-	28,782,893	
Total Instructional Salaries			65,001,438	-	65,001,438	65,278,443	-	65,278,443
Noninstructional Salaries								
Contract or Regular	1200	-	-	-	11,427,859	-	11,427,859	
Other	1400	-	-	-	638,583	-	638,583	
Total Noninstructional Salaries			-	-	-	12,066,442	-	12,066,442
Total Academic Salaries			65,001,438	-	65,001,438	77,344,885	-	77,344,885
<u>Classified Salaries</u>								
Noninstructional Salaries								
Regular Status	2100	-	-	-	25,035,652	-	25,035,652	
Other	2300	-	-	-	1,749,057	-	1,749,057	
Total Noninstructional Salaries			-	-	-	26,784,709	-	26,784,709
Instructional Aides								
Regular Status	2200	-	-	-	-	-	-	
Other	2400	148,505	-	148,505	148,505	-	148,505	
Total Instructional Aides			148,505	-	148,505	148,505	-	148,505
Total Classified Salaries			148,505	-	148,505	26,933,214	-	26,933,214
Employee Benefits	3000	18,223,926	-	18,223,926	44,917,969	-	44,917,969	
Supplies and Material	4000	-	-	-	883,571	-	883,571	
Other Operating Expenses	5000	57,433	-	57,433	12,843,441	-	12,843,441	
Equipment Replacement	6420	-	-	-	-	-	-	
Total Expenditures Prior to Exclusions			83,431,302	-	83,431,302	162,923,080	-	162,923,080

Pasadena Area Community College District
Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation
Year Ended June 30, 2020

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799			
		Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>								
Activities to Exclude								
Instructional Staff - Retirees' Benefits and Retirement Incentives		5900	\$ -	\$ -	\$ -	\$ 514,663	\$ -	\$ 514,663
Student Health Services Above Amount Collected		6441	-	-	-	-	-	-
Student Transportation		6491	-	-	-	92,284	-	92,284
Noninstructional Staff - Retirees' Benefits and Retirement Incentives		6740	-	-	-	18,824	-	18,824
Objects to Exclude								
Rents and Leases		5060	-	-	-	1,146,568	-	1,146,568
Lottery Expenditures								
Academic Salaries		1000	-	-	-	-	-	-
Classified Salaries		2000	-	-	-	-	-	-
Employee Benefits		3000	-	-	-	-	-	-
Supplies and Materials		4000	-	-	-	-	-	-
Software		4100	-	-	-	-	-	-
Books, Magazines, and Periodicals		4200	-	-	-	-	-	-
Instructional Supplies and Materials		4300	-	-	-	-	-	-
Noninstructional Supplies and Materials		4400	-	-	-	-	-	-
Total Supplies and Materials			-	-	-	-	-	-

Pasadena Area Community College District
Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation
Year Ended June 30, 2020

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 3,784,300	\$ -	\$ 3,784,300
Capital Outlay	6000	-	-	-	-	-	-
Library Books	6300	-	-	-	-	-	-
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	5,556,639	-	5,556,639
Total for ECS 84362, 50 Percent Law		\$ 83,431,302	\$ -	\$ 83,431,302	\$ 157,366,441	\$ -	\$ 157,366,441
Percent of CEE (Instructional Salary Cost/Total CEE)		53.02%		53.02%	100.00%		100.00%
50% of Current Expense of Education					\$ 78,683,220		\$ 78,683,220

Pasadena Area Community College District
Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements
Year Ended June 30, 2020

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2020.

