

**SUPPLEMENT TO  
PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 31, 2019**

relating to

**\$2,650,000\***

**EL DORADO UNION HIGH SCHOOL DISTRICT  
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

This Supplement, dated October 31, 2019 (the "Supplement"), to the Preliminary Official Statement, dated September 30, 2019 (the "Preliminary Official Statement"), relating to the \$2,650,000\* aggregate principal amount of El Dorado Union High School District Refunding Certificates of Participation, Series 2019 (the "Certificates"), being offered by the El Dorado Union High School District (the "District") is intended to be read in conjunction with the Preliminary Official Statement. This Supplement constitutes an integral part of the Preliminary Official Statement and recipients are requested to attach this Supplement to the Preliminary Official Statement.

**PLEASE BE ADVISED THAT THE PRELIMINARY OFFICIAL STATEMENT HAS BEEN SUPPLEMENTED TO INCORPORATE THE FOLLOWING INFORMATION:**

*The following paragraph on the cover of the Preliminary Official Statement that reads as follows:*

The El Dorado Union High School District Refunding Certificates of Participation, Series 2019, in the aggregate principal amount of \$2,650,000\* (the "Certificates"), evidence direct, fractional undivided interests of the Owners thereof in certain Base Rental Payments (which include principal components and interest components) to be made by the El Dorado Union High School District (the "District") for the use of certain real property and the improvements thereon (the "Property") pursuant to a Lease Agreement, dated as of October 1, 2019 (the "Lease Agreement"), by and between the District, as lessee, and the El Dorado Union High School District Financing Corporation (the "Corporation"), as lessor. The proceeds of the Certificates, together with other available funds, will be used to (i) redeem a portion of the outstanding El Dorado Union High School District (El Dorado County, California) 2009 Refunding Certificates of Participation, (ii) purchase a debt service reserve policy to satisfy the reserve requirement for the Certificates, and (iii) pay the costs incurred in connection with the execution and delivery of the Certificates.

*is replaced with the following paragraph (changes indicated in bold):*

The El Dorado Union High School District Refunding Certificates of Participation, Series 2019, in the aggregate principal amount of \$2,650,000\* (the "Certificates"), evidence direct, fractional undivided interests of the Owners thereof in certain Base Rental Payments (which include principal components and interest components) to be made by the El Dorado Union High School District (the "District") for the use of certain real property and the improvements thereon (the "Property") pursuant to a Lease Agreement, dated as of **November 1, 2019** (the "Lease Agreement"), by and between the District, as lessee, and the El Dorado Union High School District Financing Corporation (the "Corporation"), as lessor. The proceeds of the Certificates, together with other available funds, will be used to (i) redeem a portion of the outstanding El Dorado Union High School District (El Dorado County, California) 2009 Refunding Certificates of Participation, (ii) purchase a debt service reserve policy to satisfy the reserve requirement for

---

\* Preliminary; subject to change.

the Certificates, and (iii) pay the costs incurred in connection with the execution and delivery of the Certificates.

*The following paragraph on the cover of the Preliminary Official Statement that reads as follows:*

Interest evidenced by the Certificates is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2019. See “THE CERTIFICATES” herein.

*is replaced with the following (changes indicated in bold):*

Interest evidenced by the Certificates is payable semiannually on June 1 and December 1 of each year, commencing on **June 1, 2020**. See “THE CERTIFICATES” herein.

*The following paragraph on the cover of the Preliminary Official Statement that reads as follows:*

The Certificates will be offered when, as and if executed, delivered and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District; for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California; for the District and the Corporation by Kronick, Moskovitz, Tiedemann & Girard, Sacramento, California. It is anticipated that the Certificates in book-entry form will be available for delivery through the facilities of DTC on or about October 22, 2019.

*is replaced with the following (changes indicated in bold):*

The Certificates will be offered when, as and if executed, delivered and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District; for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California; for the District and the Corporation by Kronick, Moskovitz, Tiedemann & Girard, Sacramento, California. It is anticipated that the Certificates in book-entry form will be available for delivery through the facilities of DTC on or about **November 26, 2019**.

*The paragraphs under the section “INTRODUCTION” on page 1 of the Preliminary Official Statement, is hereby deleted and replaced with the following (changes indicated in bold):*

This Official Statement (which includes the cover page, inside cover page, and Appendices hereto) (this “Official Statement”), provides certain information concerning the sale and delivery of El Dorado Union High School District Refunding Certificates of Participation, Series 2019, in the aggregate principal amount of \$2,650,000 (the “Certificates”). The Certificates evidence direct, fractional undivided interests of the registered owners (the “Owners”) thereof in certain base rental payments (the “Base Rental Payments”) to be made by the El Dorado Union High School District (the “District”) for the use of certain real property and the improvements thereon (the “Property”), as more fully described under the caption “THE PROPERTY” herein. The Property will be leased by the District from the El Dorado Union High School District Financing Corporation (the “Corporation”) pursuant to a Lease Agreement, dated as of **November 1, 2019** (the “Lease Agreement”), by and between the District and the Corporation.

*The first three paragraphs under the subsection “– Security and sources of Payment for the Certificates” under the section “INTRODUCTION” on pages 1 and 2 of the Preliminary Official Statement, are hereby deleted and replaced with the following (changes indicated in bold):*

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of **November 1, 2019** (the “Trust Agreement”), by and among Zions Bancorporation, National Association, as trustee (the “Trustee”), the Corporation and the District, and evidence direct, fractional undivided interests in the Base Rental Payments to be made by the District under the Lease Agreement for the use of the Property. See “THE PROPERTY.”

The District will enter into a Ground Lease, dated as of **November 1, 2019** (the “Ground Lease”) pursuant to which the District will lease the Property to the Corporation. The Corporation will then sublease the Property back to the District pursuant to the Lease Agreement. The Lease Agreement will obligate the District to make Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, reasonable administrative costs of the Corporation relating to the Property, fees and expenses of the Trustee, insurance premiums and other amounts payable under the Lease Agreement and the Trust Agreement as further described herein). Base Rental Payment and Additional Rental Payments are collectively referred to as “Rental Payments.”

The Trustee and the Corporation will enter into an Assignment Agreement, dated as of **November 1, 2019** (the “Assignment Agreement”), pursuant to which the Corporation will sell, assign and transfer to the Trustee for the benefit of the Certificate Owners substantially all of the Corporation’s right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement, provided that the Corporation will retain the right to indemnification and to payment of its reasonable costs and expenses under the Lease Agreement.

*The second paragraph under the subsection “– Description of the Certificates” under the section “INTRODUCTION” on page 3 of the Preliminary Official Statement, is hereby deleted and replaced with the following (changes indicated in bold):*

Interest evidenced by the Certificates is payable semiannually on June 1 and December 1 of each year, commencing on **June 1, 2020**. See “THE CERTIFICATES – General” herein.

*The subsection entitled “Offering and Delivery of the Certificates” under the section entitled “INTRODUCTION” on page 4 of the Preliminary Official Statement is hereby deleted in its entirety and replaced with the following (changes indicated in bold):*

### **Offering and Delivery of the Certificates**

The Certificates will be offered when, as and if executed, delivered and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, and the satisfaction of certain other conditions. It is anticipated that the Certificates will be available in book-entry form for delivery through the facilities of DTC on or about **November 26, 2019** (the “Delivery Date”).

*The second and third paragraphs under the subsection “– General” under the section “THE CERTIFICATES” on page 5 of the Preliminary Official Statement, are hereby deleted and replaced with the following (changes indicated in bold):*

The Certificates are dated the date of original delivery thereof and will be executed and delivered in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). The interest components evidenced by the Certificates will be due and payable semiannually on June 1 and December 1 of each year, commencing **June 1, 2020** (each an “Interest Payment Date”).

The interest evidenced by the Certificates will be computed on the basis of a 360-day year consisting of twelve, 30-day months. Each Certificate shall evidence interest from the Interest Payment Date next preceding its date of execution to which interest has been paid in full, unless such date of execution shall be after the 15th day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day (a “Record Date”) and on or prior to the following Interest Payment Date, in which case such Certificate shall evidence interest from such Interest Payment Date, or unless such date of execution shall be on or prior to **May 15, 2020**, in which case such Certificate shall represent interest from the Delivery Date. Notwithstanding the foregoing, if, as shown by the records of the Trustee, interest evidenced by the Certificates shall be in default, each Certificate shall evidence interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

*The subsection entitled “Tax and Revenue Anticipation Notes” under the section entitled “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – District Debt Structure” on page 55 of the Preliminary Official Statement is hereby deleted in its entirety and replaced with the following:*

**Tax and Revenue Anticipation Notes.** The District did not issue tax and revenue anticipation notes (“TRANs”) in fiscal year 2018-19 and has not issued and does not expect to issue TRANs in fiscal year 2019-20. As a result of the reduction in the District’s reserves, the District expects to issue TRANs in fiscal year 2020-21 and may issue TRANs or borrow funds in future fiscal years as and if necessary to supplement cash flow. See “– *Loan from County Office of Education*” below.

*The following section will be added to “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – District Debt Structure” following the subsection entitled “Tax and Revenue Anticipation Notes” on page 55 of the Preliminary Official Statement:*

**Loan from County Office of Education.** The District anticipates cashflow shortfalls in November and December 2019 of approximately \$695,595 and \$6,376,859, respectively. Previously, the District has used its reserves to cover shortfalls in cash flow in any given month, but the District will not have sufficient reserves to cover the anticipated cash flow shortfalls in November and December 2019. Pursuant to Education Code Section 42621, the County Office of Education has agreed to cover such cashflow shortfalls. The District will accrue negative interest by fund for all cash borrowed from the County Office of Education.

*APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” in the Preliminary Official Statement has been deleted in its entirety and is hereby replaced with the revised APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.*

*APPENDIX C – “FORM OF SPECIAL COUNSEL OPINION” in the Preliminary Official Statement has been deleted in its entirety and is hereby replaced with the revised APPENDIX C – “FORM OF SPECIAL COUNSEL OPINION” attached hereto.*

*APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” in the Preliminary Official Statement has been deleted in its entirety and is hereby replaced with the revised APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto.*

\*\*\*

The date of this Supplement is October 31, 2019.

**EL DORADO UNION HIGH SCHOOL DISTRICT**

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following summary discussion of selected provisions of the Lease Agreement, the Ground Lease, the Assignment Agreement and the Trust Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.*

### MASTER DEFINITIONS

**“Additional Rental Payments”** means all amounts payable by the District as Additional Rental Payments pursuant to the Lease Agreement.

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

**“Assignment Agreement”** means the Assignment Agreement, dated as of the date of the Trust Agreement, by and between the Corporation and the Trustee, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Authorized Corporation Representative”** means the President of the Corporation, the Treasurer of the Corporation, the Secretary of the Corporation, the Clerk of the Corporation, and any other person authorized by the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement.

**“Authorized Denominations”** means \$5,000 or any integral multiple thereof.

**“Authorized District Representative”** means the President of the Board of Trustees, the Clerk of the Board of Trustees, and such other member of the Board of Trustees as the President may designate, the Superintendent of the District, the Assistant Superintendent, Business Services of the District, and any person authorized by the Board of Trustees of the District to act on behalf of the District under or with respect to the Trust Agreement.

**“Base Rental Deposit Date”** means the 15th day next preceding each Interest Payment Date.

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

**“Base Rental Payment Schedule”** means the schedule of Base Rental Payments payable to the Corporation from the District pursuant to the Lease Agreement.

**“Base Rental Payments”** means all amounts payable to the Corporation from the District as Base Rental Payments pursuant to the Lease Agreement.

**“Beneficial Owners”** means those Persons for whom the Participants have caused the Depository to hold Book-Entry Certificates.

**“Book-Entry Certificates”** means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of the Trust Agreement.

**“Business Day”** means a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city or cities in which the Principal Office of the Trustee is located are authorized or required by law to be closed, or (c) a day on which the New York Stock Exchange is closed.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Certificates.

**“Certificate Purchase Agreement”** means the Certificate Purchase Agreement, by and between the Purchaser and the District relating to the Certificates.

**“Certificate Year”** means each twelve-month period beginning on December 1 in each year and extending to the next succeeding November 30, both dates inclusive, except that the first Certificate Year shall begin on the Delivery Date and end on November 30, 2019.

**“Certificates”** means the El Dorado Union High School District Refunding Certificates of Participation, Series 2019, executed and delivered by the Trustee pursuant to the Trust Agreement.

**“Code”** means the Internal Revenue Code of 1986.

**“Continuing Disclosure Certificate”** means the Continuing Disclosure Certificate, dated the Delivery Date, executed by the District, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Corporation”** means the El Dorado Union High School District Financing Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State of California, and its successors.

**“Corporation Event of Default”** means an event described as such in the Lease Agreement.

**“Costs of Issuance”** means all the costs of executing and delivering the Certificates, including, all printing and document preparation expenses in connection with the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees, title insurance fees, market study fees, legal fees and expenses of counsel with respect to the execution and delivery of the Certificates, any computer and other expenses incurred in connection with the Certificates, the fees and expenses of the Trustee, including fees and expenses of its counsel, the fees and expenses of any municipal advisor to the District, any premium for municipal bond insurance or a reserve surety, and other fees and expenses incurred in connection with the execution of the Certificates or the redemption of the Prior Current Interest Certificates, to the extent such fees and expenses are approved by the District.

**“Costs of Issuance Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Defeasance Securities”** means (a) non-callable direct obligations of the United States of America (“United States Treasury Obligations”), (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed



directly and individually against the obligor and the underlying United States Treasury Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, (c) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (d) subject to the prior written consent of the Insurer, securities eligible for “AAA” defeasance under then existing criteria of S&P, or any combination thereof.

**“Delivery Date”** means the date of delivery of the Certificates.

**“Depository”** means the securities depository acting as Depository pursuant to the Trust Agreement.

**“District”** means the El Dorado Union High School District, a school district organized and existing under the laws of the State of California, and its successors.

**“DTC”** means The Depository Trust Company, New York, New York, and its successors.

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

**“Escrow Agreement”** means the Escrow Agreement, dated as of November 1, 2019, by and between the Escrow Bank and the District, relating to the Prior Current Interest Certificates.

**“Escrow Bank”** means Zions Bancorporation, National Association, as prior trustee and escrow bank under the Escrow Agreement, and any successor thereto.

**“Fair Rental Value”** means, with respect to the Property, the annual fair rental value thereof, as set forth in the Lease Agreement.

**“Ground Lease”** means the Ground Lease, dated as of the date of the Trust Agreement, by and between the District and the Corporation, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof and of the Lease Agreement.

**“Hazardous Materials”** means flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the Corporation, the District, the Property or the business operations conducted by the Corporation or the District thereon.

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

**“Insurance Business Day”** means any day other than (a) a Saturday or Sunday, (b) any day on which the Principal Office of the Trustee or the Principal Office of the Insurer are closed, and (c) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York.

**“Insurance Policy”** means the Municipal Bond Insurance Policy, and any endorsement thereto, issued by the Insurer guaranteeing the scheduled payment of the interest and principal evidenced by the Certificates when due, or any insurance policy substituted for said Municipal Bond Insurance Policy.

**“Insurer”** means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

**“Insurer’s Fiscal Agent”** means a fiscal agent appointed by the Insurer for purposes of, and in accordance with the terms contained in, the Insurance Policy.

**“Insurer Rate”** means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, at its principal office in the City of New York, New York, as its prime or base lending rate (the “Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest evidenced by the Certificates, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. Interest at the Insurer Rate shall be computed on the basis of the actual days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate, the Prime Rate shall be the prime rate or base lending rate of such other bank, banking association or trust company as the Insurer, in its sole and absolute discretion, shall designate. If the interest provisions of this paragraph shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Trust Agreement, then, to the extent permissible by law, all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party to the Trust Agreement, be applied as additional interest for any later periods of time when amounts are outstanding under the Trust Agreement to the extent that interest otherwise due under the Trust Agreement for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by the Insurer or Reserve Insurer, as applicable, with the same force and effect as if the District had specifically designated such extra sums to be so applied and the Insurer or Reserve Insurer, as applicable, had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created in the Trust Agreement exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

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

**“Interest Payment Date”** means June 1 and December 1 of each year commencing June 1, 2020.

**“Laws and Regulations”** means any applicable law, regulation, code, order, rule, judgment or consent agreement, including those relating to zoning, building, use and occupancy, fire safety, health,

sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Property.

**“Lease Agreement”** means the Lease Agreement, dated as of the date of the Trust Agreement, by and between the District and the Corporation, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Letter of Representations”** means the letter of the District delivered to and accepted by the Depository on or prior to the delivery of the Certificates as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry Certificates, as originally executed or as it may be amended or supplemented or replaced by a letter to a substitute Depository.

**“Mandatory Sinking Account Payment”** means the principal evidenced by the Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the Trust Agreement.

**“Mandatory Sinking Account Payment Date”** means, for the Certificates with a stated Principal Payment Date of December 1, 20\_\_, December 1, 20\_\_, and each December 1 thereafter continuing through and including December 1, 20\_\_, and for the Certificates with a stated Principal Payment Date of December 1, 20\_\_, December 1, 20\_\_, and each December 1 thereafter continuing through and including December 1, 20\_\_.

**“Moody’s”** means Moody’s Investors Service, Inc., its successors and assigns, and, if Moody’s Investors Service, Inc., shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

**“Net Proceeds”** means any insurance proceeds or condemnation award in excess of \$50,000 paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

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

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the District.

**“Outstanding”** means, with respect to the Certificates, as of any date, Certificates theretofore or thereupon being executed and delivered under the Trust Agreement, except (a) Certificates canceled by the Trustee or delivered to the Trustee for cancellation on or prior to such date, (b) Certificates in lieu of which other Certificates have been executed and delivered, or that have been paid without surrender thereof pursuant to the Trust Agreement, and (c) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement.

**“Owner”** means, with respect to a Certificate, the Person in whose name such Certificate is registered on the Registration Books.

**“Participating Underwriter”** has the meaning ascribed to such term in the Continuing Disclosure Certificate.

**“Participant”** means any entity which is recognized as a participant by the Depository in the book-entry system of maintaining records with respect to Book-Entry Certificates.

**“Permitted Encumbrances”** means, with respect to the Property, as of any particular time, (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Lease Agreement described under the heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Taxes,” permit to remain unpaid, (b) the Assignment Agreement, (c) the Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally would exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the District, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions that exist of record as of the Delivery Date that the District certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement, (g) all of the rights of (i) Nextel of California, Inc. under the Communications Site Sublease Agreement, dated September 29, 2006 (the “Nextel Communications Agreement”), by and between the District and Nextel of California, Inc., and (ii) Omnipoint Communications, Inc. under the Communications Site Sublease Agreement, dated September 1, 2006 (the “T-Mobile Communications Agreement” and together with the Nextel Communications Agreement, the “Communications Agreements”), by and between the District and Omnipoint Communications, Inc., both as amended and extended from time to time, provided, however, that any amendments to the Communications Agreements after the date of the Lease Agreement materially affecting the rights of the Insurer shall be subject to the consent of the Insurer, which shall not be reasonably withheld, (h) all of the rights of California Solar 3, LLC under the Solar Power Purchase Agreement, dated November 13, 2018 (the “Power Purchase Agreement”), by and between the District and California Solar 3, LLC, as amended from time to time, provided, however, that any amendments to the Power Purchase Agreement after the date hereof materially affecting the rights of the Insurer shall be subject to the consent of the Insurer, which shall not be reasonably withheld, and (i) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date that the District certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement and to which the Corporation and the Insurer consents in writing.

**“Permitted Investments”** means the following:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), and obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America (“Federal Securities);

(b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand deposit accounts or time deposits (including certificates of deposit) in a federal or state chartered bank (including the Trustee and its affiliates) or a state licensed branch of a foreign bank or a state or federal association (as defined in Section 5102 of the California Financial Code), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated A1 or better by S&P, or (ii) such demand deposit accounts or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated in the highest short-term rating category by S&P, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank whose short-term obligations are rated in the highest short-term rating category by S&P, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Code and which are rated A or better by S&P;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by S&P;

(h) money market funds which are rated Am or better by S&P, including funds for which the Trustee and its affiliates provide investment advisory or other management services;

(i) an investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution or corporation, the long-term unsecured obligations of which are or, in the case of an insurance company, the long term financial strength of which is, rated "AA-" or better by S&P at the time of initial investment; provided, that the investment agreement shall be subject to a downgrade provision with at least the following requirements:

(1) the agreement shall provide that within ten Business Days after the financial institution's long-term unsecured credit rating has been withdrawn, suspended, or reduced below "AA-" by S&P (such events referred to as "rating downgrades") the financial institution shall give notice to the District and the Trustee and, within such ten-day period, and for as long as the rating downgrade is in effect, shall deliver in the name of the Trustee Federal Securities with an aggregate current market value equal to at least 105% of the principal amount of the investment agreement invested with the financial institution at that time, and shall deliver additional Federal Securities as needed to maintain an aggregate current market value equal to at least 105% of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly, and

(2) the agreement shall provide that, if the financial institution's long-term unsecured credit rating is reduced below "A-" by S&P, the financial institution shall give notice of the downgrade to the District and the Trustee within five Business Days, and the Trustee may, upon five Business Days' written notice to the financial institution, withdraw all amounts invested pursuant to the investment agreement, with accrued but unpaid interest thereon to the withdrawal date, and terminate the agreement.