Pasadena Area Community College District
Proposition 30 Education Protection Account (EPA) Expenditure Report
Year Ended June 30, 2020

Activity Classification	Object Code			Unrestricted	
EPA Revenue:	8630				\$ 12,365,574
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 12,365,574	\$ -	\$ -	\$ 12,365,574
Total Expenditures for EPA		\$ 12,365,574	\$ -	\$ -	\$ 12,365,574
Revenues Less Expenditures					\$ -

Pasadena Area Community College District
Reconciliation of Government Funds to the Statement of Net Position
Year Ended June 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balance:

General Funds	\$ 33,690,204	
Special Revenue Funds	361,638	
Capital Project Funds	22,131,114	
Debt Service Funds	6,495,080	
Enterprise Funds	1,602,279	
Internal Service Funds	16,043,279	
Student Financial Aid Fund	577,248	
Total fund balance - all governmental funds	<u>80,900,842</u>	\$ 80,900,842

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	348,505,804	
Accumulated depreciation is	<u>(159,257,937)</u>	
Total capital assets		189,247,867

In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term liabilities is recognized when it is incurred. (1,136,019)

Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to

Deferred charges on refunding	2,274,512	
Aggregate net other postemployment benefits liability	5,344	
Aggregate net pension liability	<u>50,180,696</u>	
Total deferred outflows of resources		52,460,552

Pasadena Area Community College District
Reconciliation of Government Funds to the Statement of Net Position
Year Ended June 30, 2020

Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to

Aggregate net other postemployment benefits liability	\$ (4,231,322)
Aggregate net pension liability	<u>(13,900,740)</u>

Total deferred inflows of resources		(18,132,062)
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Aggregate net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(183,462,592)
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Aggregate net OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(18,973,802)
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Long-term liabilities at year end consist of:

Bonds payable, net of premium	(76,207,818)	
Compensated absences (vacations) and load banking	<u>(4,624,468)</u>	
Total long-term liabilities		<u>(80,832,286)</u>

Total net position		<u>\$ 20,072,500</u>
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Note 1 - Purpose of Schedules

District Organization

This schedule provides information about the District's governing board members, administration members, and auxiliary organizations in good standing as of June 30, 2020.

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2020. The information 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). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. No federal financial assistance has been provided to a subrecipient. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The District has not elected to use the ten percent de minimis cost rate.

SEFA Reconciliation

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Build America Bonds funds that have been recorded in the current period as revenues that have not been included in the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Position:		\$ 52,512,491
Build America Bonds	N/A	(548,690)
Total Expenditures of Federal Awards		<u>\$ 51,963,801</u>

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

FTES 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 for making apportionments of State funds to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

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

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

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

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

Proposition 30 Education Protection Account (EPA) Expenditure Report

This schedule provides information about the District's EPA proceeds and summarizes the expenditures of EPA proceeds.

Reconciliation of Government Funds to the Statement of Net Position

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



Independent Auditor's Reports
June 30, 2020

Pasadena Area Community College District



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

Board of Trustees
Pasadena Area Community College District
Pasadena, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Pasadena Area Community College District (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 17, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
February 17, 2021



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

Board of Trustees
Pasadena Area Community College District
Pasadena, California

Report on Compliance for Each Major Federal Program

We have audited Pasadena Area Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2020. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
February 17, 2021



Independent Auditor's Report on State Compliance

Board of Trustees
Pasadena Area Community College District
Pasadena, California

Report on State Compliance

We have audited Pasadena Area Community College District's (the District) compliance with the types of compliance requirements described in the 2019-2020 California Community Colleges Chancellor's Office *Contracted District Audit Manual* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations, as identified in the table below.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred in the table below. 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 standards and procedures identified in the 2019-2020 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed in the table below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with state laws and regulations applicable to the following:

Section 411	SCFF Data Management Control Environment
Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Activities Funded From Other Sources
Section 424	Student Centered Funding Formula Base Allocation: FTES
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Dual Enrollment (CCAP and Non-CCAP)
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 439	Proposition 39 Clean Energy Fund
Section 444	Apprenticeship Related and Supplemental Instruction (RSI) Funds
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D and 51 State Bond Funded Projects
Section 491	Education Protection Account Funds

The District did not have any projects funded under Proposition 39 Clean Energy Fund; therefore, the compliance tests within this section were not applicable.

The District reports no Apprenticeship Related and Supplemental Instruction (RSI) Funds; therefore, the compliance tests within this section were not applicable.