(j) repurchase agreements with (i) any domestic bank, or domestic branch of a foreign bank, the long-term debt of which is rated at least “A” by S&P and Moody’s; (ii) any broker-dealer with “retail customers” or a related affiliate thereof, which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (iii) any other entity (or entity whose obligations are guaranteed by an affiliate or parent company) rated at least “A” by S&P and Moody’s, provided that:

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

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

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

(4) all other requirements of S&P and Moody’s in respect of repurchase agreements shall be met; and

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

**“Persons”** means an individual, corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**“Policy Payments Account”** means the account by that name established and held by the Trustee pursuant to paragraph (d) of the provisions of the Trust Agreement described under the heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Deposits to Policy Payments Account; Payments Under the Insurance Policy.”

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

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

**“Principal Office”** means the Trustee’s principal corporate trust office in Los Angeles, California, or any other office designated by the Trustee.

**“Principal Payment Date”** means, with respect to a Certificate, the date on which the principal evidenced by such Certificate is scheduled, as of the date of execution and delivery of such Certificate, to become due and payable.

**“Prior Current Interest Certificates”** means the El Dorado Union High School District (El Dorado County, California) 2009 Refunding Certificates of Participation in the form of current interest certificates.

**“Prior Trust Agreement”** means the Trust Agreement, dated as of December 1, 2009, by and among the District, the Corporation and Zions Bancorporation, National Association, as successor trustee, relating to the Prior Current Interest Certificates.

**“Prior Trustee”** means Zions Bancorporation, National Association, as successor trustee under the Prior Trust Agreement, and any successor thereto.

**“Property”** means the real property described in Exhibit B to the Lease Agreement and any improvements thereto.

**“Purchaser”** means Raymond James & Associates, Inc., as underwriter and purchaser of the Certificates pursuant to the Certificate Purchase Agreement.

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

**“Rebate Requirement”** has the meaning ascribed thereto in the Tax Certificate.

**“Record Date”** means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

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

**“Release”** means to pump, spill, leak, dispose of, empty, discharge or release.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Delivery Date through June 30, 2020 and, thereafter, the twelve-month period commencing on July 1 of each year during the term of the Lease Agreement.

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

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

**“Reserve Insurer”** means Assured Guaranty Municipal Corp., as New York stock insurance company, or any successor thereto or assignee thereof.

**“Reserve Policy”** means the Municipal Bond Debt Service Reserve Insurance Policy, and any endorsement thereto, issued by the Reserve Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof.

**“Reserve Requirement”** means, as of any date of calculation, an amount equal to the least of (a) “10% of the proceeds of the issue,” within the meaning of Section 148 of the Code, (b) the maximum amount of principal and interest evidenced by the Certificates coming due in any Certificate Year and (c) 125% of the average amount of principal and interest evidenced by the Certificates coming due in each Certificate Year.

**“S&P”** means S&P Global Ratings, a business unit of Standard and Poor’s Financial Services, LLC, its successors and assigns, and, if S&P Global Ratings shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

**“Scheduled Termination Date”** means December 1, 20\_\_.

**“Tax Certificate”** means the Tax Certificate executed by the District at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Trust Agreement”** means the Trust Agreement, dated as of November 1, 2019, by and among the Trustee, the Corporation and the District, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Trustee”** means Zions Bancorporation, National Association, as trustee under the Trust Agreement, or any successor thereto as Trustee thereunder substituted in its place as provided therein.

**“Verification Report”** means, with respect to the deemed payment of Certificates pursuant to clause (ii) of paragraph (a) of the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements of clause (ii) of paragraph (a) of the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificates Deemed To Have Been Paid.”

**“Written Certificate of the Corporation”** means a written certificate signed in the name of the Corporation by an Authorized Corporation Representative. Any such certificate may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

**“Written Certificate of the District”** or **“Written Request of the District”** means, respectively, a written certificate or written request signed in the name of the District by an Authorized District Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

## **GROUND LEASE**

### **Lease of the Property; Rental**

Lease of Property. The District leases to the Corporation, and the Corporation leases from the District, for the benefit of the Owners of the Certificates, the Property, subject only to Permitted Encumbrances, to have and to hold for the term of the Ground Lease.



Rental. The Corporation shall pay, or cause to be paid, to the District as and for rental of the Property under the Ground Lease, an amount set forth in the Ground Lease (the “Ground Lease Payment”). The Ground Lease Payment shall be paid from the proceeds of the Certificates; provided, however, that in the event the available proceeds of the Certificates are not sufficient to enable the Corporation to pay such amount in full, the remaining amount of the Ground Lease Payment shall be reduced to an amount equal to the amount of such available proceeds. The District shall deposit the Ground Lease Payment in one or more separate funds or accounts to be held and administered for the purpose of redeeming the Prior Current Interest Certificates.

The Corporation and the District find and determine that the amount of the Ground Lease Payment does not exceed the fair market value of the leasehold interest in the Property which is conveyed under the Ground Lease by the District to the Corporation. No other amounts of rental shall be due and payable by the Corporation for the use and occupancy of the Property under the Ground Lease.

### **Quiet Enjoyment**

The parties intend that the Property will be leased back to the District pursuant to the Lease Agreement for the term thereof. It is further intended that, to the extent provided in the Ground Lease and in the Lease Agreement, if an event of default occurs under the Lease Agreement, the Corporation, or its assignee, will have the right, for the then remaining term of the Ground Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. Subject to any rights the District may have under the Lease Agreement (in the absence of an event of default) to possession and enjoyment of the Property, the District covenants and agrees that it will not take any action to prevent the Corporation from having quiet and peaceable possession and enjoyment of the Property during the term of the Ground Lease and will, at the request of the Corporation and at the District’s cost, to the extent that it may lawfully do so, join in any legal action in which the Corporation asserts its right to such possession and enjoyment.

### **Special Covenants and Provisions**

Waste. The Corporation agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

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

Waiver of Personal Liability. All liabilities under the Ground Lease on the part of the Corporation shall be solely liabilities of the Corporation as a nonprofit public benefit corporation, and the District releases each and every director, officer and employee of the Corporation of and from any personal or individual liability under the Ground Lease. No director, officer or employee of the Corporation shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the District or to any other party whomsoever for anything done or omitted to be done by the Corporation under the Ground Lease.

All liabilities under the Ground Lease on the part of the District shall be solely liabilities of the District as a school district, and the Corporation releases each and every member, officer and employee of

the District of and from any personal or individual liability under the Ground Lease. No member, officer or employee of the District shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the Corporation or to any other party whomsoever for anything done or omitted to be done by the District under the Ground Lease.

Taxes. The District covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property.

Right of Entry. The District reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same.

Representations of the District. The District represents and warrants to the Corporation, the Insurer and the Trustee as follows:

(a) the District has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations thereunder, and has duly authorized the execution of the Ground Lease;

(b) except for Permitted Encumbrances, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property for school purposes as contemplated by the District;

(c) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes, have been paid in full; and

(d) the Property is necessary to the District in order for the District to perform its governmental function relating to public education.

Representations of the Corporation. The Corporation represents and warrants to the District, the Insurer and the Trustee that the Corporation has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Ground Lease.

### **Assignment, Selling and Subleasing**

Assignment to Trustee; Third-Party Beneficiaries. The Corporation and District acknowledge that the Corporation has assigned its right, title and interest in and to the Ground Lease to the Trustee pursuant to the Assignment Agreement. The District understands and agrees that, upon the execution and delivery of the Assignment Agreement (which is occurring simultaneously with the execution and delivery of the Ground Lease), substantially all right, title and interest of the Corporation in and to the Ground Lease will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The District thereby consents to such sale, assignment and transfer. Upon the execution and delivery of the Assignment Agreement, references in the operative provisions of the Ground Lease to the Corporation shall be deemed to be references to the Trustee, as assignee of the Corporation. The District consents to the Trust Agreement and acknowledges and agrees to the rights of the Trustee and the Insurer as set forth therein. As a material inducement to the Trustee and the Insurer, the Corporation and the District agree that the Trustee and the Insurer shall be third-party beneficiaries of the Ground Lease.

Assignment, Selling and Subleasing. The Ground Lease may be assigned or sold, and the Property may be subleased, as a whole or in part, by the Corporation, with the prior written consent of the Insurer,

or at the direction of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), without the necessity of obtaining the consent of the District, if an event of default occurs under the Lease Agreement. The Corporation shall, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the District a true and correct copy of such assignment, sublease or sale, as the case may be.

Restrictions on District. The District agrees that, except with respect to Permitted Encumbrances and except as provided in the Ground Lease, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Ground Lease.

## **Improvements**

Title to all improvements made on the Property during the term of the Ground Lease shall vest in the District, but shall be subject to the terms of the Ground Lease.

## **Term; Termination**

Term. The term of the Ground Lease shall commence as of the date of commencement of the term of the Lease Agreement and shall remain in full force and effect from such date to and including the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Ground Lease.

Extension; Early Termination. If, on the Scheduled Termination Date, the Certificates shall not be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement shall have been abated at any time, then the term of the Ground Lease shall be automatically extended until the date upon which all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms, except that the term of the Ground Lease shall in no event be extended more than ten years beyond the Scheduled Termination Date. If, prior to the Scheduled Termination Date, all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms, the term of the Ground Lease shall end simultaneously therewith.

Action on Default. In each and every case upon the occurrence and during the continuance of a default by the Corporation under the Ground Lease, the District shall have all the rights and remedies permitted by law, except the District, to the extent permitted by law, waives any and all rights to terminate the Ground Lease.

## **Miscellaneous**

Binding Effect. The Ground Lease shall inure to the benefit of and shall be binding upon the District, the Corporation and their respective successors and assigns.

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

Amendments; Substitution and Release. The Ground Lease may be amended, changed, modified, altered or terminated (subject to the prior written consent of the Insurer) only in accordance with the

provisions of the Lease Agreement. The District shall have the right to substitute alternate real property for the Property or to release portions of the Property as provided in the Lease Agreement.

Governing Law. The Ground Lease shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## **LEASE AGREEMENT**

### **Lease of Property; Term**

Lease of Property. (a) The Corporation leases to the District and the District leases from the Corporation the Property, on the terms and conditions set forth in the Lease Agreement, and subject to all Permitted Encumbrances.

(b) The leasing of the Property by the District to the Corporation pursuant to the Ground Lease shall not effect or result in a merger of the District's leasehold estate in the Property as lessee under the Lease Agreement and its fee estate in the Property as lessor under the Ground Lease, and the Corporation shall continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The Lease Agreement shall constitute a sublease with respect to the Property. The leasehold interest in the Property granted by the District to the Corporation pursuant to the Ground Lease is and shall be independent of the Lease Agreement; the Lease Agreement shall not be an assignment or surrender of the leasehold interest in the Property granted to the Corporation under the Ground Lease.

Term; Occupancy. (a) The term of the Lease Agreement shall commence on the Delivery Date and shall end on the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Scheduled Termination Date the Certificates shall not be fully paid, or provision therefor made in accordance with the defeasance provisions described in the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments shall remain due and payable or shall have been abated at any time and for any reason, then the term of the Lease Agreement shall be automatically extended until the date upon which all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, except that the term of the Lease Agreement shall in no event be extended more than ten years beyond the Scheduled Termination Date. If prior to the Scheduled Termination Date, or prior to the date to which the term of the Lease Agreement has been extended pursuant to the Lease Agreement, all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, the term of the Lease Agreement shall end simultaneously therewith.

(b) The District shall take possession of the Property on the Delivery Date.

### **Rental Payments**

Base Rental Payments. (a) *General.* Subject to the provisions of the Lease Agreement described under the heading “ – Rental Abatement” and “EMINENT DOMAIN; PREPAYMENT” and the provisions thereof relating to a revision of the Base Rental Payment Schedule pursuant to paragraph (b) below, the District shall pay to the Corporation, as Base Rental Payments, the amounts, at the times, specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments shall constitute principal components and a portion of which shall constitute interest components. The interest components of the Base Rental Payments shall be paid by the District as and constitute interest paid on the principal

components of the Base Rental Payments. Except to the extent specified in the Lease Agreement described under the heading “–Rental Abatement,” Rental Payments, including Base Rental Payments, shall be paid by the District to the Corporation for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

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

(b) *Payments other than Regularly Scheduled Payments.* If the term of the Lease Agreement shall have been extended pursuant to the provisions of the Lease Agreement described under the heading “LEASE OF PROPERTY; TERM – Term; Occupancy,” the obligation of the District to pay Rental Payments shall continue to and including the date of termination of the term of the Lease Agreement as so extended. Upon such extension, the principal and interest components of the Base Rental Payments shall be established so that the principal components will in the aggregate be sufficient to pay all extended and unpaid principal components and the interest components will in the aggregate be sufficient to pay all extended and unpaid interest components; provided, however, that the Rental Payments payable in any Rental Period shall not exceed the annual fair rental value of the Property

Additional Rental Payments. The District shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Corporation or the District or affecting the Property or the respective interests or estates of the Corporation or the District therein;

(b) all reasonable administrative costs of the Corporation relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Corporation under the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable 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 Trust Agreement or the Lease Agreement or to defend the Corporation and its members, directors, officers, agents and employees;

(c) insurance premiums for all insurance required pursuant to the provisions of the Lease Agreement described under the heading “INSURANCE;”

(d) any amounts with respect to the Lease Agreement, the Trust Agreement or the Certificates required to be rebated to the federal government in accordance with section 148(f) of the Code; and

(e) all other payments not constituting Base Rental Payments required to be paid by the District under the provisions of the Lease Agreement or the Trust Agreement, including amounts payable to the Insurer or the Reserve Insurer.

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

Fair Rental Value. The parties to the Lease Agreement have agreed and determined that the Rental Payments are not in excess of the Fair Rental Value of the Property. In making such determination of Fair Rental Value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom that will accrue to the District and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement shall be paid in lawful money of the United States of America to or upon the order of the Trustee, as assignee of the Corporation, at the Principal Office of the Trustee, or such other place or entity as the Trustee shall designate. Each Base Rental Payment shall be deposited with the Trustee, as assignee of the Corporation, no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment that shall not be paid by the District when due and payable under the terms of the Lease Agreement shall bear interest from the date when the same is due under the Lease Agreement until the same shall be paid (a) at the Insurer Rate to the extent that (i) such Base Rental Payment has been paid to the Owners, on behalf of the District, by the Insurer pursuant to the Insurance Policy, or (ii) such Base Rental Payment has been paid to the Owners, on behalf of the District, from moneys on deposit in the Reserve Fund as a result of a payment under the Reserve Policy, or (b) in all other cases, at the rate equal to the highest rate of interest evidenced by any of the Outstanding Certificates. Notwithstanding any dispute between the Corporation and the District, the District shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the District was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the District with the Trustee pursuant to this paragraph on any date shall be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Appropriations Covenant. The District covenants to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The covenants on the part of the District 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 District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

Rental Abatement. (a) Except as otherwise specifically provided in the Lease Agreement described under this heading "RENTAL PAYMENTS – Rental Abatement," during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property, Rental Payments shall be abated proportionately based on the percentage of the Property that is made unavailable for the District's use and occupancy and the percentage of the Property that is not made unavailable for the District's use and occupancy as a result of such damage, destruction, condemnation or title defect, and the District waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The District and the Corporation shall, in a reasonable manner and in good faith, determine the amount of such abatement; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the District during such Rental Period. The District and the Corporation shall provide the Trustee and the Insurer with a certificate setting forth the amount of abatement and the basis therefor. Such abatement shall continue for the period commencing with the date

of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and, to the extent necessary to pay extended and unpaid Rental Payments, the term of the Lease Agreement shall be extended as provided in the Lease Agreement described under the heading "LEASE OF PROPERTY; TERM – Term; Occupancy," except that the term of the Lease Agreement shall in no event be extended more than ten years beyond the Scheduled Termination Date.

(b) Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Trust Agreement, Rental Payments shall not be abated as provided above but, rather, shall be payable by the District as a special obligation payable solely from said funds and accounts.

### **Maintenance; Alterations and Additions**

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the District, and the District shall pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Rental Payments, the Corporation agrees to provide only the Property.

Additions to Property. Subject to the provisions of the Lease Agreement described under the heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Liens," the District and any sublessee shall, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements shall remain the sole property of the District or such sublessee, and neither the Corporation nor the Trustee shall have any interest therein. Such additions, modifications and improvements shall not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to this paragraph, shall be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

Installation of District's Equipment. The District and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the District or such sublessee, and neither the Corporation nor the Trustee shall have any interest therein. The District or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the District or any sublessee from purchasing items to be installed pursuant to this paragraph under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

## Insurance

Property Casualty Insurance; Rental Interruption Insurance. (a) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard comprehensive general liability insurance policy or policies in protection of the District, the Corporation and their respective members, directors, 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 ownership of the 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 a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single 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 or required to be carried by the District. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid. The District's obligations under this paragraph may be maintained in whole or in part in the form of self-insurance by the District, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(b) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the District in connection with the Property and to cover full liability for compensation under any such act. The District's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(c) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood) to the full insurable value of the Property, subject to a \$100,000 loss deductible provision, unless some other deductible is acceptable to the Insurer. Full insurable value shall not be less than the principal evidenced by the Outstanding Certificates. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in the Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds." The District's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(d) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, rental interruption insurance to cover the Corporation's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to paragraph (c) above in an amount equal to the lesser of (i) the amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period, or (ii) such lesser amount as may be agreed to by the Insurer. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Pledge; Base Rental Payment Fund." The District's obligations under this paragraph may not be satisfied by self-insurance.



(e) The insurance required by the Lease Agreement described under this heading “INSURANCE – Property Casualty Insurance; Rental Interruption Insurance,” shall be provided by carriers rated at least “A” by A.M. Best Company or S&P, unless the Insurer shall approve in writing an insurer with a lower rating.

Title Insurance. The District shall provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate amount of principal evidenced by the Certificates. Said policy or policies shall insure (a) the fee interest of the District in the Property, (b) the Corporation’s ground leasehold estate in the Property under the Ground Lease, and (c) the District’s leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances; provided, however, that one or more of said estates may be insured through an endorsement to such policy or policies. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in the Trust Agreement described under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund.” So long as any of the Certificates remain Outstanding, each policy of title insurance obtained pursuant to or required by the Lease Agreement shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Certificate Owners.

Additional Insurance Provision; Form of Policies. (a) The District shall pay or cause to be paid when due the premiums for all insurance policies required by the provisions of the Lease Agreement described under the heading “INSURANCE – Property Casualty Insurance; Rental Interruption Insurance,” and shall promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies shall contain a standard lessee clause in favor of the Trustee and the general liability insurance policies shall be endorsed to show the Trustee as an additional insured. All such policies shall provide that the Trustee and the Insurer shall be given 30 days notice of the expiration thereof, any intended cancellation thereof or any reduction in the coverage provided thereby. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee; provided, however, that the Trustee shall not agree to any adjustment, compromise or settlement without the Insurer’s written consent.

(b) The District shall cause to be delivered to the Trustee and the Insurer on or before August 15 of each year, commencing August 15, 2020, a schedule of the insurance policies being maintained in accordance with the Lease Agreement and a Written Certificate of the District stating that such policies are in full force and effect and that the District is in full compliance with the requirements of the provisions of the Lease Agreement described under the heading “INSURANCE.” The District shall, upon request of the Insurer, deliver to the Insurer certificates or duplicate originals or certified copies of each insurance policy described in such schedule. The Trustee shall be entitled to rely upon said Written Certificate of the District as to the District’s compliance with the provisions of the Lease Agreement described under the heading “INSURANCE.” Neither the Trustee nor the Insurer shall be responsible for the sufficiency of coverage or amounts of such policies. All policies of insurance required by the Lease Agreement shall be in form satisfactory to the Insurer.

Self-Insurance. Insurance provided through a California joint powers authority of which the District is a member or with which the District contracts for insurance shall be deemed to be self-insurance for purposes of the Lease Agreement. All statements of self-insurance provided in accordance with the Lease Agreement shall be in form satisfactory to the Insurer. Any self-insurance maintained by the District pursuant to the provisions of the Lease Agreement described under the heading “INSURANCE,” shall comply with the following terms:

(a) the self-insurance program shall be approved in writing by the Insurer;

(b) the self-insurance program shall be approved in writing by an Independent Insurance Consultant;

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

(d) the self-insured claims reserve fund shall be held in a separate trust fund; and

(e) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by the Independent Insurance Consultant, shall be maintained.

### **Defaults and Remedies**

Defaults and Remedies. (a) (i) If the District shall fail (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease Agreement, or in the Trust Agreement to be kept or performed by the District, or (ii) upon the happening of any of the events specified in paragraph (b) below, the District shall be deemed to be in default under the Lease Agreement and it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. In determining whether a default has occurred under clause (i)(A) of the preceding sentence, no effect shall be given to payments made under the Insurance Policy. The District shall in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A), or (ii) of the preceding sentence, unless the District shall have failed, for a period of 30 days or such additional time as is reasonably required, but in no event greater than 60 days without the prior written consent of the Insurer, to correct any such default after notice by the Corporation or the Insurer to the District properly specifying wherein the District has failed to perform any such covenant, condition or agreement. Upon any such default, the Corporation, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the Lease Agreement in the manner provided in the Lease Agreement on account of default by the District, notwithstanding any re-entry or re-letting of the Property as provided for in subparagraph (2) of the Lease Agreement, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District. In the event of such termination, the District agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Corporation all damages recoverable at law that the Corporation may incur by reason of default by the District, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions in the Lease Agreement contained. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Corporation nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Corporation to protect the Corporation's interest under the Lease Agreement shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District shall be or become effective by operation of law or acts of the parties to the Lease Agreement, or otherwise, unless and until the Corporation shall have given written notice to the District of the election on the part of the Corporation to terminate the Lease Agreement. The District covenants and agrees that no

surrender of the 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 by the Corporation by such written notice.

(2) Without terminating the Lease Agreement (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the District, regardless of whether or not the District has abandoned the Property, or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for in subparagraph (1) of the Lease Agreement, the District shall remain liable and agrees to keep or perform all covenants and conditions in the Lease Agreement contained to be kept or performed by the District and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Corporation may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Corporation elect to re-enter as in the Lease Agreement provided, the District irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to re-let the Property, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period as the Corporation may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District, and the District indemnifies and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions in the Lease Agreement contained. The District agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-letting shall constitute a surrender or termination of the Lease Agreement irrespective of the use or 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 District the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner provided for in subparagraph (1) of the Lease Agreement. The District further agrees to pay the Corporation the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the District of the completion and installation of such additions or alterations.

Pursuant to the Lease Agreement, the District waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the District, or any other person, that may be in or upon the Property.

(b) If (i) the District's interest in the Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Corporation and the Insurer, as in the Lease Agreement thereafter provided for, (ii) the District or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act

or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the District asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the District's debts or obligations, or offers to the District's creditors to effect a composition or extension of time to pay the District's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the District's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the District, or if a receiver of the business or of the property or assets of the District shall be appointed by any court, except a receiver appointed at the instance or request of the Corporation, or if the District shall make a general assignment for the benefit of the District's creditors, or (iii) the District shall abandon or vacate the Property, then the District shall be deemed to be in default under the Lease Agreement.

(c) In addition to the other remedies set forth in the provisions of the Lease Agreement described under this heading “– Defaults and Remedies,” upon the occurrence of an event of default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in the Corporation by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the District and of its board, officers or employees shall be enforceable by the Corporation by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(i) *Accounting.* By action or suit in equity to require the District and its board, officers and employees and its assigns to account as the trustee of an express trust.

(ii) *Injunction.* By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Corporation.

(iii) *Mandamus.* By mandamus or other suit, action or proceeding at law or in equity to enforce the Corporation's rights against the District (and its board, officers and employees) and to compel the District to perform and carry out its duties and obligations under the law and its covenants and agreements with the District as provided in the Lease Agreement.

Each and all of the remedies given to the Corporation under the Lease Agreement or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease Agreement shall not impair the right of the Corporation to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term “re-let” or “re-letting” as used in the Lease Agreement described under this heading “– Defaults and Remedies,” shall include, but not be limited to, re-letting by means of the operation by the Corporation of the Property. If any statute or rule of law validly shall limit the remedies given to the Corporation under the Lease Agreement, the Corporation nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Corporation shall prevail in any action brought to enforce any of the terms and provisions of the Lease Agreement, the District shall pay a reasonable amount as and for attorney's fees incurred by the Corporation in attempting to enforce any of the remedies available to the Corporation under the Lease Agreement.

Notwithstanding anything to the contrary contained in the Lease Agreement, the Corporation shall have no right upon a default under the Lease Agreement by the District or otherwise to accelerate Rental Payments.

Notwithstanding anything to the contrary contained in the Lease Agreement, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, no remedy shall be exercised under

the Lease Agreement without the prior written consent of the Insurer and the Insurer shall have the right to direct the exercise of any remedy under the Lease Agreement.

(d) Notwithstanding anything in the Lease Agreement to the contrary, the termination of the Lease Agreement by the Corporation on account of a default by the District under the Lease Agreement described under this heading “– Defaults and Remedies,” shall not effect or result in a termination of the lease of the Property by the District to the Corporation pursuant to the Ground Lease.

Waiver. Failure of the Corporation to take advantage of any default on the part of the District shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Corporation to insist upon performance by the District of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Corporation on account of such default. A waiver of a particular default shall not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement shall not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

Corporation Event of Default; Action on Corporation Event of Default. The failure by the Corporation to observe and perform the covenants, agreements or conditions on its part contained in the provisions of the Lease Agreement described under the heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Quiet Enjoyment,” if such failure shall have continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Corporation, the Trustee and the Insurer, by the District, shall constitute a Corporation Event of Default under the Lease Agreement; provided, however, that if the Corporation shall fail to correct such failure within such 60 day period, the Insurer shall have 90 additional days to correct such failure on behalf of the Corporation prior to such failure constituting a Corporation Event of Default; and, provided further that if, in the reasonable opinion of the Corporation or the Insurer, as applicable, the failure stated in the notice can be corrected, but not within such 60 or 90 day period, such failure shall not constitute a Corporation Event of Default if corrective action is instituted by the Corporation or the Insurer within such 60 or 90 day period and the Corporation or the Insurer, as applicable, shall thereafter diligently and in good faith cure such failure in a reasonable period of time. In each and every case upon the occurrence and during the continuance of a Corporation Event of Default by the Corporation under the Lease Agreement, the District shall have all the rights and remedies permitted by law; provided that a Corporation Event of Default shall not permit the nonpayment of rent or the termination of the Lease Agreement by the District. Notwithstanding anything to the contrary contained in the Lease Agreement, the provisions of this paragraph shall not impair, restrict or limit the application of the provisions of the Lease Agreement described under the heading “RENTAL PAYMENTS – Rental Abatement.”

### **Eminent Domain; Prepayment**

Eminent Domain. If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the District) shall be taken under the power of eminent domain, the term of the Lease Agreement shall cease as of the day that possession shall be so taken. If less than all of the Property shall be taken under the power of eminent domain and the remainder is usable for public purposes by the District at the time of such taking, then the Lease Agreement shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement described under the heading “RENTAL PAYMENTS – Rental Abatement. So long as any Certificate is Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, shall be paid to the Trustee and applied to the prepayment of Certificates as provided in prepayment provisions of the Trust Agreement and as described under the heading “FUNDS AND ACCOUNTS;

RENTAL PAYMENTS – Application of Net Proceeds.” Any such award made after all of the Certificates, and all other amounts due under the Trust Agreement and under the Lease Agreement, have been fully paid, shall be paid to the Corporation and to the District as their respective interests may appear.

Prepayment. (a) The District may prepay all or a portion of the Base Rental Payments which are payable on or after December 1, 20\_\_, from any source of available funds, on any date on or after December 1, 20\_\_, by paying (A) all or a portion, as elected by the District, of the principal components of the Base Rental Payments, and (B) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment.

(b) The District may prepay, from any source of available funds, all or any portion of the Base Rental Payments by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Trust Agreement described under the heading “DEFEASANCE” sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the District has a right to prepay such Base Rental Payments pursuant to the preceding paragraph (a), and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with the preceding paragraph (a).

(c) If less than all of the Base Rental Payments are prepaid pursuant to the provisions of the Lease Agreement then, as of the date of such prepayment pursuant paragraph (a) above, or the date of a deposit pursuant to paragraph (b) above, the principal and interest components of the Base Rental Payments shall be recalculated in order to take such prepayment into account. The District agrees that if, following a partial prepayment of Base Rental Payments, the Property is damaged, destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the District shall not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the District shall not be entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid pursuant to the provisions of the Lease Agreement and if all amounts due to the Insurer have been paid in full then, as of the date of such prepayment pursuant to paragraph (a) above, or deposit pursuant to paragraph (b) above, the term of the Lease Agreement shall be terminated.

(e) Prepayments of Base Rental Payments made pursuant to the provisions of the Lease Agreement shall be applied to the prepayment of Certificates as provided in the prepayment provisions of the Trust Agreement.

(f) Before making any prepayment pursuant to the provisions of the Lease Agreement described under the heading “EMINENT DOMAIN; PREPAYMENT,” the District shall give written notice to the Corporation and the Insurer specifying the date on which the prepayment will be made, which date shall be not less than 40 nor more than 60 days from the date such notice is given, unless the Corporation and the Insurer agree to a different notice period.

## **Representations and Warranties; Covenants**

Representations of the District. The District represents and warrants that, as of the Delivery Date:

(a) the District has the full power and authority to enter into, to execute and to deliver the Lease Agreement and the Trust Agreement, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement and the Trust Agreement;

(b) the Property is not located in a 100-year flood plain;

(c) the District has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Property or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any Laws and Regulations;

(d) without limiting the generality of the foregoing, neither the District nor to the best of its knowledge, after due inquiry, any prior or present owner, tenant or subtenant of the Property has, other than as set forth in this paragraph or as may have been remediated in accordance with Laws and Regulations (i) used, treated, stored, transported or disposed of any material amount of Hazardous Materials on, from or beneath the Property, (ii) Released any material amount of Hazardous Materials on, from or beneath the Property, or (iii) stored any material amount of petroleum products at the Property in underground storage tanks; provided, however, that excluded from the representations and warranties in this paragraph with respect to Hazardous Materials are those Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance of school buildings, the use, treatment, storage, transportation and disposal of which has been and shall be in compliance with all Laws and Regulations;

(e) no portion of the Property located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Property, respectively; and

(f) the District has not received any notice from any insurance company that has issued a policy with respect to the Property or from the applicable state or local government agency responsible for insurance standards (or any other body exercising similar functions) requiring the performance of any repairs, alterations or other work, which repairs, alterations or other work have not been completed at the Property, respectively. The District has not received any notice of default or breach which has not been cured under any covenant, condition, restriction, right-of-way, reciprocal easement, agreement or other easement affecting the Property which is to be performed or complied with by it.

Representations of the Corporation. The Corporation represents and warrants that the Corporation, as of the Delivery Date, has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Assignment Agreement and the Trust Agreement, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Assignment Agreement and the Trust Agreement.

Right of Entry. The Corporation shall have the right to enter upon and to examine and inspect the Property during reasonable business hours, and in emergencies at all times, for any reasonable purpose connected with the Corporation's rights or obligations under the Lease Agreement, and for all other lawful purposes. The Insurer shall have the right to enter upon and to examine and inspect the Property during reasonable business hours, and in emergencies at all times, for any reasonable purpose connected with the Insurer's rights or obligations under the Lease Agreement.

Quiet Enjoyment. The District, by keeping and performing the covenants and agreements in the Lease Agreement contained, shall at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Corporation.

Liens. In the event the District shall at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the District shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the District in, upon or about the Property and that may be secured by a mechanics', materialmen's or other lien against the Property or the Corporation's interest therein, and shall cause each such lien to be fully discharged and released at the time the performance of any obligation

secured by any such lien matures or becomes due, provided, however that, if the District desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the District shall forthwith pay and discharge said judgment.

Taxes. (a) The District shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Corporation or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

(b) After giving notice to the Corporation, the Insurer and the Trustee, the District or any sublessee may, at the District's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation, the Insurer or the Trustee shall notify the District or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the District or such sublessee shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation, the Insurer and the Trustee.

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the District under the Lease Agreement shall be sold, mortgaged, pledged, assigned or transferred by the District by voluntary act or by operation of law or otherwise; provided, however, that the Property may be subleased in whole or in part by the District with the prior written consent of the Corporation and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and, provided, further, that, any such sublease shall be subject to all of the following conditions:

(a) the Lease Agreement and the obligation of the District to make all Rental Payments under the Lease Agreement shall remain the primary obligation of the District;

(b) the District shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such sublease;

(c) no such sublease by the District shall cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;

(d) any sublease of the Property by the District shall explicitly provide that such sublease is subject to all rights of the Corporation under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the District; and

(e) the District shall furnish the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes.

Environmental Compliance. (a) Neither the District nor the Corporation shall use or permit the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or



dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Property and then only in compliance with all Environmental Regulations, nor shall it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee or agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Property or onto any other property, excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of school districts, the use, storage, treatment, transportation and disposal of which shall be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the Corporation or the District shall promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so released on, from or beneath the Property or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained in the Lease Agreement, underground storage tanks shall only be permitted subject to compliance with paragraph (d) below and only to the extent necessary to maintain the improvements on the Property.

(b) The District and the Corporation shall comply with, and shall cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Property to comply with, all Environmental Regulations, and shall keep the Property free and clear of any liens imposed pursuant thereto, provided, however, that any such liens, if not discharged, may be bonded. The District and the Corporation shall cause each tenant under any lease, and use their best efforts to cause all of such tenant's subtenants, agents, licensees, employees, contractors, guests and invitees and the guests and invitees of all of the foregoing to comply with all Environmental Regulations with respect to the Property; provided, however, that the Corporation and the District shall remain solely responsible for ensuring such compliance and such limitation shall not diminish or affect in any way the Corporation's or the District's obligations contained in paragraph (c) below. Upon receipt of any notice from any Person with regard to the Release of Hazardous Materials on, from or beneath the Property, the District or the Corporation, as appropriate, shall give prompt written notice thereof to the District or the Corporation, as appropriate, the Trustee, and the Insurer prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the provisions of the Lease Agreement described under the heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Representations of the District" is not true or correct, the Corporation and the District shall, to the extent permitted by law, defend, indemnify and hold harmless the Corporation, the Insurer and the Trustee and any director, member, officer, employee, successor or assign thereof, from and against any claims, demands, penalties, fines, attorneys' fees, including, attorneys' fees incurred to enforce the indemnification contained in the Lease Agreement described under this heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Environmental Compliance," consultants' fees, investigation and laboratory fees, liabilities, settlements (five Insurance Business Days' prior notice of which the Corporation, the Insurer or the Trustee, as appropriate, shall have delivered to the District), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Property, (ii) any personal injury, including wrongful death, or property damage, real or personal, arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Insurance Business Days' prior notice of which the Corporation, the Insurer or the Trustee, as appropriate, shall have delivered to the District), or governmental order relating to Hazardous Materials on, from or beneath the Property, (iv) any violation of Environmental Regulations or paragraphs (a) or (b) above by either the District or the Corporation or any of their agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for

the recovery of environmental cleanup or removal costs. To the extent that either the Corporation or the District is strictly liable under any Environmental Regulation, the District's obligation to the Corporation, the Insurer and the Trustee and the other indemnitees under the foregoing indemnification shall likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under this paragraph shall survive the payment of all Certificates and the discharge of the Trust Agreement.

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

Condemnation. So long as the Certificates are Outstanding, the District to the extent it may lawfully so bind itself shall not exercise the power of condemnation with respect to the Property. To the extent permitted by law, if for any reason the foregoing covenant is determined to be unenforceable or if the District shall fail or refuse to abide by such covenant and condemns the Property, the value of the District's leasehold estate under the Lease Agreement in the Property shall be not less than the amount sufficient to pay the Base Rental Payments to the first date on which they may be prepaid pursuant to the provisions of the Lease Agreement described under the heading "EMINENT DOMAIN; PREPAYMENT – Prepayment" and to prepay the Base Rental Payments on such date.

Other Obligations. Except for the Certificates and Permitted Encumbrances, the District shall not, during the term of the Lease Agreement, issue or incur or cause to be executed and delivered, directly or indirectly, any additional certificates of participation, notes, bonds or other indebtedness that are either (a) payable from or secured by lease payments or rentals payable under the Lease Agreement, or (b) secured by, or granted a lien on, the Property.

Corporation Not Liable; Indemnification. None of the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof shall be liable to the District or to any other Person for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the District shall, at its expense, indemnify and hold the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any Person arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the Person seeking indemnity. The District at its expense shall pay and indemnify and save the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims arising from (a) any condition of the Property and the adjoining sidewalks and passageways, (b) any breach or default on the part of the District in the performance of any covenant or agreement to be performed by the District pursuant to the Lease Agreement, (c) any act or negligence of licensees in connection with their use, occupancy or operation of the Property, or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in the Lease Agreement described under this heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Corporation Not Liable; Indemnification," but excepting the negligence or willful misconduct of the Person seeking indemnity. In the event that any action or proceeding is brought against the Corporation, the Insurer or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the District, upon notice from the Corporation, the Insurer or the Trustee or such director, member, officer or employee thereof, shall

resist or defend such action or proceeding by counsel reasonably satisfactory to the Corporation, the Insurer or the Trustee or such director, member, officer or employee thereof.

Notwithstanding the fact that it is the intention of the parties that the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof shall not incur any pecuniary liability by reason of the terms of the Lease Agreement, or the undertakings required of the Corporation under the Lease Agreement or any director, member, officer or employee thereof, by reason of the execution and delivery of the Certificates, by reason of the execution or authorization of any document or certification in connection with the Certificates including, the Trust Agreement, the Lease Agreement or any preliminary or final official statement, by reason of the performance or nonperformance of any act required of any of them by the Lease Agreement or the Trust Agreement or by reason of the performance or nonperformance of any act requested of any of them by the District, the Corporation, the Insurer or the Trustee, including all claims, liabilities, damages, losses or expenses arising in connection with the violation of any statute or regulation pertaining to the foregoing; nevertheless, if the Corporation, the Insurer or the Trustee or any director, member, officer or employee thereof should incur any such pecuniary liability, then in such event the District shall indemnify and hold harmless the Corporation, the Insurer and the Trustee, and all directors, members, officers and employees thereof, against all claims by or on behalf of any Person arising out of the same, or in connection with any action or proceeding brought thereon, but excepting the negligence or willful misconduct of the Person seeking indemnity, and upon notice from the Corporation, the Insurer or the Trustee, the District shall defend the Corporation, the Insurer and the Trustee in any such action or proceeding. The provisions in the Lease Agreement described under this heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Corporation Not Liable; Indemnification,” shall survive the termination of the Lease Agreement for any claim, proceeding or action arising from any event or omission occurring during the term of the Lease Agreement.

Title to Property upon Termination. Upon the termination or expiration of the term of the Lease Agreement other than as provided in the defaults and remedies, eminent domain provisions of the Lease Agreement, and the first date upon which the Certificates are no longer Outstanding, all right, title and interest in and to the Property shall vest in the District. Upon any such termination or expiration, the Corporation shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

#### **No Consequential Damages; Use of the Property; Substitution or Release**

No Consequential Damages. In no event shall the Corporation be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the District’s use of the Property.

Use of the Property. The District shall not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the District shall comply in all respects, including, with respect to the use, maintenance and operation of the Property, with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the District may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Corporation, adversely affect the estate of the Corporation in and to any of the Property or its interest or rights under the Lease Agreement.

Substitution or Release of the Property. The District shall have the right, but only with the written consent of the Insurer, to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement pursuant to the provisions of the Lease Agreement under

this heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property.” All costs and expenses incurred in connection with such substitution or release shall be borne by the District. Notwithstanding any substitution or release pursuant to the provisions of the Lease Agreement under this heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property,” there shall be no reduction in or abatement of the Base Rental Payments due from the District under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property shall be subject to the following specific conditions, which are made conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the District shall have found, and shall have delivered a certificate to the District, the Insurer and the Trustee setting forth its findings, that the Property, as constituted after such substitution or release (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the District in any Rental Period, and (ii) has a useful life equal to or greater than the useful life of the Property, as constituted prior to such substitution or release;

(b) the District shall have obtained or caused to be obtained a CLTA or an ALTA title insurance policy or policies with respect to any substituted property in the amount of the fair market value of such substituted property of the type and with the endorsements described in the Lease Agreement described under the heading “INSURANCE – Title Insurance;” provided, however, that such fair market value shall have been determined by an independent certified real estate appraiser selected by the District, which appraiser shall have delivered a certificate to the District, the Insurer and the Trustee setting forth its findings;

(c) the District shall have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes;

(d) the District shall have given, or shall have made arrangements to be given, any notice of the occurrence of such substitution or release required to be given pursuant the Continuing Disclosure Certificate;

(e) the District, the Corporation and the Trustee shall have executed, and the District shall have caused to be recorded with the El Dorado County Recorder, any document necessary to reconvey to the District the portion of the Property being substituted or released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(f) the District shall have certified to the Corporation and the Insurer that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Property for which it is being substituted.

### **Miscellaneous**

Net-Net-Net Lease. The Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the Rental Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-off whatsoever and notwithstanding any dispute between the District and the Corporation.

Amendments. (a) The Lease Agreement and the Ground Lease, and the rights and obligations of the Corporation and the District thereunder, may be amended at any time by an amendment thereto which

shall become binding upon execution by the District and the Corporation, but only with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, provided that no such amendment shall (i) extend the payment date of any Base Rental Payment, reduce the interest component or principal component of any Base Rental Payment or change the prepayment terms and provisions, without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owner of each Certificate so affected, or (ii) reduce the percentage of the aggregate amount of principal evidenced by the Certificates, the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owners of all the Certificates then Outstanding.