The District reports no attendance for classes with To Be Arranged Hours (TBA); therefore, the compliance tests within this section were not applicable.

The District did not receive any funding through Proposition 1D and 51 State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

Unmodified Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted in the table above that were audited for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the 2019-2020 California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
February 17, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted:	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified:	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA</u>
Student Financial Assistance Cluster	84.007, 84.033, 84.063, 84.268
TRIO Cluster	84.042A, 84.044A, 84.047A, 84.047M
COVID-19: CARES Act Higher Education Emergency Relief Funds (HEERF) - Institutional Portion; COVID 19: CARES ACT HEERF- Student Portion	84.425E, 84.425F
Dollar threshold used to distinguish between type A and type B programs:	\$1,558,914
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified
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None reported.

None reported.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

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APPENDIX I

GENERAL INFORMATION REGARDING THE CITY OF PASADENA AND LOS ANGELES COUNTY

The following information concerning the City of Pasadena (the “City”) and the County of Los Angeles (the “County”) is included only for the purpose of supplying general information regarding the region in and around the District. The Certificate are not a debt of the City, the County, the State or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor. Investors must read the entire Official Statement, including this Appendix, to obtain information essential to making and informed investment decision.

The economic and demographic data contained in this Appendix are the latest available, but are generally as of dates and for periods before the economic impact of the COVID-19 pandemic and the measures instituted to slow it. Accordingly, they are not necessarily indicative of the current financial condition or future economic prospects of the District or the region.

General

The City. The City of Pasadena, California (the “City”) was incorporated in 1886 and became a freeholder charter city in 1901. The City adopted its city manager form of government by amendments to the City Charter in 1921. The City Council is responsible for the administration of the City.

The City covers nearly 23 square miles and is located in Los Angeles County in the northwestern portion of the San Gabriel Valley. The City is bounded on the west by the cities of Los Angeles, La Canada and Glendale, on the south by South Pasadena and San Marino, on the east by Arcadia and Sierra Madre, and on the north by the unincorporated community of Altadena and the San Gabriel Mountains.

In addition to general governmental services such as fire and safety, the City provides its approximately 140,000 residents with power, water and refuse services. The Southern California Gas Company supplies natural gas, and the County of Los Angeles provides sewage services.

The City consistently receives international recognition for the Rose Parade and Rose Bowl events and has achieved significant success in blending urban amenities with suburban neighborhoods. Engineering, finance and health care comprise the primary industry sectors. In addition, the academic and research pursuits of the California Institute of Technology, the Jet Propulsion Laboratory and the Art Center College of Design bring a unique combination of resources to the City. The City’s downtown continues to serve the corporate and entertainment center for the San Gabriel Valley’s 1.6 million residents.

City Council

The City has an eight-member City Council comprised of members elected in seven City Council districts and a citywide elected mayor. Each Council Member and the Mayor are elected for four-year staggered terms. The Council Members elect the Vice-Mayor from their membership, who traditionally serves two consecutive on-year terms. The City Council members and the expiration dates of their respective terms are as follows:

<u><i>Name</i></u>	<u><i>Office</i></u>	<u><i>Term Expiration</i></u>
Victor M. Gordo	Mayor	December 2024
Tyron Hampton, District 1	Vice Mayor	December 2024
Felicia Williams, District 2	Council member	December 2024
John J. Kennedy, District 3	Council member	December 2022
Gene Masuda, District 4	Council member	December 2024
Jessica Rivas, District 5	Council member	December 2022
Steve Madison, District 6	Council member	December 2024
Andy Wilson, District 7	Council member	December 2022

Population

The populations of the City of Pasadena, the County of Los Angeles and the State of California during the period from 2016 through 2020 are set forth in the following table.

Population Figures 2016 through 2020

<u>Calendar Year</u>	<u>City of Pasadena</u>	<u>Los Angeles County</u>	<u>State of California</u>
2016	141,638	10,158,196	39,131,307
2017	143,525	10,193,753	39,398,702
2018	144,049	10,209,676	39,586,646
2019	144,686	10,184,378	39,695,376
2020	144,842	10,172,951	39,782,870

Figures as of January of the year indicated.
Source: California State Department of Finance.