(b) The Lease Agreement and the Ground Lease, and the rights and obligations of the District and the Corporation thereunder, may also be amended at any time by an amendment to the Lease Agreement or thereto which shall become binding upon execution by the District and the Corporation, but without the written consents of any Owners, but only with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Corporation or the District to be observed or performed in the Lease Agreement or therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to surrender any right or power reserved in the Lease Agreement or therein to or conferred in the Lease Agreement or therein on the Corporation or the District, and which in either case shall not materially adversely affect the interests of the Insurer or the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease Agreement or therein or in regard to questions arising under the Lease Agreement or thereunder which the Corporation or the District may deem desirable or necessary and not inconsistent therewith, and which shall not materially adversely affect the interests of the Insurer or the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest components of Base Rental Payments;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement described under the heading "NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property" or

(v) to make such other changes in the Lease Agreement or therein or modifications thereto as the Corporation or the District may deem desirable or necessary, and which shall not materially adversely affect the interests of the Insurer or the Owners.

Assignment to Trustee; Effect. The District understands and agrees that, upon the execution and delivery of the Assignment Agreement, which is occurring simultaneously with the execution and delivery of the Lease Agreement, all right, title and interest of the Corporation in and to the Lease Agreement will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The District consents to such sale, assignment and transfer. Upon the execution and delivery of the Assignment

Agreement, references in the operative provisions of the Lease Agreement to the Corporation shall be deemed to be references to the Trustee, as assignee of the Corporation.

Rights of Insurer. As long as the Insurance Policy is in effect and the Insurer is not in default in respect of its payment obligations thereunder, the Insurer shall be deemed to be the sole and exclusive Owner of the Outstanding Certificates for purposes of all defaults and remedies; provided, however, that the Insurer shall not be deemed to be the sole and exclusive Owner of the Outstanding Certificates for purposes of all defaults and remedies, and shall not have the right to direct District, Corporation, Trustee or Owner action, during any period if:

(a) the Insurer shall fail to make any payment under the Insurance Policy when due and such failure shall continue for three Business Days;

(b) any material provision of the Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested in writing by the Insurer; or

(c) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer under Article 16 of the Insurance Law of the State of New York or any successor provision thereto and such proceeding is not terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding.

Third-Party Beneficiary. The Insurer is a third-party beneficiary of the Lease Agreement.

Validity and Severability. If for any reason the Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable or unenforceable by the Corporation or by the District, or if for any reason it is held by such a court that any of the covenants and conditions of the District under the Lease Agreement, including the covenant to pay Rental Payments, is unenforceable for the full term of the Lease Agreement, then and in such event the Lease Agreement is and shall be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the District annually in consideration of the right of the District to possess, occupy and use the Property, and all of the terms, provisions and conditions of the Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Governing Law. The Lease Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## **ASSIGNMENT AGREEMENT**

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged by the Assignment Agreement, does sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Certificates, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided, however, that the Corporation shall retain its rights under the Lease Agreement to indemnification and to payment or reimbursement of its reasonable costs and expenses. The assignment is absolute and is presently effective. All such right, title and interest so sold, assigned and transferred by the Corporation to the Trustee shall be administered by the Trustee in accordance with the provisions of the Trust Agreement, the Lease Agreement and the Ground Lease.

Acceptance. The Trustee accepts the foregoing sale, assignment and transfer, subject to the terms and provisions of the Trust Agreement, and agrees that all of the Base Rental Payments shall be applied and the right, title and interest so sold, assigned and transferred shall be exercised by the Trustee as provided in the Trust Agreement, the Lease Agreement and the Ground Lease.

Conditions. Excepting only the sale, assignment and transfer to the Trustee of the Corporation's right, title and interest in and to the Ground Lease and the Lease Agreement pursuant to the provisions of the Assignment Agreement described under the heading "Assignment," the Assignment Agreement shall impose no obligations whatsoever upon the Trustee beyond those expressly provided in the Trust Agreement, the Lease Agreement and the Ground Lease.

Third-Party Beneficiary. The Insurer is a third-party beneficiary of the Assignment Agreement.

Amendment. The Assignment Agreement shall not be amended, supplemented or otherwise modified without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

Further Assurances. The Corporation shall 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 Assignment Agreement, and for the better assuring and confirming to the Trustee, for the benefit of the owners of the Certificates, the right, title and interest intended to be sold, assigned and transferred pursuant to the Assignment Agreement.

Captions. The captions or headings in the Assignment Agreement are for convenience only and in no way define or limit the scope or intent of any provision of the Assignment Agreement.

Governing Law. The Assignment Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## **TRUST AGREEMENT**

### **Terms and Conditions of Certificates**

Certificate Registration Books. (a) The Trustee shall keep at its Principal Office sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection and copying by the District and the Insurer at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement.

(b) The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not the principal or interest evidenced by such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability evidenced by such Certificate to the extent of the sum or sums so paid.

Transfer and Payment of Certificates; Exchange of Certificates. Each Certificate is transferable by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, upon surrender of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Certificate shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Each Certificate may be exchanged at the Principal Office of the Trustee for Certificates evidencing principal in a like aggregate amount and having the same stated Principal Payment Date in such Authorized Denominations as the Owner thereof may request. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period commencing on the date five days before the date of selection of Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Book-Entry System. (a) The Certificates shall initially be executed and delivered as Book-Entry Certificates and the Certificates for each stated Principal Payment Date shall be in the form of a separate single fully registered Certificate (which may be typewritten). The ownership of each Book-Entry Certificate shall be registered in the Registration Books in the name of the Nominee, as nominee of the Depository. Payment of principal or interest evidenced by any Book-Entry Certificate registered in the name of the Nominee shall be made on the applicable payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the Registration Books.

(b) With respect to Book-Entry Certificates, the District, the Corporation and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such Book-Entry Certificates. Without limiting the immediately preceding sentence, the District, the Corporation and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Certificates, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Registration Books, of any notice with respect to Book-Entry Certificates, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Certificates to be prepaid in the event Certificates are prepaid in part, (iv) the payment to any Participant or any other person, other than an Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest evidenced by Book-Entry Certificates, or (v) any consent given or other action taken by the Depository as Owner.

(c) The District and the Trustee may treat and consider the person in whose name each Book-Entry Certificate is registered in the Registration Books as the absolute Owner of such Book-Entry Certificate for the purpose of payment of principal, prepayment premium, if any, and interest evidenced by such Certificate, for the purpose of selecting any Certificates, or portions thereof, to be prepaid, for the purpose of giving notices of prepayment and other matters with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and the District, the Corporation and the Trustee shall not be affected by any notice to the contrary.

(d) In the event of a prepayment of all or a portion of a Certificate, the Depository, in its discretion, (i) may request the Trustee to execute and deliver a new Certificate, or (ii) if DTC is the sole



Owner of such Certificate, shall make an appropriate notation on the Certificate indicating the date and amounts of the reduction in principal evidenced thereby resulting from such prepayment, except in the case of final payment, in which case such Certificate must be presented to the Trustee prior to payment.

(e) The Trustee shall pay all principal, premium, if any, and interest evidenced by the Certificates only to or “upon the order of” (as that term is used in the Uniform Commercial Code as adopted in the State of California) the respective Owner, as shown in the Registration Books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal, premium, if any, and interest evidenced by the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Registration Books, shall receive a Certificate evidencing principal, premium, if any, and interest evidenced by the Certificates. Upon delivery by the Depository to the Owners, the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Trust Agreement with respect to Record Dates, the word Nominee in the Trust Agreement shall refer to such nominee of the Depository.

(f) In order to qualify the Book-Entry Certificates for the Depository’s book-entry system, the District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Corporation, the District or the Trustee any obligation whatsoever with respect to persons having interests in such Book-Entry Certificates other than the Owners, as shown on the Registration Books. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the District, the District, the Corporation and the Trustee shall take such other actions, not inconsistent with the Trust Agreement, as are reasonably necessary to qualify Book-Entry Certificates for the Depository’s book-entry program.

(g) In the event the District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Certificates and that such Certificates should therefore be made available and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Certificates. In such event, the Trustee shall transfer and exchange certificated Certificates as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Certificates, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the District shall discontinue the Book-Entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each stated Principal Payment Date of such Book-Entry Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository, then the Certificates shall no longer be restricted to being registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Certificates shall designate, in accordance with the provisions of the Trust Agreement described under the headings “TERMS AND CONDITIONS OF CERTIFICATES – Transfer and Payment of Certificates; Exchange of Certificates” and “ –Certificates Mutilated, Lost, Destroyed or Stolen.” Whenever the Depository requests the District to do so, the District will cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Certificates to any Participant having Book-Entry Certificates credited to its account with the Depository, and (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Certificates.

(h) Notwithstanding any other provision of the Trust Agreement to the contrary, if DTC is the sole Owner of the Certificates, so long as any Book-Entry Certificate is registered in the Registration Books

in the name of the Nominee, all payments of principal, premium, if any, and interest evidenced by such Certificate and all notices with respect to such Certificate shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(i) In connection with any notice or other communication to be provided to Owners pursuant to the Trust Agreement by the District, the Corporation or the Trustee, with respect to any consent or other action to be taken by Owners, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date no later than 15 calendar days in advance of such record date to the extent possible. Notice to the Depository shall be given only when DTC is the sole Owner of the Certificates.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it shall prepare and execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Office of the Trustee in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like principal amount and having the same stated Principal Payment Date and number in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and disposed of in a manner deemed appropriate by the Trustee. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like principal amount and having the same stated Principal Payment Date, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under the provisions of the Trust Agreement summarized in this paragraph and of the expenses which may be incurred by it under the provisions of the Trust Agreement summarized in this paragraph. Any Certificate executed and delivered under the provisions of the Trust Agreement summarized in this paragraph in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates executed and delivered under the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of the Trust Agreement summarized in this paragraph, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which evidences principal that is then payable, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the District.

## **Funds and Accounts; Rental Payments**

Pledge; Base Rental Payment Fund. (a) Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, in order to secure the District's obligations under the Trust Agreement and under the Lease Agreement, the District irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund), which amounts shall be used for the payment of the Base Rental Payments in accordance with the terms of the Trust Agreement and of the Lease Agreement. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(b) It is the intent of the parties to the Trust Agreement that the Corporation not have any right, title or interest in or to the amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. If, contrary to the intent of the parties to, the Corporation is found to have any right, title or interest in or to any such amounts, then, subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, the Corporation irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund). Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Corporation, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(c) All Base Rental Payments shall be paid directly by the District to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments paid by the District shall be deposited by the Trustee in the Base Rental Payment Fund, which the Trustee shall establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. The moneys in the Base Rental Payment Fund shall be held in trust by the Trustee and shall be disbursed only for the purposes and uses in the Trust Agreement authorized. Any Net Proceeds of rental interruption insurance received with respect to the Property shall be deposited in the Base Rental Payment Fund.

(d) Pursuant to the Assignment Agreement, the Corporation has sold, assigned and transferred to the Trustee, irrevocably and absolutely, for the benefit of the Owners, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided, however, that the Corporation has retained the rights to indemnifications and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Ground Lease, 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.

Deposit of Base Rental Payments. The Trustee shall transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Trust Agreement, to the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. The moneys in each of such funds shall be held in trust by the Trustee and shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) *Interest Fund.* The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. On each Interest Payment Date, the Trustee shall withdraw from the Interest Fund, for payment to the Owners, the interest evidenced by the Certificates coming due on such Interest Payment Date.

(b) *Principal Fund.* The Trustee, on each Principal Payment Date and each Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. On each Principal Payment Date and each Mandatory Sinking Account Payment Date, the Trustee shall withdraw from the Principal Fund, for payment to the Owners, the principal evidenced by the Certificates due and payable on such Principal Payment Date or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) *Prepayment Fund.* The Trustee, on the prepayment date specified in the Written Request of the District filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee shall deposit in the Prepayment Fund any amounts required to be deposited therein pursuant to the provisions of the Trust Agreement described under the headings “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds” or “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Title Insurance.” Moneys in the Prepayment Fund shall be used by the Trustee for the purpose of paying the interest, premium, if any, and principal evidenced by the Certificates to be prepaid. All moneys held by the Trustee in the Prepayment Fund shall either be held uninvested or invested in Defeasance Securities, which mature in sufficient amounts and on the dates needed to make the prepayments of Certificates for which such moneys were deposited.

Application of Net Proceeds. If the Property or any portion thereof shall be damaged or destroyed, subject to the further requirements of the Trust Agreement summarized under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds,” the District shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the District elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Trust Agreement.

The Net Proceeds of any insurance (other than Net Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, shall be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the District, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the District in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the District shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee and the Insurer in writing as to whether the District intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the District does intend to replace or repair the Property or portions thereof, the District shall deposit with the Trustee the full amount of any insurance deductible to be deposited to the special account.

If such damage, destruction or loss was such that there resulted a substantial interference with the District's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments would result from such damage or destruction pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement" (disregarding, for the purpose of determining whether such an abatement would result, the provisions of paragraph (b) of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), then the District shall be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the insurance proceeds and other legally available funds to the prepayment, as set forth in the extraordinary prepayment provisions of the Trust Agreement, in full of all the Outstanding Certificates or all of those Outstanding Certificates which would have been payable from that portion of the Base Rental Payments which would be abated as a result of the damage or destruction (disregarding, for the purpose of determining what portion of the Base Rental Payments would be so abated, the provisions of paragraph (b) of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"). Funds to be applied to the prepayment of Certificates in accordance with clause (b) above shall be deposited in the Prepayment Fund. Any proceeds of any insurance, including the proceeds of any self-insurance remaining after the portion of the Property which was damaged or destroyed is restored to and made available to the District in substantially the same condition and annual fair rental value as that which existed prior to the damage or destruction as required by clause (a) above or the prepayment of Certificates as required by clause (b) above, in each case as evidenced by a Written Certificate of the District to such effect, shall be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement (taking into account amounts available under any Reserve Facility). If the District is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above or to use such amounts to prepay Certificates as set forth in clause (b) above, then such proceeds shall be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement (taking into account amounts available under any Reserve Facility). Any amounts not required to be so deposited into the Reserve Fund shall, if there is first delivered to the Trustee and the Insurer a Written Certificate of the District to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the sum of the then unpaid principal components of Base Rental Payments, be paid to the District to be used for any lawful purpose.

The proceeds of any award in eminent domain with respect to the Property shall be deposited by the Trustee in the Prepayment Fund and applied to the prepayment of Outstanding Certificates pursuant to the extraordinary prepayment provisions of the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property shall be applied and disbursed by the Trustee as follows:

(a) if the District determines (and sets forth in a Written Certificate of the District) that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the District under the Lease

Agreement, such proceeds shall, with the written approval of the Insurer, be remitted to the District and used for any lawful purpose thereof; or

(b) if the District determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and would result in an abatement in whole or in part of Rental Payments payable by the District under the Lease (disregarding, for the purpose of determining whether such an abatement would result, the provisions of paragraph (b) of the Lease Agreement described under the heading “BASE RENTAL PAYMENTS – Rental Abatement”), then the District shall, in a Written Request of the District, direct the Trustee to, and the Trustee shall, immediately deposit such proceeds in the Prepayment Fund and such proceeds shall, with the written approval of the Insurer, be applied to the prepayment of Certificates in the manner provided in the extraordinary prepayment provisions of the Trust Agreement.

Reserve Fund. (a) The Trustee shall establish and maintain the Reserve Fund until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. There shall be deposited in the Reserve Fund on the Delivery Date the Reserve Policy pursuant the extraordinary prepayment provisions of the Trust Agreement. The moneys in the Reserve Fund and any Reserve Facility shall be held in trust by the Trustee and shall be used and disbursed only for the purposes and uses in the Trust Agreement authorized.

(b) The District may substitute a Reserve Facility for all or a part of the Reserve Facility then on deposit in the Reserve Fund by depositing such substitute Reserve Facility with the Trustee so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under such Reserve Facility and any previously substituted Reserve Facilities, shall be at least equal to the Reserve Requirement; provided, however, that, prior to any such substitution, the Trustee shall have received the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). The District shall not substitute any Reserve Facility in lieu of all or any portion of moneys on deposit in the Reserve Fund without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). Moneys for which a Reserve Facility has been substituted as provided in the Trust Agreement shall be transferred, at the election of the District, to the Base Rental Payment Fund, or upon receipt of an Opinion of Counsel to the effect that such transfer, in and of itself, will not adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes, to a special account to be held by the Trustee and applied to the payment of capital costs of the District, as directed in a Written Request of the District. Any amounts paid pursuant to any Reserve Facility shall be deposited in the Reserve Fund.

(c) Amounts on deposit in the Reserve Fund which were not derived from payments under any Reserve Facility credited to the Reserve Fund to satisfy a portion of the Reserve Requirement shall be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under any such Reserve Facility. In order to accomplish such use and withdrawal of such amounts not derived from payments under any such Reserve Facility, the Trustee shall, as and to the extent necessary, liquidate any investments purchased with such amounts. If and to the extent that, more than one Reserve Facility is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, drawings thereunder, and repayment of expenses with respect thereto, shall be made on a pro-rata basis (calculated by reference to the policy limits available thereunder without regard to the legal or financial ability or willingness of any Reserve Facility provider to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw).

If, on any Interest Payment Date, the amount on deposit in the Interest Fund is insufficient to pay the interest evidenced by the Certificates payable on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

If a Reserve Facility is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, the Trustee shall make a claim for payment under such Reserve Facility, in accordance with the provisions thereof, in an amount which, together with other available moneys in the Reserve Fund, will be sufficient to make said deposit in the Interest Fund.

If, on any Principal Payment Date or Mandatory Sinking Account Payment Date, the amount on deposit in the Principal Fund is insufficient to pay the principal evidenced by the Certificates payable on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency. If a Reserve Facility is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, the Trustee shall make a claim for payment under such Reserve Facility, in accordance with the provisions thereof, in an amount which, together with other available moneys in the Reserve Fund, will be sufficient to make said deposit in the Principal Fund.

Moneys, if any, on deposit in the Reserve Fund shall be withdrawn and applied by the Trustee for the final payment of principal and interest evidenced by the Certificates.

(d) In the event of any transfer from the Reserve Fund or the making of any claim under any Reserve Facility, the Trustee shall, within five days thereafter, provide written notice to the District of the amount and the date of such transfer or claim.

(e) To the extent that proceeds of a payment under the Reserve Policy are applied to the payment of interest or principal evidenced by a Certificate, the Reserve Insurer shall become the Owner of such portion of such Certificate and the right to receive payment of such interest or principal and shall be fully subrogated to all of the Owner's rights thereunder to the extent of such payment, including the Owner's rights to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for interest, the Trustee shall note the Reserve Insurer's rights as subrogee on the Registration Books, and (ii) in the case of subrogation as to claims for principal, the Trustee shall note the Reserve Insurer's rights as subrogee on the Registration Books upon surrender of the Certificate evidencing such principal by the Owner thereof to the Trustee.

(f) If, as a result of the District's non-payment, when due, of all or a portion of a Base Rental Payment (other than a non-payment caused by an abatement of Rental Payments pursuant to the provision of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), a claim has been made under the Reserve Policy and the Reserve Insurer has paid such claim, the first of Base Rental Payments, including the interest component thereof, calculated at the Insurer Rate as provided in the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Payment Provisions," thereafter received from the District under the Lease Agreement and not needed to pay the principal or interest evidenced by the Certificates on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be paid to the Reserve Insurer, as the Owner of the Certificates (or portions thereof) evidencing such delinquent Base Rental Payment, in repayment of such payment by the Reserve Insurer until such payment is paid in full. If as a result of the District's non-payment of all or a portion of a Base Rental Payment (which non-payment is caused by an abatement of Rental Payments pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement), a claim has been made on the Reserve Policy and the Reserve Insurer has paid such claim, the Reserve Insurer, as the Owner of the Certificates (or portions thereof) evidencing such abated Base Rental Payment, shall be entitled to receive, during the extension of the term of the Lease Agreement provided for in the provisions of the Lease Agreement described under the heading "LEASE OF PROPERTY; TERM – Term; Occupancy," any amounts paid in respect of such abated and unpaid Base Rental Payment pursuant to paragraph (b) of the provisions of the Lease Agreement described under "RENTAL PAYMENTS – Base Rental Payments" and the provisions of the Lease Agreement described

under the heading “RENTAL PAYMENTS – Payment Provisions.” Any such payment by the District pursuant to the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund,” shall be applied first to the interest component of such delinquent Base Rental Payment due the Reserve Insurer and second to the principal components of such delinquent Base Rental Payment due the Reserve Insurer.

(g) If (i) the sum of the amount on deposit in the Reserve Fund, plus the amount available under all available Reserve Facilities, is less than the Reserve Fund Requirement, (ii) there are no amounts then due to the Reserve Insurer under the Reserve Policy, and (iii) there are no amounts then due to the provider of any other Reserve Facility under such Reserve Facility, the first of Base Rental Payments thereafter received from the District under the Lease Agreement and not needed to pay the principal or interest evidenced by the Certificates on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used, first, to reinstate the amounts available under the Reserve Facilities that have been drawn upon and, second, to increase the amount on deposit in the Reserve Fund, so that the amount available under the Reserve Facilities, when added to the amount on deposit in the Reserve Fund, shall equal the Reserve Requirement.

(h) If, as a result of the payment of principal or interest evidenced by the Certificates or otherwise, the Reserve Requirement is reduced, amounts on deposit in the Reserve Fund in excess of such reduced Reserve Requirement shall be transferred to the Base Rental Payment Fund.

(i) On any date on which Certificates are defeased in accordance with the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” the Trustee shall, if so directed in a Written Request of the District, transfer any moneys in the Reserve Fund in excess of the Reserve Requirement resulting from such defeasance to the entity or fund so specified in such Written Request of the District, to be applied to such defeasance.

Rebate Fund. (a) In addition to the other funds and accounts created pursuant to the Trust Agreement, the Trustee shall establish and maintain the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates pursuant to the provisions of the Trust Agreement described under the heading “DEFEASANCE” or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the District’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the District’s calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the principal and interest evidenced by the Certificates and after payment of any amounts described in the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” shall be withdrawn by the Trustee and remitted to the District.

Costs of Issuance Fund. (a) The Trustee shall establish and maintain a separate special fund to be held by the Trustee designated the “Costs of Issuance Fund.” On the Delivery Date, there shall be deposited in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the provisions of the Trust Agreement.



(b) The Trustee shall disburse moneys from the Costs of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case upon the Written Request of the District, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Costs of Issuance Fund. On the last Business Day that is no later than six months after the Delivery Date, the Trustee shall transfer any amounts then remaining in the Costs of Issuance Fund to the Base Rental Payment Fund and the Trustee shall close the Costs of Issuance Fund.

Investments. (a) *General.* Except as otherwise provided in the Trust Agreement, all moneys in any of the funds or accounts established pursuant to the Trust Agreement and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Trust Agreement; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final stated Principal Payment Date of the Certificates; provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final stated Principal Payment Date of the Certificates. Absent timely written direction from the District, the Trustee shall invest any funds held by it in Permitted Investments described in clause (h) of the definition thereof.

(b) *Role and Responsibilities of the Trustee.* The Trustee or an affiliate thereof may act as principal or agent in the acquisition or disposition of any such Permitted Investment and shall be entitled to a customary and reasonable fee therefor. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District will not receive such confirmation to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee under the Trust Agreement. The Trustee may make any investments under the Trust Agreement through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manage in connection with any investments made by the Trustee under the Trust Agreement.

(c) *Valuation.* Investments (except investment agreements) in any fund or account established under the Trust Agreement shall be valued, exclusive of accrued interest, (i) not less often than semi-annually no later than April 15 and October 15 or more frequently if deemed necessary by the Insurer but not more often than monthly, and (ii) upon any draw upon the Reserve Fund. All investments of amounts deposited in any fund or account established under the Trust Agreement shall be valued at the market value thereof.

(d) *Earnings.* Subject to the provisions of the Trust Agreement described under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” any interest or profits received with respect to investments held in any of the funds or accounts established under the Trust Agreement (other than the Reserve Fund) shall be retained therein. Subject to the provisions of the Trust Agreement described

under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” any interest or profits received with respect to investments held in the Reserve Fund shall be transferred to the Base Rental Payment Fund. Notwithstanding the foregoing, any such transfer shall be made from the Reserve Fund only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund, together with amounts available to be drawn on all Reserve Facilities, if any, available therein, is at least equal to the Reserve Requirement.

## **Covenants**

Compliance with Trust Agreement. The Trustee will execute and deliver the Certificates only in accordance with the provisions of the Trust Agreement, and each of the Corporation and the District shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be complied with, kept, observed and performed by it.

Compliance with Ground Lease and Lease Agreement. Each of the Corporation and the District shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by it and, together with the Trustee, shall enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Corporation, the District and the Trustee shall faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or thereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or thereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The District will keep the Property and all parts thereof free from judgments and materialmen’s and mechanics’ liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances, and free from any claim or liability which materially impairs the District in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the District ten days’ written notice to comply therewith and failure of the District to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or, with the written consent of the Insurer, compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the District from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its obligation under the Trust Agreement to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates are Outstanding, neither the Trustee or the District shall create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Trust Agreement, other than the pledge and lien of the Trust Agreement.

The Trustee shall not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement.

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

Recordation. The District will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. (a) The District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest evidenced by the Certificates under Section 103 of the Code. Without limiting the generality of the foregoing, the District will comply with the requirements of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. This covenant shall survive payment in full or defeasance of the Certificates.

(b) In the event that at any time the District is of the opinion that for purposes of the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Trust Agreement, the District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," if the District shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest evidenced by the Certificates, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," and of the Tax Certificate, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

Continuing Disclosure. Each of the District and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate applicable to it. Notwithstanding any other provision of the Trust Agreement, failure of the District or the Trustee to comply with the Continuing Disclosure Certificate shall not constitute an event of default under the Trust Agreement; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate amount of principal evidenced by Outstanding Certificates and upon being indemnified to its reasonable satisfaction, shall) or any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Insurer or any Owner, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee, the Insurer and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Ground Lease or the Lease Agreement.

## **Default and Limitations of Liability**

Action on Default. If an event of default (within the meaning of the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES”) shall happen, then such event of default shall constitute an event of default under the Trust Agreement. The Trustee, as assignee of the Corporation, may give notice of an event of default under the Lease Agreement to the District, and shall do so if directed in writing to do so by the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) or the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding. In each and every case during the continuance of an event of default, the Trustee (a) may, with the prior written consent of the Insurer, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding, and (b) shall, upon being indemnified to its reasonable satisfaction, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, at the direction of the Insurer, upon notice in writing to the District and the Corporation, exercise any of the remedies granted to the Corporation under the Lease Agreement and, in addition, with the written consent or at the written direction of the Insurer, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Other Remedies of the Trustee.”

Other Remedies of the Trustee. Subject to the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Action on Default,” the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any member, director, officer or employee thereof, and to compel the District or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Owners; or

(c) by suit in equity upon the happening of any event of default under the Trust Agreement to require the District to account as the trustee of an express trust.

Non-Waiver. So long as the Insurer is not in default in its payment obligations under the Insurance Policy, the Trustee shall not waive any default or breach of duty or contract under the Trust Agreement without the prior written consent of the Insurer. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY” may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Insurer or any Owner, then subject to any adverse determination, the Trustee, the Insurer, such Owner, the Corporation and the District shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. Subject to the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Action on Default,” no remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation to the Owners. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease 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.

No Liability by the District to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or in the Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, 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.

No Liability of the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the Corporation or the District of the other agreements and covenants required to be performed by them, respectively, contained in the Lease Agreement, the Ground Lease or in the Trust Agreement.

Application of Amounts After Default. All payments received by the Trustee with respect to the rental of the Property after a default by the District pursuant to the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES” (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Corporation’s right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES,” shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

- (a) to the payment of all amounts due the Trustee under the provisions of the Trust Agreement described under the heading “THE TRUSTEE – Compensation and Indemnification;”
- (b) to the payment of all amounts then due for interest evidenced by the Certificates, in respect of which, or for the benefit of which, money has been collected (other than Certificates which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably

without preference or priority of any kind, according to the amounts of interest evidenced by such Certificates due and payable;

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

(d) to the extent not included in clause (b) or clause (c) above, to the payment of all amounts then due under the Trust Agreement to the Insurer.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless (a) such Owner shall have previously given written notice to the Trustee of a continuing event of default, (b) so long as the Insurer is not in default in its payment obligations under the Insurance Policy, such Owner shall have obtained the Insurer's consent to such institution or appointment, (c) the Owners of not less than 25% of the aggregate amount of principal evidenced by Certificates then Outstanding shall have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Trust Agreement, (d) such Owner or Owners shall have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, (e) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings, and (f) no direction inconsistent with such written request shall have been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate amount of principal evidenced by Certificates then Outstanding; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided and for the equal and ratable benefit of all the Owners of Certificates.

## **The Trustee**

Duties and Liabilities of Trustee. The Trustee shall, prior to an event of default, and after the curing or waiver of all events of default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Trust Agreement. The Trustee shall, during the existence of any event of default which has not been cured or waived, 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 a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Qualifications; Removal and Resignation; Successors. (a) The Trustee initially a party to the Trust Agreement and any successor thereto shall at all times be a trust company, national banking association or

bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$250,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this paragraph the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an event of default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time (i) requested to do so by the Insurer (as long as the Insurer is not in default in its payment obligations under the Insurance Policy) or by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority of the aggregate amount of principal evidenced by the Certificates at the time Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with paragraph (a) above, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the District and the Insurer, and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of paragraph (a) above, the Trustee shall resign immediately in the manner and with the effect specified in the Trust Agreement described under this heading "THE TRUSTEE – Qualifications; Removal and Resignation; Successors."

(d) Upon removal or resignation of the Trustee, the District shall promptly appoint a successor Trustee by an instrument in writing, which appointment shall be subject to the prior written approval of the Insurer. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in paragraph (a) above. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Trust Agreement shall signify its acceptance of such appointment by executing and delivering to the District, the Corporation and its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Trust Agreement; but, nevertheless at the written request of the District, the Corporation or the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Trust Agreement set forth. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the

successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Trust Agreement to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under paragraph (a) above, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Trust Agreement to the contrary notwithstanding.

Liabilities of the Trustee. (a) The recitals of facts in the Trust Agreement shall be taken as statements of the District, and the Trustee shall not assume responsibility for the correctness of the same. The Trustee shall, however, be responsible for its representations contained in the Certificates.

(b) The Trustee makes no representations as to the validity or sufficiency of the Trust Agreement, the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or in respect of the security afforded by the Trust Agreement, and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to (i) the delivery of the Certificates for value, (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or (iii) the application of any moneys paid to the District or others in accordance with the Trust Agreement, except as to the application of any moneys paid to it in its capacity as Trustee.

(c) The Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct.

(d) No provision of the Trust Agreement or any other document related thereto shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties under the Trust Agreement through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(g) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.

(h) Before taking action under the provisions of the Trust Agreement described under the headings "DEFAULT AND LIMITATIONS OF LIABILITY," "THE TRUSTEE" or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate amount



of principal evidenced by the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

(j) The Trustee may become the Owner of Certificates 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 its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate amount of principal evidenced by the Certificates then Outstanding.

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

(l) The Trustee shall not be liable for the failure to take any action required to be taken by it under the Trust Agreement if and to the extent that the Trustee's taking such action is prevented by reason of an act of God, terrorism, war, riot, strike, fire, flood, earthquake, epidemic or other, similar occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care.

(m) The Trustee shall not be deemed to have knowledge of an event of default under the Trust Agreement unless it has actual knowledge thereof.

(n) The permissive right of the Trustee to do things enumerated in the Trust Agreement shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

(o) The Trustee shall not be responsible for or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Trust Agreement.

Right to Rely on Documents and Opinions. (a) The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by 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) may be deemed to be conclusively proved and established by a Written Certificate of the District, and such Written Certificate of the District shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Trust Agreement in reliance upon such Written Certificate of the District, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

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

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Certificates, the Base Rental Payments received by it and all funds and accounts established by it

pursuant to the Trust Agreement. Such books of record and account shall be available for inspection by the District, the Corporation and the Insurer during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the District a monthly accounting of the funds and accounts it holds under the Trust Agreement; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Trust Agreement shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the District, the Corporation, the Owners and their agents and representatives duly authorized in writing.

Compensation and Indemnification. The District shall pay to the Trustee from time to time all reasonable compensation pursuant to a pre-approved fee letter for all services rendered under the Trust Agreement, and also all reasonable expenses, charges, legal and consulting fees pursuant to a pre-approved fee letter and other disbursements pursuant to a pre-approved fee letter and those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Trust Agreement. The District shall, to the extent permitted by law, indemnify and save the Trustee harmless against any costs, claims, expenses (including fees and expenses of its counsel), and liabilities which it may incur in the exercise and performance of its powers and duties under the Trust Agreement, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the District to indemnify the Trustee shall survive the resignation or removal of the Trustee and the termination and discharge of the Trust Agreement.

#### **Amendment of or Supplement to Trust Agreement**

Amendment or Supplement. (a) The Trust Agreement and the rights and obligations of the District, the Corporation, if any, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement thereto which shall become binding when the prior written consents of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the provisions of the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Disqualified Certificates,” are filed with the Trustee. No such amendment or supplement shall (i) extend the stated Principal Payment Date of any Certificate or reduce the rate of interest applicable to the interest evidenced thereby or extend the time of payment of such interest or reduce the amount of principal evidenced thereby or reduce the amount of any Mandatory Sinking Account Payment or change the prepayment terms and provisions or the provisions regarding delivery of notice of prepayment without the prior written consent of the Owner of each Certificate so affected and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Trust Agreement prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Trust Agreement or deprive the Owners of the pledge contained in, and the lien and security interest created by, the Trust Agreement, except as expressly provided in the Trust Agreement, without the consent of the Owners of all of the Certificates then Outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), (iii) modify any of the rights or obligations of the Trustee without the prior written consent of the Trustee, or (iv) amend the provisions of the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement” without the prior written consent of the Owners of all Certificates then Outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

(b) The Trust Agreement and the rights and obligations of the District, the Corporation, if any, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement thereto which shall become binding upon execution, with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), but without the written consents of any Owners and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the District to be observed or performed in the Trust Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the District, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the District;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the District may deem desirable or necessary and not inconsistent therewith;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest evidenced by the Certificates; or

(iv) for any other reason, provided such amendment or supplement does not adversely affect the rights or interests of the Owners; provided, however, that the District and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this paragraph have been met with respect to such amendment or supplement.

The Trustee is not obligated to enter into any amendment or supplement that adversely affects the rights or obligations of the Trustee.

The Insurer shall be provided with a full original transcript of all proceedings relating to the amendment of or supplement to the Trust Agreement pursuant to the provisions of the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement.”

Disqualified Certificates. Certificates owned or held by or for the account of the District (but excluding Certificates held in any pension or retirement fund of the District) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT,” and shall not be entitled to consent to or take any other action provided in the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT,” and the Trustee may adopt appropriate regulations to require each Owner, before its consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Endorsement or Replacement of Certificates After Amendment or Supplement,” the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Certificate for such purpose at the Principal Office

of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates modified to conform to such action are necessary, modified Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. Subject to the receipt of the prior written consent of the Insurer as provided in the Trust Agreement described under the heading "AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement," the provisions of the Trust Agreement described under the heading "AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT" shall not prevent any Owner from accepting any amendment as to the particular Certificates owned by such Owner, provided that due notation thereof is made on such Certificates.

## **Defeasance**

Discharge of Trust Agreement. (a) If there shall be paid (i) to the Owners of all Outstanding Certificates the principal, interest and premium, if any, evidenced thereby at the times and in the manner stipulated in the Trust Agreement, and (ii) all other amounts due under the Trust Agreement and under the Lease Agreement, then the Owners shall cease to be entitled to the pledge of the assets provided for in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District under the Trust Agreement shall thereupon cease, terminate and become void and the Trust Agreement shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation and the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the principal, interest and premium, if any, evidenced by the Certificates.

(b) Subject to the provisions of paragraph (a) above, when any Certificate shall have been paid and if, at the time of such payment, each of the Corporation and the District shall have kept, performed and observed all of the covenants and promises in the Trust Agreement and the Lease Agreement required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Trust Agreement shall be considered to have been discharged in respect of such Certificate and such Certificate shall cease to be entitled to the pledge of the assets provided in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District under the Trust Agreement shall cease, terminate, become void and be completely discharged and satisfied as to such Certificate.

(c) Notwithstanding the discharge and satisfaction of the Trust Agreement or the discharge and satisfaction of the Trust Agreement in respect of any Certificate, those provisions of the Trust Agreement relating to the payment of the principal, interest and premium, if any, evidenced by Certificates, exchange and transfer of Certificates, replacement of mutilated, destroyed, lost or stolen Certificates, the safekeeping and cancellation of Certificates, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Certificate, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal, interest and premium, if any, evidenced by such Certificate, and to pay to the Owner of such Certificate the funds so held by the Trustee as and when such payment becomes due.

Certificates Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or prepayment of the principal evidenced by any Certificate and the payment of the interest evidenced thereby to the stated Principal Payment Date or prepayment date thereof, such

Certificate shall be deemed to have been paid within the meaning and with the effect provided in the provisions of the Trust Agreement described under the heading “DEFEASANCE – Discharge of Trust Agreement.” Any Outstanding Certificate shall prior to its stated Principal Payment Date or the prepayment date thereof be deemed to have been paid within the meaning of and with the effect expressed in the provisions of the Trust Agreement described under the heading “DEFEASANCE – Discharge of Trust Agreement,” if (i) in case any of such Certificates is to be prepaid on any date prior to its stated Principal Payment Date, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Trust Agreement related to prepayment notices, notice of prepayment of such Certificate on said prepayment date, said notice to be given in accordance with the provisions of the Trust Agreement related to prepayment notices, (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the interest evidenced by such Certificate to become due on and prior to its stated Principal Payment Date or the prepayment date thereof, as the case may be, and the principal and premium, if any, evidenced by such Certificate, and (iii) in the event such Certificate is not by its terms subject to prepayment within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Certificate that the deposit required by clause (ii) above has been made with the Trustee and that such Certificate is deemed to have been paid in accordance with the provisions of the Trust Agreement described under this heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” and stating stated Principal Payment Date or prepayment date upon which money is to be available for the payment of the principal and premium, if any, evidenced by such Certificate.

(b) No Certificate shall be deemed to have been paid pursuant to clause (ii) of paragraph (a) above unless (i) all amounts currently due to the Insurer under the Insurance Policy and to the Reserve Insurer under the Reserve Policy shall have been paid in full, and (ii) the District shall have caused to be delivered to the District and the Trustee (A) an executed copy of a Verification Report with respect to such deemed payment, addressed to the District, the Insurer and the Trustee, in form and in substance acceptable to the District, the Insurer and the Trustee, (B) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (a) above resulting in such deemed payment, which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, in form and in substance acceptable to the Insurer, and (C) a copy of an Opinion of Counsel, dated the date of such deemed payment and addressed to the District, the Insurer and the Trustee, in form and in substance acceptable to the District, the Insurer and the Trustee, to the effect that such Certificate has been paid within the meaning and with the effect expressed in the Trust Agreement, the Trust Agreement has been discharged in respect of such Certificate and all agreements, covenants and other obligations of the District and the Corporation under the Trust Agreement as to such Certificate have ceased, terminated, become void and been completely discharged and satisfied. In the event a forward purchase agreement is to be employed in connection with the Defeasance Securities purchased to defease Certificates, such agreement shall be subject to the approval of the Insurer and shall be accompanied by such opinions of counsel as may be required by the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five (5) Business Days prior to the funding of the escrow.

Unclaimed Moneys. Subject to the escheat laws of the State, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal evidenced by any of the Certificates which remain unclaimed for two years after the date when such interest or principal evidenced by such Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal

evidenced by such Certificates have become payable, shall, at the Written Request of the District be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal evidenced by such Certificates.

### **Insurance Policy and Reserve Policy Provisions**

Insurer To Be Deemed Owner; Rights of the Insurer; Payments by the Insurer; Notices. The provisions of the Trust Agreement described under this heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS,” shall apply notwithstanding any other provision of the Trust Agreement to the contrary so long as the Insurer is not in default in its payment obligations under the Insurance Policy.

(a) The Insurer shall at all times be deemed the sole and exclusive Owner of the Outstanding Certificates for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies, including but not limited to approval of or consent to any amendment of or supplement to the Trust Agreement which requires the consent or approval of the Owners of a majority of the aggregate principal evidenced by the Certificates then Outstanding pursuant to the Trust Agreement; provided, however, that the Insurer shall not be deemed to be the sole and exclusive Owner of the Outstanding Certificates with respect to any amendment or supplement to the Trust Agreement which seeks to amend or supplement the Trust Agreement for the purposes set forth in clauses (i), (ii) or (iv) of paragraph (a) of the provisions of the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement,” and provided further that the Insurer shall not be deemed the sole and exclusive Owner of the Outstanding Certificates with respect to any amendment or supplement to the Trust Agreement, and shall not have the right to direct or consent to District, Corporation, Trustee or Owner action as provided in the Trust Agreement, if:

(i) the Insurer shall be in payment default under the Insurance Policy and such failure shall continue for three Business Days;

(ii) any material provision of the Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested in writing by the Insurer; or

(iii) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer under Article 16 of the Insurance Law of the State of New York or any successor provision thereto and such proceeding is not terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding.

(b) To the extent that the Insurer makes payment of any interest or principal evidenced by a Certificate, it shall become the Owner of such portion of such Certificate and the right to receive payment of such interest or principal and shall be fully subrogated to all of the Owner’s rights thereunder in accordance with the terms of the Insurance Policy to the extent of such payment, including the Owner’s rights to payment thereof (which subrogation rights shall include the rights of any such Owner in connection with any Insolvency Proceeding). To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer’s rights as subrogee on the Registration Books upon receipt of proof from the Insurer as to payment of such interest to the Owner of the Certificate evidencing such interest, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer’s rights as subrogee on the Registration Books upon surrender of the Certificate evidencing such principal by the Owner thereof to the Trustee.