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Employment

The following chart compares labor force, employment, civilian employment and the unemployment rate in the City of Pasadena, the County of Los Angeles, the State of California and the United States during the period from 2015 through 2020.

**CITY OF PASADENA, COUNTY OF LOS ANGELES
STATE OF CALIFORNIA AND UNITED STATES OF AMERICA
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Yearly Average for Years 2015 through 2020**

Year and Area	Labor Force	Civilian Employment	Civilian Unemployment	Unemployment Rate (%)
<u>2015</u>				
City of Pasadena	77,000	72,500	4,500	5.9%
County of Los Angeles	4,980,300	4,650,700	329,600	6.6
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 Pasadena	77,900	74,400	3,500	4.5
County of Los Angeles	5,030,500	4,765,900	264,600	5.3
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 Pasadena	78,900	75,700	3,200	4.1
County of Los Angeles	5,084,000	4,841,900	242,200	4.8
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 Pasadena	78,900	75,800	3,100	3.9
County of Los Angeles	5,095,500	4,860,300	235,200	4.6
California	19,398,200	18,582,800	815,400	4.2
United States	162,075,000	155,761,000	6,314,000	3.9
<u>2019</u>				
City of Pasadena	79,400	76,300	3,100	3.9
County of Los Angeles	5,121,600	4,894,300	227,300	4.4
California	19,411,600	18,627,400	784,200	4.0
United States	163,539,000	157,538,000	6,001,000	3.7
<u>2020⁽¹⁾</u>				
City of Pasadena ⁽²⁾	77,100	69,800	7,300	9.5
County of Los Angeles ⁽³⁾	5,089,800	4,476,400	613,400	12.1
California ⁽⁴⁾	19,277,800	17,491,400	1,786,500	9.3
United States ⁽⁵⁾	160,467,000	149,732,000	10,735,000	6.7

⁽¹⁾ Preliminary; subject to change

⁽²⁾ As of October 2020.

⁽³⁾ As of October 2020.

⁽⁴⁾ As of October 2020.

⁽⁵⁾ As of November 2020.

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

Major Employers

The following table lists the major employers in the County of Los Angeles.

COUNTY OF LOS ANGELES Major Employers 2020⁽¹⁾

Employer	Number of Los Angeles County Employees
Los Angeles County	113,207
Los Angeles Unified School District	77,928
UCLA	50,957
Federal Executive Board	50,000
City of Los Angeles	34,172
State of California	30,370
USC	22,164
Target Corp.	20,000
Northrop Grumman Corp.	18,000
Ralphs/Food 4 Less - Kroger Co.	15,532
Cedars-Sinai	15,302
Amazon	15,000
Allied Universal	14,480
Providence	14,094
Walt Disney Co.	12,750
Long Beach Unified School District	11,867
UPS	11,643
NBCUniversal	11,500
Home Depot	11,200
AT&T Inc.	11,000
Albertsons Cos.	10,000
Los Angeles County Metropolitan Transportation Authority	9,978
Los Angeles Department of Water and Power	9,400
Mt. San Antonio Community College District	8,857
California Institute of Technology	8,463
Boeing Co.	8,000
Wells Fargo & Co.	7,613
ABM Industries Inc.	7,500
Bank of America Corp.	7,500
FedEx Corp.	7,500
Los Angeles Community College District	6,874
City of Hope	6,730
Children's Hospital Los Angeles	6,400
Raytheon Intelligence & Space	6,316
Dignity Health	6,000

⁽¹⁾ The information on this list was provided by representatives of the employers themselves and Business Journal estimates. Companies are ranked by their current number of full-time employees in Los Angeles County. Several additional companies may have qualified for this list, but failed to submit information or do not break out local employment data.

Source: "2020 Largest Employers Special Report," Los Angeles Business Journal, August 31, 2020.