(c) In the event that the interest or principal evidenced by a Certificate shall be paid by the Insurer pursuant to the terms of the Insurance Policy, (i) such Certificate shall continue to be Outstanding under the Trust Agreement, (ii) the pledge of the amounts on deposit in the funds and accounts established under the Trust Agreement and all covenants, agreements and other obligations of the District under the Trust Agreement and under the Lease Agreement shall continue to exist, (iii) the Insurer shall be fully subrogated to all of the rights of such Owner in accordance with the terms and conditions of paragraph (b) above and the Insurance Policy, and (iv) neither the Trust Agreement nor the Lease Agreement shall be discharged unless and until all amounts due to the Insurer have been paid in full.

(d) If an event of default (within the meaning of the provisions of the Lease Agreement described under the heading "DEFAULTS AND REMEDIES") shall have occurred and be continuing, the Insurer may, regardless of whether a claim has been made under the Insurance Policy, at any time and at its sole option, pay to the Owners all or any portion of the interest or principal evidenced by the Certificates (at a price equal to 100% of the principal evidenced by the Certificates so purchased) prior to the stated Principal Payment Dates thereof; provided, however, that such payment by the Insurer shall not accelerate the District's obligation to make Rental Payments under the Lease Agreement. The Trustee shall accept such payments on behalf of the Owners and the Insurer's obligations under the Insurance Policy shall be discharged to the extent of such payments.

(e) The Insurer shall be notified (i) by the District at least 30 days (or such lesser time as agreed by the Insurer) in advance of the execution of any amendment of or supplement to the Trust Agreement and of any amendment to the Lease Agreement or the Ground Lease in the event consent of the Owners is not required for such amendment or supplement, (ii) by the Trustee within five Insurance Business Days of the Trustee's having knowledge of the occurrence of any event of default (within the meaning of the provisions of the Lease Agreement described under the heading "DEFAULTS AND REMEDIES"), and (iii) by the Trustee of any prepayment of Certificates (including the principal evidenced by, and the CUSIP numbers of, such Certificates to be prepaid) at the same time that the Owners of the Certificates to be prepaid are notified. In addition, all notices, reports, certificates and opinions (i) to be delivered to or by the Trustee or to the Owners or available at the request of the Owners pursuant to the Trust Agreement, or (ii) to be delivered by the District pursuant to the Lease Agreement or the Assignment Agreement shall also be delivered to the Insurer.

(f) The Trustee shall also notify the Insurer (i) immediately, upon the withdrawal of amounts on deposit in the Reserve Fund, other than amounts comprising investment earnings thereon which may be withdrawn in accordance with the terms of the Trust Agreement, upon a claim being made under any Reserve Facility or upon the determination that a deficiency in the Reserve Fund exists as a result of fluctuations in the market value of investments held therein, and (ii) immediately upon the resignation or removal of the Trustee or the appointment of a successor Trustee.

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

(h) Subject to and conditioned upon payment of any interest or principal evidenced by the Certificates by or on behalf of the Insurer, each Owner, by its purchase of Certificates, assigns to the Insurer, but only to the extent of all payments made by the Insurer, all rights to the payment of interest or principal evidenced by the Certificates, including, without limitation, any amounts due to the Owners in respect of securities law violations arising from the offer and sale of the Certificates, which are then due for payment. The Insurer may exercise any option, vote, right, power or the like with respect to Certificates to the extent it has made a payment of principal evidenced by Certificates pursuant to the Insurance Policy. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to

the Insurer in respect of such payments. The Trustee shall take such action and deliver such instruments as may be reasonably requested or required by the Insurer to effectuate the purpose or provisions of this paragraph.

(i) The Insurer shall have the right to advance any payment required to be made by the District in order to prevent an event of default under the Trust Agreement and the Trustee shall be required to accept such advance. The District shall, upon demand, reimburse the Insurer for any such advance.

(j) The rights granted under the Trust Agreement, the Lease Agreement or the Ground Lease to the Insurer to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit of or on behalf of the Owners, nor does such action evidence any position of the Insurer, positive or negative, as to whether Owner consent is required in addition to consent of the Insurer.

(k) The District agrees, to the extent permitted by law, to pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement, (ii) the pursuit of any remedies under the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement, or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement, or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement.

(l) The Insurer shall be entitled to pay principal or interest evidenced by the Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined in the Insurance Policy) thereof in accordance with the Trust Agreement, whether or not the Insurer has received a Notice (as defined in the Insurance Policy) of Nonpayment or a claim upon the Insurance Policy.

(m) The Trustee shall promptly notify the Insurer of either of the following as to which it has actual knowledge: (i) the commencement of any proceeding by or against the District or the Corporation commenced under the United States Bankruptcy Code or any successor statute or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding"), and (ii) the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer (a "Preference Claim") of any payment of interest or principal evidenced by the Certificates. Each Owner, by its purchase of Certificates, and the Trustee agrees that the Insurer may at any time during the continuation of an Insolvency Proceeding direct all matters relating to such Insolvency Proceeding, including, without limitation, (i) all matters relating to any Insolvency Proceeding or Preference Claim, (ii) the direction of any appeal of any order relating to any Insolvency Proceeding or Preference Claim, (iii) the posting of any surety, supersedes or performance bond pending any such appeal, and (iv) to accept or reject any plan of adjustment. In addition, the Trustee (solely with respect to the Certificates) and each Owner delegate and assign to the Insurer to the fullest extent permitted by law, the rights of the Trustee and each Owner in the conduct of any Insolvency Proceeding, including, without limitation, any rights of any party to an adversary proceeding action with respect to any court order issued in connection with any such Insolvency Proceedings.



(n) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Trust Agreement would adversely affect the security for the Certificates or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

(o) Any reorganization or liquidation plan with respect to the District must be acceptable to the Insurer. In the event of any such reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

(p) The District will permit the Insurer to discuss the affairs, finances and accounts of the District or any information the Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the District and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the District on any Business Day upon reasonable prior notice.

(q) The obligations set forth in paragraphs (k) and (m) above shall survive discharge or termination of the Trust Agreement and the Lease Agreement.

Deposits to Policy Payments Account; Payments Under the Insurance Policy. (a) So long as the Insurance Policy shall be in full force and effect, the District and the Trustee agree to comply with the provisions of the Trust Agreement described under the heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Deposits to Policy Payments Account; Payments Under the Insurance Policy.”

(b) If, on the third Insurance Business Day prior to a Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date there is not on deposit with the Trustee, after making all transfers and deposits required under the Trust Agreement, moneys sufficient to pay the interest or principal evidenced by the Certificates due on such Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date, the Trustee shall give notice to the Insurer and to the Insurer’s Fiscal Agent (if any) by telephone or teletype of the amount of such deficiency by 12:00 noon, New York City time, on such Insurance Business Day. If, on the second Insurance Business Day prior to such Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date, there continues to be a deficiency in the amount available to pay the interest or principal evidenced by the Certificates due on such Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay the interest evidenced by the Certificates and the amount required to pay principal evidenced by the Certificates, confirmed in writing to the Insurer and the Insurer’s Fiscal Agent (if any) by 12:00 noon, New York City time, on such second Insurance Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(c) The Trustee shall designate any portion of principal evidenced by Certificates paid by the Insurer, whether by virtue of Mandatory Sinking Account Payment, the stated Principal Payment Date or the Insurer’s election to pay said amounts prior to the stated Principal Payment Date pursuant to paragraph (e) of the Trust Agreement described under the heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Insurer To Be Deemed Owner; Rights of the Insurer; Payments by the Insurer; Notices,” on its books as a reduction in the principal evidenced by Certificates registered to the then current Owners, whether DTC or its nominee or otherwise, and shall issue a replacement Certificate to the Insurer, registered in the name of Assured Guaranty Municipal Corp., evidencing principal in an amount equal to the principal so paid (without regard to Authorized Denominations); provided that the Trustee’s failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of

principal or interest evidenced by any Certificate payable by the District or the subrogation rights of the Insurer.

(d) The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of the interest and principal evidenced by any Certificate. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners known as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners in the same manner as payments of interest and principal evidenced by the Certificates are to be made with respect to the Certificates under the provisions of the Trust Agreement. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to make payments of interest and principal with other funds available to make such payments.

If, as a result of the District's non-payment, when due, of all or a portion of a Base Rental Payment (other than a non-payment caused by an abatement of Rental Payments pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), the Insurer has paid interest or principal evidenced by the Certificates pursuant to the Insurance Policy, (i) the first of Base Rental Payments thereafter received from the District under the Lease Agreement that are not required to be paid to the Reserve Insurer pursuant to paragraph (f) of the Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund," and (ii) the interest payable with respect to such delinquent Base Rental Payments, calculated at the Insurer Rate as provided in the Lease Agreement described under the heading "RENTAL PAYMENTS – Payment Provisions," shall be paid to the Insurer, as the Owner of the Certificates (or portions thereof) evidencing such delinquent Base Rental Payment in repayment of such payment by the Insurer until such payment is paid in full. If, as a result of the District's non-payment of all or a portion of a Base Rental Payment (which non-payment is caused by an abatement of Rental Payments pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), the Insurer has paid interest or principal evidenced by the Certificates pursuant to the Insurance Policy, the Insurer, as the Owner of the Certificates (or portions thereof) representing such abated Base Rental Payment, shall be entitled to receive, during the extension of the term of the Lease Agreement provided for in the Lease Agreement described under the heading "LEASE OF PROPERTY; TERM – Term; Occupancy," any amounts paid in respect of such abated and unpaid Base Rental Payment pursuant to paragraph (c) of the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Base Rental Payments" and "RENTAL PAYMENTS – Payment Provisions" of the Lease Agreement that are not required to be paid to the Reserve Insurer pursuant to paragraph (f) of the Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund." Any such payment by the District pursuant to the provisions of the Trust Agreement described under this heading "INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Deposits to Policy Payments Account; Payments Under the Insurance Policy," shall be applied first to the interest component of such delinquent Base Rental Payment due the Insurer and second to the principal components of such delinquent Base Rental Payment due the Insurer.

(e) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date shall promptly be remitted to the Insurer.

Reporting Requirements. (a) The District shall provide to the Insurer (i) within 180 days after the end of each fiscal year of the District, a Written Certificate of the District certifying that the District is not aware of any event of default or of any default under the Trust Agreement or under the Lease Agreement, (ii) within 180 days after the end of each fiscal year of the District, audited financial statements for such fiscal year, (iii) within 30 days after the approval thereof, each annual budget of the District, and, (iv) from time to time, such other information, data or reports as the Insurer may reasonably request.

(b) The Trustee shall provide the Insurer with notice of any default under the Trust Agreement or under the Lease Agreement within five Business Days of obtaining knowledge thereof. The District shall provide the Insurer with notice of any default under the Trust Agreement or under the Lease Agreement within five Business Days of obtaining knowledge thereof.

(c) The District shall provide the Insurer with prior notice of the advance refunding or prepayment of any of the Certificates, including the principal amount, maturities and CUSIP numbers thereof.

(d) The District shall provide the Insurer with notice of the resignation or removal of the Trustee or the Depository, and the appointment of, and acceptance of duties by, any successor thereto.

(e) Each of the District and the Trustee agrees that it will, if it has actual knowledge thereof, promptly notify the Insurer of (i) the commencement of any Insolvency Proceeding by or against the District, and (ii) the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal or interest evidenced by the Certificate.

(f) The Trustee shall, at the time any report, notice or correspondence is delivered to Owners of the Certificates pursuant to the provisions of the Trust Agreement, deliver a copy of such report, notice or correspondence to the Insurer.

(g) The District shall provide the Insurer with all information furnished pursuant to the Continuing Disclosure Certificate simultaneously with the furnishing of such information.

(h) The Trustee shall notify the Insurer of any failure of the District to provide notices, certificates and other information under the Trust Agreement or the Lease Agreement.

Reserve Policy Provisions. As long as the Reserve Policy shall be in full force and effect, the Trustee agrees to comply with the following provisions:

(a) If, on the fifth Insurance Business Day prior to a Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date moneys on deposit in the Base Rental Payment Fund, the Interest Fund and/or the Principal Fund, as applicable, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Policy, are insufficient to pay the amount of principal and interest coming due, the Trustee shall give notice to the Reserve Insurer by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day.

(b) The District agrees, to the extent permitted by law, to pay or reimburse the Reserve Insurer any and all charges, fees, costs and expenses which the Reserve Insurer may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with any actions taken to facilitate payments under the Reserve Policy or the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Trust Agreement or the Lease Agreement. For purposes of the foregoing, costs and expenses shall include a reasonable allocation of

compensation with the actions described in the preceding sentence. The District agrees that failure to pay such costs and expenses on a timely basis will result in the accrual of interest on the unpaid amount at the Insurer Rate, compounded semi-annually, from the date that payment is first due to the Reserve Insurer until the date the Reserve Insurer is paid in full. The obligations set forth in this paragraph shall survive discharge or termination of the Trust Agreement and the Lease Agreement.

## **Miscellaneous**

Benefits of Trust Agreement. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Trustee, the Corporation, the District, the Insurer, the Reserve Insurer and the Owners any claim, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term required in the Trust Agreement to be observed or performed by or on behalf of the District or the Corporation shall be for the sole and exclusive benefit of the Trustee, the Corporation, the District, the Insurer, the Reserve Insurer and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Trustee, the Corporation or the District, or any officer thereof, is named or referred to in the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Trustee, the Corporation or the District, or such officer, and all agreements, conditions, covenants and terms required by the Trust Agreement to be observed or performed by or on behalf of the Trustee, the Corporation or the District, or any officer thereof, shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the Registration Books.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer or employee of the District shall be individually or personally liable for the payment of any moneys, including without limitation, the interest or principal evidenced by the Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or by the Trust Agreement.

Acquisition of Certificates by District. All Certificates acquired by the District, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Written Certificate of the District and every Written Certificate of the Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person making or giving such certificate has read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based, (c) a statement that, in the opinion of the signer, the signer has made or caused to be made such examination or investigation as is necessary to enable the signer to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with, and (d) a statement as to whether, in the opinion of the signer, such agreement, condition, covenant or term has been complied with.

Any Written Certificate of the District and any Written Certificate of the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which each person's certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information which is in the possession of the District or the Corporation upon a representation by an officer or officers of the District or the Corporation, as the case may be, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which such counsel's opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Funds and Accounts. Any fund or account required to be established and maintained in the Trust Agreement by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners.

The Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; provided, however, that the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Third-Party Beneficiary. The Insurer is a third-party beneficiary of the Trust Agreement.

Governing Law. The Trust Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX C**

**FORM OF SPECIAL COUNSEL OPINION**

*Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, proposes to render its final approving opinion in substantially the following form:*

[Date of Delivery]

El Dorado Union High School District  
Placerville, California

El Dorado Union High School District  
Refunding Certificates of Participation, Series 2019  
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the El Dorado Union High School District (the “District”) in connection with the execution and delivery of the El Dorado Union High School District Refunding Certificates of Participation, Series 2019 (the “Certificates”), evidencing principal in the aggregate amount of \$\_\_\_\_\_, executed and delivered on the date hereof, pursuant to the Trust Agreement, dated as of November 1, 2019 (the “Trust Agreement”), by and among Zions Bancorporation, National Association, as trustee (the “Trustee”), the El Dorado Union High School District Financing Corporation (the “Corporation”) and the District. In such connection, we have reviewed the Trust Agreement, the Lease Agreement, dated as of November 1, 2019 (the “Lease Agreement”), by and between the District and the Corporation, the Ground Lease, dated as of November 1, 2019 (the “Ground Lease”), by and between the District and the Corporation, the Assignment Agreement, dated as of November 1, 2019 (the “Assignment Agreement”), by and between the Corporation and the Trustee, the Tax Certificate of the District, dated the date hereof (the “Tax Certificate”), opinions of counsel to the District, the Corporation and the Trustee, certificates of the District, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Lease Agreement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District and the Corporation. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the

opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the portion of Base Rental Payments designated as and constituting interest evidenced by the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts and nonprofit public benefit corporations in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated \_\_\_\_\_, 2019, or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Trust Agreement, the Lease Agreement and the Ground Lease have been duly executed and delivered by, and constitute valid and binding obligations of, the District.
2. The Lease Agreement, the Ground Lease and the Assignment Agreement have been duly executed and delivered by, and constitute the valid and binding obligations of, the Corporation.
3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.
4. The portion of each Base Rental Payment designated as and constituting interest paid by the District under the Lease Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest evidenced by the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of the Certificates, or the amount, accrual or receipt of the portion of each Base Rental Payment constituting interest.

Faithfully yours,



## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is executed and delivered by the El Dorado Union High School District (the “District”) in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of the El Dorado Union High School District Refunding Certificates of Participation, Series 2019 (the “Certificates”). The Certificates are being executed and delivered pursuant to the Trust Agreement, dated as of November 1, 2019 (the “Trust Agreement”), by and among Zions Bancorporation, National Association, as trustee (the “Trustee”), El Dorado Union High School District Financing Corporation and the District. The District covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

**“Beneficial Owner”** shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

**“Dissemination Agent”** shall mean Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

**“Financial Obligation”** shall mean, for purposes of the Listed Events set out in Section 5(a)(10) and Section (5)(b)(8), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

**“Holder”** shall mean the person in whose name any Certificate shall be registered.

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

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

“**Official Statement**” shall mean the Official Statement, dated \_\_\_\_\_, 2019, relating to the Certificates.

“**Participating Underwriter**” shall mean the original underwriter(s) of the Certificates required to comply with the Rule in connection with execution and delivery of the Certificates.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. Provision of Annual Reports.**

(a) The District shall, or shall cause the Dissemination Agent to, not later than 290 days after the end of the District’s fiscal year (which shall be April 15 of each year, so long as the District’s fiscal year ends June 30), commencing with the report for the 2018-19 fiscal year (which is due not later than April 15, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Certificates by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

**SECTION 4. Content of Annual Reports.** The District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

- (1) The District’s Average Daily Attendance and aggregate LCFF Revenues;
- (2) The District’s contributions to the State Public Employees’ Retirement System and the State Teachers’ Retirement System for the last completed fiscal year;

- (3) The District's adopted budget for the current fiscal year, together with any amendments thereto;
- (4) Information regarding total assessed valuation of taxable properties within the District and the District's total property tax levy, in each case for the current fiscal year, if and to the extent provided to the District by the county in which the District is located (the "County");
- (5) Outstanding borrowings and long-term obligations, including:
  - (i) general obligation bonds, certificates of participation, and capital leases;
  - (ii) a description of any obligations of the type referred to in (i) above that have been issued, entered into or incurred since the beginning of the District's current fiscal year; and
  - (iii) a description of any obligations of the type referred to in (i) above that the District reasonably expected to be issued, entered into or incurred within the 60 day period following the date of filing of the Annual Report;

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

**SECTION 5. Reporting of Significant Events.**

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates in a timely manner not later than ten business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes;
- (9) Bankruptcy, insolvency, receivership or similar event of the District; or
- (10) 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.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) 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, in a timely manner not later than ten business days after the occurrence of the event:

- (1) Unless described in Section 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;
- (2) Modifications to rights of holders of the Certificates;
- (3) Optional, unscheduled or contingent Certificate calls;
- (4) Release, substitution, or sale of property securing repayment of the Certificates;
- (5) Non-payment related defaults;
- (6) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (7) Appointment of a successor or additional trustee or the change of name of a trustee;  
or
- (8) Incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Certificate holders.

(c) Upon the occurrence of a Listed Event described in Section 5(a) of this Disclosure Certificate, or upon the occurrence of a Listed Event described in Section 5(b) of this Disclosure Certificate which the District determines would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(b)(3) 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.

(d) The District intends to comply with the Listed Events described in Section 5(a)(10) and Section 5(b)(8), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

**SECTION 6. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**SECTION 7. Termination of Reporting Obligation.** The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final principal payment date of the Certificates, the District shall give notice of such termination in a filing with the MSRB.

**SECTION 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices.

**SECTION 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District with respect to the Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery 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 or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

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

**SECTION 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**SECTION 11. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of El Dorado or in U.S. District Court in or nearest to the County of El Dorado. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**SECTION 12. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2019

**EL DORADO UNION HIGH SCHOOL  
DISTRICT**

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

ACCEPTED AND AGREED TO:

**FIELDMAN, ROLAPP & ASSOCIATES, INC.  
DOING BUSINESS AS APPLIED BEST PRACTICES,  
as Dissemination Agent**

By: \_\_\_\_\_  
Authorized Signatory

**CONTINUING DISCLOSURE EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: El Dorado Union High School District  
Name of Issue: El Dorado Union High School District  
Refunding Certificates of Participation, Series 2019  
Date of Delivery: \_\_\_\_\_, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by Section 4 of the Continuing Disclosure Certificate of the District, dated the Date of Delivery. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**EL DORADO UNION HIGH SCHOOL  
DISTRICT**

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

[THIS PAGE INTENTIONALLY LEFT BLANK]



**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 30, 2019**

**NEW ISSUE  
FULL BOOK-ENTRY**

**RATINGS: S&P (insured): "AA"  
S&P (underlying): "A+"  
(See "RATINGS" herein)**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the District under the Lease Agreement and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates, or the amount, accrual or receipt of the portion of each Base Rental Payment constituting interest. See "TAX MATTERS."*

**\$2,650,000\***  
**EL DORADO UNION HIGH SCHOOL DISTRICT  
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

**Dated: Date of Delivery**

**Due: December 1, as described herein**

This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. Capitalized terms used in this cover page shall have the meanings given such terms herein.

The El Dorado Union High School District Refunding Certificates of Participation, Series 2019, in the aggregate principal amount of \$2,650,000\* (the "Certificates"), evidence direct, fractional undivided interests of the Owners thereof in certain Base Rental Payments (which include principal components and interest components) to be made by the El Dorado Union High School District (the "District") for the use of certain real property and the improvements thereon (the "Property") pursuant to a Lease Agreement, dated as of October 1, 2019 (the "Lease Agreement"), by and between the District, as lessee, and the El Dorado Union High School District Financing Corporation (the "Corporation"), as lessor. The proceeds of the Certificates, together with other available funds, will be used to (i) redeem a portion of the outstanding El Dorado Union High School District (El Dorado County, California) 2009 Refunding Certificates of Participation, (ii) purchase a debt service reserve policy to satisfy the reserve requirement for the Certificates, and (iii) pay the costs incurred in connection with the execution and delivery of the Certificates.

The District has covenanted under the Lease Agreement to make all Base Rental Payments and Additional Rental Payments (collectively, the "Rental Payments") provided for therein, to include all such Rental Payments as a separate line item in its annual budgets, and to make the necessary annual appropriations for all such Rental Payments. The District's obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property. See "RISK FACTORS – Abatement."

Interest evidenced by the Certificates is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2019. See "THE CERTIFICATES" herein.

The Certificates will be initially delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be delivered in denominations of \$5,000 or any integral multiple thereof. Principal and interest payments evidenced by the Certificates are payable directly to DTC by Zions Bancorporation, National Association, as trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to DTC Participants for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES – Book-Entry Only System" herein.

The Certificates are subject to prepayment prior to maturity as described herein. See "THE CERTIFICATES – Prepayment."

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

The scheduled payment of principal of and interest evidenced by the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the execution and delivery of the Certificates by ASSURED GUARANTY MUNICIPAL CORP.



See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

**MATURITY SCHEDULE – See Inside Cover**

*The Certificates will be offered when, as and if executed, delivered and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District; for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California; for the District and the Corporation by Kronick, Moskovitz, Tiedemann & Girard, Sacramento, California. It is anticipated that the Certificates in book-entry form will be available for delivery through the facilities of DTC on or about October 22, 2019.*

**RAYMOND JAMES**

Dated: \_\_\_\_\_, 2019

\* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful.

**MATURITY SCHEDULE**  
**BASE CUSIP<sup>†</sup>: 283082**

**\$2,650,000\***  
**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

\$ _____ Serial Certificates				
Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	CUSIP Number <sup>†</sup>
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				

\$ \_\_\_\_\_ % Term Certificates due December 1, 20\_\_ Yield \_\_\_\_\_% CUSIP Number<sup>†</sup> \_\_\_\_

\$ \_\_\_\_\_ % Term Certificates due December 1, 20\_\_ Yield \_\_\_\_\_% CUSIP Number<sup>†</sup> \_\_\_\_

---

\* Preliminary; subject to change.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright © 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Corporation, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

# **EL DORADO UNION HIGH SCHOOL DISTRICT**

## **BOARD OF TRUSTEES**

Timothy M. Cary, *President*  
Kevin W. Brown, *Clerk*  
Jessica K. Rodgers, *Member*  
David J. Del Rio, *Member*  
Lori M. Veerkamp, *Member*

## **DISTRICT ADMINISTRATORS**

Ron Carruth, *Superintendent*  
Robert Whittenberg, *Assistant Superintendent, Business Services*

## **PROFESSIONAL SERVICES**

### **Special Counsel and Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP  
*Irvine, California*

### **Municipal Advisor**

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

### **Counsel to the District and the Corporation**

Kronick, Moskovitz, Tiedemann & Girard  
*Sacramento, California*

### **Trustee and Escrow Bank**

Zions Bancorporation, National Association  
*Los Angeles, California*

### **Underwriter's Counsel**

Norton Rose Fulbright US LLP  
*Los Angeles, California*

### **Verification Agent**

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

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

The Certificates are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

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

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

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “CERTIFICATE INSURANCE” and APPENDIX G – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget,” “intend” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

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

In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices of the Certificates at levels 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 securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

## TABLE OF CONTENTS

	Page
INTRODUCTION .....	1
The District .....	1
Security and Sources of Payment for the Certificates .....	1
Certificate Insurance .....	2
Reserve Fund; Reserve Policy .....	3
Purpose of the Certificates .....	3
Description of the Certificates .....	3
Offering and Delivery of the Certificates .....	4
Certificate Owners' Risks .....	4
Continuing Disclosure .....	4
Recent Payment Delinquencies .....	4
Forward-Looking Statements .....	5
Other Information .....	5
THE CERTIFICATES .....	5
General .....	5
Prepayment .....	6
Book-Entry Only System .....	9
SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES .....	10
Nature of the Certificates .....	10
Base Rental Payments .....	10
Base Rental Payments Schedule .....	12
Additional Rental Payments .....	12
Covenant to Appropriate Funds .....	13
Abatement .....	13
Reserve Fund .....	13
Insurance .....	14
Action on Default .....	15
CERTIFICATE INSURANCE .....	15
Bond Insurance Policy .....	15
Assured Guaranty Municipal Corp .....	16
THE PROPERTY .....	18
General .....	18
Substitution or Release .....	18
THE REFUNDING PLAN .....	19
ESTIMATED SOURCES AND USES OF FUNDS .....	20
RISK FACTORS .....	20
General Considerations and Other Obligations .....	20
Abatement .....	21
Absence of Earthquake and Flood Insurance .....	21
Limited Recourse on Default .....	21
No Acceleration Upon Default .....	22
Substitution or Release of Property .....	22
Bankruptcy .....	22
Loss of Tax Exemption .....	24
Hazardous Substances .....	25
Seismic Factors .....	25
Economic Conditions in California .....	25
No Liability of Corporation to the Owners .....	25
THE CORPORATION .....	26

# TABLE OF CONTENTS

(continued)

	Page
DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION.....	26
Introduction .....	26
Board of Trustees .....	26
Superintendent and Business Services Personnel.....	27
State Funding of Education; State Budget Process.....	27
Local Sources of Education Funding .....	35
Other District Revenues .....	36
Local Property Taxation.....	36
Tax Charges and Delinquencies .....	42
Teeter Plan .....	43
Charter Schools .....	43
Significant Accounting Policies and Audited Financial Reports.....	44
District Budget Process and County Review.....	48
District Debt Structure.....	52
Direct and Overlapping Debt .....	55
Employment .....	57
Retirement Benefits.....	57
Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures.....	62
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS .....	62
Limitations on Revenues .....	62
Article XIII B of the California Constitution .....	63
Article XIII C and Article XIII D of the California Constitution .....	63
Statutory Limitations .....	64
Proposition 98 and Proposition 111 .....	64
Assembly Bill No. 26 & <i>California Redevelopment Association v. Matosantos</i> .....	65
Proposition 30 and Proposition 55 .....	66
Applications of Constitutional and Statutory Provisions.....	66
Proposition 2 .....	66
Future Initiatives .....	68
ESCROW VERIFICATION.....	68
RATINGS .....	68
TAX MATTERS .....	68
CERTAIN LEGAL MATTERS .....	70
MUNICIPAL ADVISOR .....	71
ABSENCE OF MATERIAL LITIGATION.....	71
UNDERWRITING .....	71
MISCELLANEOUS.....	71
APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.....	A-1
APPENDIX B – FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.....	B-1
APPENDIX C – FORM OF SPECIAL COUNSEL OPINION.....	C-1
APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	D-1
APPENDIX E – EL DORADO COUNTY INVESTMENT POLICY AND DESCRIPTION OF INVESTMENT POOL.....	E-1
APPENDIX F – BOOK-ENTRY ONLY SYSTEM.....	F-1
APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.....	G-1

## OFFICIAL STATEMENT

**\$2,650,000\***

### **EL DORADO UNION HIGH SCHOOL DISTRICT REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

#### **INTRODUCTION**

This Official Statement (which includes the cover page, inside cover page, and Appendices hereto) (this “Official Statement”), provides certain information concerning the sale and delivery of El Dorado Union High School District Refunding Certificates of Participation, Series 2019, in the aggregate principal amount of \$2,650,000\* (the “Certificates”). The Certificates evidence direct, fractional undivided interests of the registered owners (the “Owners”) thereof in certain base rental payments (the “Base Rental Payments”) to be made by the El Dorado Union High School District (the “District”) for the use of certain real property and the improvements thereon (the “Property”), as more fully described under the caption “THE PROPERTY” herein. The Property will be leased by the District from the El Dorado Union High School District Financing Corporation (the “Corporation”) pursuant to a Lease Agreement, dated as of October 1, 2019 (the “Lease Agreement”), by and between the District and the Corporation.

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

#### **The District**

The District is located in Northern California in the Sierra Nevada foothills between Sacramento and Lake Tahoe. The District was established in 1905 and occupies approximately 1,200 square miles, including portions of the City of Placerville, El Dorado County, California (the “County”), and unincorporated portions of the County. The District operates four comprehensive high schools, one continuation high school, a virtual academy charter school, a career technical/regional occupational program and an independent study program. Total budgeted fiscal year 2019-20 enrollment is approximately 6,635 students (not including enrollment at EDUHSD Virtual Academy at Shenandoah Charter School (“Shenandoah Virtual Academy”)).

For more complete information concerning the District, including certain financial information, see “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION” herein. The District’s audited financial statements for the fiscal year ended June 30, 2018 are included as Appendix B, and should be read in their entirety.

#### **Security and Sources of Payment for the Certificates**

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2019 (the “Trust Agreement”), by and among Zions Bancorporation, National Association, as trustee (the “Trustee”), the Corporation and the District, and evidence direct, fractional undivided interests in the

---

\* Preliminary; subject to change.

Base Rental Payments to be made by the District under the Lease Agreement for the use of the Property. See “THE PROPERTY.”

The District will enter into a Ground Lease, dated as of October 1, 2019 (the “Ground Lease”) pursuant to which the District will lease the Property to the Corporation. The Corporation will then sublease the Property back to the District pursuant to the Lease Agreement. The Lease Agreement will obligate the District to make Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, reasonable administrative costs of the Corporation relating to the Property, fees and expenses of the Trustee, insurance premiums and other amounts payable under the Lease Agreement and the Trust Agreement as further described herein). Base Rental Payment and Additional Rental Payments are collectively referred to as “Rental Payments.”

The Trustee and the Corporation will enter into an Assignment Agreement, dated as of October 1, 2019 (the “Assignment Agreement”), pursuant to which the Corporation will sell, assign and transfer to the Trustee for the benefit of the Certificate Owners substantially all of the Corporation’s right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement, provided that the Corporation will retain the right to indemnification and to payment of its reasonable costs and expenses under the Lease Agreement.

The District covenants under the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

Base Rental Payments are subject to complete or partial abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District’s right to use and occupy any portion of the Property. See “RISK FACTORS – Abatement.” Abatement of Base Rental Payments under the Lease Agreement, to the extent payment is not made from alternative sources as set forth below, could result in all Certificate Owners receiving less than the full amount of principal and interest evidenced by the Certificates. To the extent proceeds of insurance are available or there are amounts available in the Reserve Fund or other funds established under the Trust Agreement (as described below), Base Rental Payments (or a portion thereof) may be made during periods of abatement.

THE OBLIGATION OF THE DISTRICT TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

For more complete and detailed information, see “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES.” For a discussion of certain risks associated with the District’s ability to make Base Rental Payments for the Property, see “RISK FACTORS.”

### **Certificate Insurance**

Concurrently with the execution and delivery of the Certificates, Assured Guaranty Municipal Corp. (“AGM” or “Insurer”) will issue its Municipal Bond Insurance Policy for the Certificates (the “Insurance Policy”). The Insurance Policy guarantees the scheduled payment of principal of and interest



evidenced by the Certificates when due as set forth in the form of the Insurance Policy included as Appendix G to this Official Statement.

### **Reserve Fund; Reserve Policy**

The Reserve Fund has been established for the benefit of the Certificate Owners. Upon the execution and delivery of the Certificates, a municipal bond debt service reserve insurance policy (the “Reserve Policy”), in an amount equal to the initial Reserve Requirement, issued by Assured Guaranty Municipal Corp. (the “Reserve Insurer”), will be deposited in the Reserve Fund for the Certificates. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Reserve Fund.”

### **Purpose of the Certificates**

The proceeds of the Certificates, together with other available funds, will be used to (i) redeem a portion of the outstanding El Dorado Union High School District (El Dorado County, California) 2009 Refunding Certificates of Participation (the “Prior Certificates”), (ii) purchase the Reserve Policy, and (iii) pay the costs incurred in connection with the execution and delivery of the Certificates. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

### **Description of the Certificates**

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be delivered in denominations of \$5,000 or any integral multiple thereof. Principal and interest payments evidenced by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to DTC Participants for subsequent disbursement to the Beneficial Owners (as defined in the Trust Agreement) of the Certificates. See “THE CERTIFICATES – General” and APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Interest evidenced by the Certificates is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2019. See “THE CERTIFICATES – General.”

The Certificates are subject to prepayment prior to maturity as described herein. See “THE CERTIFICATES – Prepayment.”

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see “THE CERTIFICATES,” “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES” and APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” The summaries and descriptions in this Official Statement of the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Continuing Disclosure Certificate and other agreements relating to the Certificates are qualified in their entirety by the respective form thereof and the information with respect thereto included in such documents. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Trust Agreement or the Lease Agreement shall have the same meanings assigned to such terms as set forth therein. See APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS.”

## **Offering and Delivery of the Certificates**

The Certificates will be offered when, as and if executed, delivered and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, and the satisfaction of certain other conditions. It is anticipated that the Certificates will be available in book-entry form for delivery through the facilities of DTC on or about October 22, 2019 (the “Delivery Date”).

## **Certificate Owners’ Risks**

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

## **Continuing Disclosure**

The District has covenanted for the benefit of the holders and Beneficial Owners of the Certificates to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than 290 days following the end of the District’s fiscal year (currently ending June 30), commencing with the report for fiscal year 2018-19 (which is due no later than April 15, 2020) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

Fieldman, Rolapp & Associates, Inc. currently serves as the District’s Dissemination Agent with respect to its prior continuing disclosure undertakings pursuant to the Rule and with respect to the Certificates.

## **Recent Payment Delinquencies**

***Certificates of Participation.*** On May 1, 2019, the County issued a check at the request and on behalf of the District for the rental payment related to the Prior Certificates due on June 1, 2019; however it was not received by the Trustee. The Trustee timely made the interest payment evidenced by the Prior Certificates to DTC, and carried an overdraft balance on the District’s account until June 5, 2019, when the District caused the County to reissue the rental payment via an automated clearing house (“ACH”) payment to the Trustee.

In order to avoid administrative issues related to check remittance, the District is working with the County to send the future rental payments evidenced by the Prior Certificates by ACH payment or wire transfer as opposed to issuing a check.

***General Obligation Bonds.*** On February 1, 2017, there was a payment default with respect to the District’s General Obligation Bonds, Election of 2008, Series 2010 (the “Series 2010 Bonds”) and General Obligation Bonds, Election of 2008, Series 2012 (the “Series 2012 Bonds”), due to the District’s delayed receipt of an invoice from the paying agent (the “Prior Paying Agent”) for the Series 2010 Bonds and Series 2012 Bonds. The District received the invoices for the debt service payments on February 1, 2017 and

caused such payments to be made to the Prior Paying Agent on February 7, 2017. The Prior Paying Agent made the payments due on the Series 2010 Bonds and the Series 2012 Bonds to DTC on February 10, 2017.

The District cannot provide any assurances as to the timely receipt of invoices in the future. Subsequent to such payment delinquency, the Trustee was appointed as the paying agent for the Series 2010 Bonds and the Series 2012 Bonds.

### **Forward-Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget,” “intend” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

### **Other Information**

This Official Statement is current only as of its date, and the information contained herein is subject to change. Copies of the Ground Lease, the Lease Agreement, the Assignment Agreement, the Trust Agreement and the Continuing Disclosure Certificate are available for inspection at the District and, following delivery of the Certificates, will be on file at the offices of the Trustee in Los Angeles, California.

## **THE CERTIFICATES**

### **General**

The Certificates evidence and represent direct, fractional undivided interests of the Owners thereof in the principal and interest components of Base Rental Payments to be made by the District pursuant to the Lease Agreement.

The Certificates are dated the date of original delivery thereof and will be executed and delivered in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). The interest components evidenced by the Certificates will be due and payable semiannually on June 1 and December 1 of each year, commencing December 1, 2019 (each an “Interest Payment Date”).

The interest evidenced by the Certificates will be computed on the basis of a 360-day year consisting of twelve, 30-day months. Each Certificate shall evidence interest from the Interest Payment Date next preceding its date of execution to which interest has been paid in full, unless such date of execution shall be after the 15th day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day (a “Record Date”) and on or prior to the following Interest Payment Date, in which case such Certificate shall evidence interest from such Interest Payment Date, or unless such date of execution shall be on or prior to November 15, 2019, in which case such Certificate shall represent interest from the Delivery Date. Notwithstanding the foregoing, if, as shown by the records of the Trustee, interest evidenced by the Certificates shall be in default, each Certificate shall evidence interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

The Base Rental Payments evidenced by the Certificates will be payable by the District and deposited with the Trustee no later than the 15th day next preceding each Interest Payment Date (each a “Base Rental Deposit Date”). The principal components of the Base Rental Payments will evidence interest components calculated at the rates per annum, all as set forth on the front inside cover page of this Official Statement.

The Certificates will be subject to the Book-Entry System of registration, transfer and payment, and each Certificate will initially be registered in the name of Cede & Co., as nominee of DTC. As part of such Book-Entry System, DTC has been appointed securities depository for the Certificates, and registered ownership may not thereafter be transferred except as provided in the Trust Agreement. The Certificates are being delivered in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Certificates. Rather, in accordance with the Book-Entry System, purchasers of each Certificates will have beneficial ownership interests in the purchased Certificates through DTC Participants. For more information concerning the Book-Entry System, see “THE CERTIFICATES – Book-Entry Only System.”

While the Certificates are subject to the Book-Entry System, payments of principal and interest with respect to the Certificates will be made by the Trustee to DTC, which in turn is obligated to remit such principal and interest to its DTC Participants for subsequent disbursement to Beneficial Owners of the Certificates as described herein. See “THE CERTIFICATES – Book-Entry Only System” and APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

#### **Prepayment\***

***Optional Prepayment.*** The Certificates maturing on or before December 1, 20\_\_ are not subject to optional prepayment prior to their respective stated Principal Payment Dates. The Certificates maturing on or after December 1, 20\_\_, are subject to optional prepayment prior to their respective stated Principal Payment Dates, on any date on or after December 1, 20\_\_, in whole or in part, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Lease Agreement from any source of available funds, any such prepayment to be at a price equal to the principal evidenced by the Certificates to be prepaid, plus unpaid accrued interest evidenced thereby to the date fixed for prepayment, without premium.

***Extraordinary Prepayment.*** The Certificates are subject to extraordinary prepayment prior to their stated Principal Payment Dates, on any date, in whole or in part, in Authorized Denominations, from and to the extent of any insurance proceeds or condemnation awards in excess of \$50,000 paid with respect to all or a portion of the Property remaining after payment therefrom of all reasonable expenses incurred in the collection thereof (the “Net Proceeds”), deposited by the Trustee in the Prepayment Fund pursuant to the Trust Agreement, at a prepayment price equal to the principal evidenced by the Certificates to be prepaid, plus unpaid accrued interest, if any, evidenced thereby to the date fixed for prepayment, without premium.

***Mandatory Sinking Account Prepayment.*** The Certificates with a stated Principal Payment Date of December 1, 20\_\_ are subject to prepayment prior to such stated Principal Payment Date, in part, from Mandatory Sinking Account Payments, on December 1 of the years and in the aggregate principal amounts as set forth in the table shown below, any such Mandatory Sinking Account Payments to be at a prepayment price equal to the principal evidenced by the Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium:

---

\* Preliminary; subject to change.

Prepayment Date (December 1)	Principal To Be Prepaid
	\$

†

† Stated Principal Payment Date

If some but not all of the principal evidenced by the Certificates with a stated Principal Payment Date of December 1, 20\_\_ is prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “– *Extraordinary Prepayment*,” the principal evidenced by such Certificates to be prepaid pursuant to Mandatory Sinking Account Payments on any subsequent June 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 Base Rental 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 with a stated Principal Payment Date of December 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 Account Payments on any subsequent June 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.

The Certificates with a stated Principal Payment Date of December 1, 20\_\_ are subject to prepayment prior to such stated Principal Payment Date, in part, from Mandatory Sinking Account Payments, on December 1 of the years and in the aggregate principal amounts as set forth in the table shown below, any such Mandatory Sinking Account Payments to be at a prepayment price equal to the principal evidenced by the Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium:

Prepayment Date (December 1)	Principal To Be Prepaid
	\$

†

† Stated Principal Payment Date

If some but not all of the principal evidenced by the Certificates with a stated Principal Payment Date of December 1, 20\_\_ is prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “– *Extraordinary Prepayment*,” the principal evidenced by such Certificates to be prepaid pursuant to Mandatory Sinking Account Payments on any subsequent June 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 Base Rental 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 with a stated Principal Payment Date of December 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 Account Payments on any subsequent June 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.*** Whenever less than all the Outstanding Certificates are to be prepaid on any one date, the Trustee will select the Certificates to be prepaid (a) with respect to any prepayment as described above under the caption “– *Extraordinary Prepayment*,” among Certificates with different stated Principal Payment Dates in proportion to the amount by which the principal components of the Base Rental Payments evidenced by such Certificates are abated pursuant to the Lease Agreement; and (b) with respect to any optional prepayment described above under the caption “– *Optional Prepayment*,” as directed in a Written Request of the District, and by lot among Certificates with the same stated Principal Payment Date in any manner that the Trustee deems fair and appropriate, which decision will be final and binding upon the District and the Certificate Owners. For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

***Notice of Prepayment.*** The Trustee will mail (by first class mail) notice of any prepayment to the respective Certificate Owners designated for prepayment at their respective addresses appearing on the records maintained by the Trustee for the registration of ownership and registration of transfer of the Certificates pursuant to the Trust Agreement, at least 20 but not more than 60 days prior to the date fixed for prepayment. Such notice will state the date of the notice, the prepayment date, the prepayment place and the prepayment price and will designate the CUSIP numbers, if any, the Certificate numbers and the stated Principal Payment Date or Principal Payment Dates of the Certificates to be prepaid (except in the event of prepayment of all of the Certificates in whole), and will require that such Certificates be then surrendered at the Principal Office of the Trustee for prepayment at the prepayment price, giving notice also that further interest evidenced by such Certificates will not accrue from and after the date fixed for prepayment. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the prepayment of the Certificates or the cessation of accrual of interest evidenced thereby from and after the date fixed for prepayment.

With respect to any notice of any optional prepayment of Certificates, unless at the time such notice is given the Certificates to be prepaid will be deemed to have been paid within the meaning of the Trust Agreement, such notice will state that such prepayment is conditional upon receipt by the Trustee, on or prior to the date fixed for such prepayment, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the prepayment price of, and accrued interest evidenced by, the Certificates to be prepaid, and that if such moneys are not received said notice will be of no force and effect and such Certificates will not be required to be prepaid. In the event a notice of prepayment of Certificates contains such a condition and such moneys are not so received, the prepayment of Certificates as described in the conditional notice of prepayment will not be made and the Trustee will, within a reasonable time after the date on which such prepayment was to occur, give notice to the Certificate Owners and in the manner in which the notice of prepayment was given, that such moneys were not so received and that there will be no prepayment of Certificates pursuant to such notice of prepayment.

While the Certificates are subject to the Book-Entry System, the Trustee will not be required to give any notice of prepayment to any person or entity other than DTC and as required by the Continuing Disclosure Certificate. DTC and the DTC Participants shall have sole responsibility for providing any such notice of prepayment to the Beneficial Owners of the Certificates to be prepaid. Any failure at DTC to notify any DTC Participant, or any failure of a DTC Participant to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect will not affect the validity of the notice of prepayment, or alter the effect of prepayment described below under “Effect of Prepayment.”

***Effect of Prepayment.*** When notice of prepayment has been duly given as provided in the Trust Agreement and moneys for the payment of the prepayment price of the Certificates to be prepaid are held by the Trustee, then on the prepayment date designated in such notice, the Certificates so called for prepayment will become payable at the prepayment price specified in such notice; and from and after the date so designated, interest evidenced by such Certificates will cease to accrue and such Certificates will cease to be entitled to any benefit or security under the Trust Agreement except for the right of the Owners of such Certificates to receive payment of the prepayment price thereof.

### **Book-Entry Only System**

DTC will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Certificate will be issued for each stated Principal Payment Date of the Certificates, each in the aggregate amount of the principal evidenced by Certificates with such stated Principal Payment Date, and will be deposited with DTC. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

***Discontinuance of DTC Service.*** In the event that (a) DTC determines not to continue to act as securities depository for the Certificates or (b) the District determines to remove DTC from its functions as a depository, DTC’s role as securities depository for the Certificates and use of the book-entry system will be discontinued. If the District fails to select a qualified securities depository to replace DTC, the District will cause the Trustee to execute and deliver new Certificates in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested by the Beneficial Owners thereof. Upon such registration, such persons in whose names the Certificates are registered will become the registered Owners of the Certificates for all purposes.

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

All Certificates are transferable by the Owner thereof, in person or by his or her attorney duly authorized in writing, at the Principal Office of the Trustee on the registration books maintained by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not the principal or interest evidenced by such Certificate is overdue, and the Trustee will not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Certificate will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge the liability evidenced by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee will execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee will require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be exchanged at the Principal Office of the Trustee for Certificates evidencing principal in a like aggregate amount having the same stated Principal Payment Date in such Authorized Denominations as the Owner may request. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be required to transfer or exchange any Certificate during the period commencing five days before the date of selection of the Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor will the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

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

### **Nature of the Certificates**

Each Certificate evidences a direct, fractional undivided interest in the principal component of the Base Rental Payment due under the Lease Agreement on the payment date or prepayment date of such Certificate, and the interest component of all Base Rental Payments (based on the stated interest rate with respect to such Certificate) to accrue from the date of delivery to its payment date or prepayment date, as the case may be.

The Corporation, pursuant to the Assignment Agreement, will sell, assign and transfer to the Trustee for the benefit of the Certificate Owners substantially all of the Corporation's right, title and interest in and to the Ground Lease and the Lease Agreement, including, its right to receive Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided that the Corporation will retain the rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement. The District will pay Base Rental Payments directly to the Trustee, as assignee of the Corporation. See "– Base Rental Payments" below.

### **Base Rental Payments**

For the use and possession of the Property, the Lease Agreement requires the District to make Base Rental Payments. The Base Rental Payments evidenced by the Certificates will be payable no later than the Base Rental Deposit Date. To secure the payment of the Base Rental Payments, the District is required to pay to the Trustee, for deposit into the Base Rental Payment Fund, on the Base Rental Deposit Date, an amount sufficient to pay the Base Rental Payment then due.

Pursuant to the Trust Agreement, the Trustee will on each Interest Payment Date, deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. On each Interest Payment Date, the Trustee will withdraw from the Interest Fund, for payment to the Certificate Owners, the interest evidenced by the Certificates coming due on such Interest Payment Date.

Pursuant to the Trust Agreement, the Trustee will on each Principal Payment Date, deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date. On each Principal Payment Date,



the Trustee will withdraw from the Principal Fund, for payment to the Certificate Owners, the principal evidenced by the Certificates due and payable on such Principal Payment Date.

THE OBLIGATION OF THE DISTRICT TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

[Remainder of page left intentionally blank.]

**Base Rental Payments Schedule**

The Lease Agreement requires that Base Rental Payments be made on or before each Base Rental Deposit Date, assuming no early prepayment by the District, which is 15 days prior to each of the following Interest Payment Dates:

Interest Payment Date	Principal Component	Interest Component	Total Semi-Annual Base Rental Payment	Total Annual Base Rental Payment
December 1, 2019	\$	\$	\$	\$
June 1, 2020				
December 1, 2020				
June 1, 2021				
December 1, 2021				
June 1, 2022				
December 1, 2022				
June 1, 2023				
December 1, 2023				
June 1, 2024				
December 1, 2024				
June 1, 2025				
December 1, 2025				
June 1, 2026				
December 1, 2026				
June 1, 2027				
December 1, 2027				
June 1, 2028				
December 1, 2028				
June 1, 2029				
December 1, 2029				
June 1, 2030				
December 1, 2030				
June 1, 2031				
December 1, 2031				
June 1, 2032				
December 1, 2032				
June 1, 2033				
December 1, 2033				
June 1, 2034				
December 1, 2034				
June 1, 2035				
December 1, 2035				
June 1, 2036				
December 1, 2036				
June 1, 2037				
December 1, 2037				
June 1, 2038				
December 1, 2038				
June 1, 2039				
December 1, 2039				
Total:	\$	\$	\$	\$

**Additional Rental Payments**

The Lease Agreement requires the District to pay, as Additional Rental Payments thereunder in addition to the Base Rental Payments, such amounts as shall be required for the payment of all taxes, assessments of any type or nature charged to the Corporation or the District or affecting the Property or the respective interests or estates of the Corporation or the District in the Property, all reasonable administrative costs of the Corporation relating to the Property, the Certificates or the Trust Agreement, including without limitation all expenses, compensation and indemnification of the Trustee payable by the Corporation under the Trust Agreement, insurance premiums payable under the Lease Agreement, any amounts with respect to the Lease Agreement, the Trust Agreement or the Certificates required to be rebated to the federal

government, and all other payments not constituting Base Rental Payments required to be paid by the District under the Lease Agreement or the Trust Agreement.

### **Covenant to Appropriate Funds**

The District covenants under the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

### **Abatement**

Base Rental Payments are paid by the District in each Rental Period for the District's right to use and occupy the Property for such Rental Period. The obligation of the District to pay Rental Payments will be abated during any period in which by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property. The Rental Payments shall be abated proportionately based on the percentage of the Property that is made unavailable for the District's use and occupancy and the percentage of the Property that is not made unavailable for the District's use and occupancy as a result of such damage, destruction, condemnation or title defect. The District and the Corporation shall, in a reasonable manner and in good faith, determine the amount of such abatement; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the District during such Rental Period. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed, and to the extent necessary to pay unpaid Rental Payments, the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended more than 10 years beyond the Scheduled Termination Date; provided, however, that during abatement, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Trust Agreement, Rental Payments will not be abated as provided above but, instead, will be payable by the District as a special obligation payable solely from said funds and accounts. For information regarding rental interruption insurance, see "- Insurance" below.

Abatement of Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. For a description of abatement resulting from condemnation of all or part of the Property, see APPENDIX A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - THE LEASE AGREEMENT - Rental Payments - Rental Abatement."

### **Reserve Fund**

A reserve fund (the "Reserve Fund") is established by the Trust Agreement and is required to be funded in an amount equal to, as of the date of calculation, the least of (a) "10% of the proceeds of the issue," within the meaning of Section 148 of the Code (as defined herein), (b) the maximum amount of principal and interest evidenced by the Certificates coming due in any Certificate Year and (c) 125% of the average amount of principal and interest evidenced by the Certificates coming due in each Certificate Year (the "Reserve Requirement"). "Certificate Year" means each twelve-month period beginning on December 1 in each year and extending to the next succeeding November 30, both dates inclusive, except that the first Certificate Year shall begin on the Delivery Date and end on November 30, 2019. Upon the execution and delivery of the Certificates, the Reserve Policy in the stated amount of \$\_\_\_\_\_, an amount equal to the initial Reserve Requirement, issued by the Reserve Insurer will be deposited in the Reserve Fund for

the Certificates. The Reserve Fund is required to be maintained until all Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. See APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Amounts available in the Reserve Fund are to be used to make delinquent Base Rental Payments to the extent that the moneys available in the Interest Fund and Principal Fund do not equal the amount of the principal and interest evidenced by the Certificates then coming due. In addition, moneys, if any, on deposit in the Reserve Fund will be withdrawn and applied by the Trustee for the final Base Rental Payment.

The District may substitute a line of credit, letter of credit, insurance policy, surety bond or other credit source (each, a “Reserve Facility”) for all or a part of the Reserve Policy or Reserve Facility then on deposit in the Reserve Fund by depositing such substitute Reserve Facility with the Trustee so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under such Reserve Facility and any previously substituted Reserve Facilities, shall be at least equal to the Reserve Requirement; provided, however, that, prior to any such substitution, the Trustee shall have received the written consent of the Insurer (so long as the Insurer is not in default on its payment obligations under the Insurance Policy).

If at any time the balance in the Reserve Fund is reduced below the Reserve Requirement, the first Base Rental Payments thereafter received from the District under the Lease Agreement and not needed to pay the interest or principal evidenced by Certificates payable to the Owners on the next Interest Payment Date, Principal Payment Date will be used to increase the balance in the Reserve Fund to the Reserve Requirement.

## **Insurance**

The Lease Agreement requires the District to cause to be maintained casualty insurance insuring the Property against fire and all other risks covered by an extended coverage endorsement (excluding earthquake and flood), subject to a \$100,000 loss deductible provision (unless some other deductible is acceptable to the Insurer), in an amount equal to the full insurable value of the Property. The full insurable value of the Property will not be less than the principal evidenced by the outstanding Certificates.

The casualty insurance required by the Lease Agreement may be maintained in the form of self-insurance by the District, in compliance with the terms of the Lease Agreement.

The Lease Agreement requires the District to cause to be maintained, throughout the term of the Lease Agreement, rental interruption insurance to cover the Corporation’s loss, total or partial, of Base Rental Payments caused by perils covered by the casualty insurance described above, in an amount equal to the lesser of (a) the amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period, or (b) such lesser amount as may be agreed to by the Insurer. The District may not self-insure for rental interruption insurance.

The District is also required to obtain certain public liability and property damage insurance coverage in protection of the Corporation and the District and worker’s compensation insurance as described under APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – Insurance – Property Casualty Insurance; Rental Interruption Insurance.”

The District is required under the Lease Agreement to obtain title insurance on the Property, in the aggregate amount of not less than the initial aggregate amount of principal evidenced by the Certificates, subject only to Permitted Encumbrances, as defined in the Lease Agreement.

## **Action on Default**

Should the District default under the Lease Agreement, the Trustee, as assignee of the Corporation under the Assignment Agreement, has the option to (subject to the restrictions described below) terminate the Lease Agreement. In the event of such termination, the District agrees to surrender immediately possession of the Property, without let or hindrance, and to pay to the Trustee, as assignee of the Corporation, all damages recoverable at law that the Corporation may incur by reason of default by the District, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement.

Without terminating the Lease Agreement, the Trustee shall be permitted (a) to collect each installment of Base Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the District, regardless of whether or not the District has abandoned the Property, or (b) to exercise any and all rights of entry and re-entry upon the Property. In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for therein, the District remains liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the District and, if the Property is not re-let, to pay the full amount of the Base Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Base Rental Payments that results therefrom; and further agrees to pay said Base Rental Payments and/or Base Rental Payment deficiency punctually at the same time and in the same manner as provided for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Corporation may have received in previous years or may receive thereafter in subsequent years Base Rental Payments in excess of the Base Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property. See “RISK FACTORS.”

The Lease Agreement provides that, so long as the Insurer is not in default under the Insurance Policy, the Insurer will control all remedies upon an event of default under the Lease Agreement. For a description of the events of default and permitted remedies of the Trustee (as assignee of the Corporation) contained in the Lease Agreement and the Trust Agreement, see APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – Defaults and Remedies” and “ – THE TRUST AGREEMENT – Default and Limitations of Liability – Action on Default.”

## **CERTIFICATE INSURANCE**

### **Bond Insurance Policy**

Concurrently with the execution and delivery of the Certificates, AGM will issue the Insurance Policy. The Insurance Policy guarantees the scheduled payment of principal of and interest evidenced by the Certificates when due as set forth in the form of the Insurance Policy included as Appendix G to this Official Statement.

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

## **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Current Financial Strength Ratings*

On August 13, 2019, Moody’s announced it had affirmed AGM’s insurance financial strength rating of “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

On June 27, 2019, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 21, 2018, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### *Capitalization of AGM*

At June 30, 2019:

- The policyholders’ surplus of AGM was approximately \$2,530 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately \$1,082 million. Such amount includes 100% of AGM’s contingency reserve and 60.7% of MAC’s contingency reserve.

- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,853 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

*Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "CERTIFICATE INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

### *Miscellaneous Matters*

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

## **THE PROPERTY**

### **General**

The Property consists of the real property on which Oak Ridge High School is located in El Dorado Hills, California and the improvements thereon. Oak Ridge High School serves an average enrollment of 2,425 students in grades nine through twelve. Originally built in the 1980s, portions of Oak Ridge High School were modernized in 2017. Oak Ridge High School contains approximately 210,765 square feet of building space on an approximately 52 acre site, including 91 classrooms and 5 conference rooms. The site includes an administration building, a library building and lecture hall, as well as athletic facilities, including a synthetic field and track, large and small gyms, a weight room and multipurpose room, 27 relocatable classroom buildings, 28 restroom facilities and two maintenance and storage buildings. Oak Ridge High School has three parking lots, which includes 516 total parking spaces and solar arrays that provide power to the Oak Ridge High School under the terms of a power purchase agreement between the District and California Solar 3, LLC. The Property is subject to certain Permitted Encumbrances, including rights granted with respect to the solar equipment located on the Oak Ridge High School site. The insured aggregate value of the Property will not be less than the principal evidenced by the outstanding Certificates.

During construction at Oak Ridge High School in 2002, natural occurring asbestos ("NOA") was identified in rocks and soils on and around the school site. The District has since completed various remedial actions, including placing barriers over affected soils to prevent or greatly reduce exposures to NOA. The District has also fenced off certain areas in order to limit access to only those who have completed NOA management training. The Agency for Toxic Substance and Disease Registry released a report in 2006 concluding that the current exposures to NOA from soil at Oak Ridge High School had been minimized by the mitigations conducted by the District. The District's 2018 biennial inspection report also summarized that the NOA engineering controls in place are effective and meeting the requirements under the District's Operations and Maintenance Plan, as approved by the Department of Toxic Substances Control. The District continues to work with geologic consultants to monitor the presence and control of NOA at its school site.

### **Substitution or Release**

The Lease Agreement provides that, with the consent of the Insurer and compliance with the other conditions specified therein, the District may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property. Any such substitution or release of any portion of the Property shall be subject to certain specific conditions set forth in the Lease Agreement, among which are that an independent certified real estate appraiser selected by the District shall have found that the Property, as constituted after such substitution or release, has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the District in any Rental Period. Thus, a portion of the property comprising the Property could be replaced with less valuable property, or could be released altogether, so long as, among other things, the Property, as constituted after such substitution or release, has an annual fair rental value greater than or equal to 105%



of the maximum amount of Base Rental Payments payable by the District in any Rental Period. See “RISK FACTORS – Substitution or Release of Property” and APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – No Consequential Damages; Use of the Property; Substitution or Release – Substitution or Release of the Property.”

### **THE REFUNDING PLAN**

In order to finance the construction of certain school facilities, the District previously caused to be executed and delivered the Prior Certificates pursuant to a Trust Agreement, dated as of December 1, 2009 (the “Prior Trust Agreement”), by and between Zions Bancorporation, National Association, as trustee (the “Prior Trustee”), the District and the Corporation. The Prior Certificates were issued to redeem the District’s 1999 Refunding Certificates of Participation (Refunding and 1999 Capital Projects), 2001 Certificates of Participation and 2002 Lease/Purchase. See “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – District Debt Structure.”

The District intends to redeem the outstanding Prior Certificates maturing on December 1 in the years 2036, 2037, 2038, and 2039 with a portion of the proceeds from the Certificates.

On the Delivery Date, a portion of the proceeds of the Certificates will be transferred to Zions Bancorporation, National Association, as escrow bank (the “Escrow Bank”) for the Prior Certificates. The proceeds so transferred to the Escrow Bank will be deposited with the Prior Trustee, together with other available amounts in the funds and accounts established under the Prior Trust Agreement, and will be used to purchase direct obligations of the United States of America or evidences of ownership of proportionate interests in future interests and principal payments on such direct obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and such underlying obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (the “Defeasance Securities”), to enable the Escrow Bank to redeem the principal and interest evidenced by the Prior Certificates on December 1, 2019 (the “Redemption Date”) equal to the principal amount of the outstanding lease payments to be prepaid, together with accrued interest to the Redemption Date, without premium. See “ESCROW VERIFICATION” herein.

Remaining proceeds of the Certificates will be used to purchase the Insurance Policy and the Reserve Policy and to pay the costs incurred in connection with the execution and delivery of the Certificates. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds with respect to the Certificates and other available funds are shown below.

SOURCES

Principal Amount of Certificates	\$
[Plus/Less] [Net] Original Issue [Premium/Discount]	_____
Prior Reserve Fund	_____
Total Sources	\$ _____

USES

Redeem Prior Certificates	\$
Underwriter’s Discount	
Costs of Issuance <sup>(1)</sup>	_____
Total Uses	\$ _____

<sup>(1)</sup> Includes legal, Municipal Advisor, rating agency, printing, Insurance Policy and Reserve Policy premiums and fees, and other fees and miscellaneous costs of issuance.

**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. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.*

**General Considerations and Other Obligations**

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

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease Agreement to pay the Base Rental Payments from any source of legally available funds and the District has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments in its annual budgets and to make necessary annual appropriations therefor. The District is currently liable and may become liable on other obligations payable from its general revenues, some of which may have a priority over the Base Rental Payments. See “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – District Debt Structure” herein.

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

### **Abatement**

In the event of substantial interference with the District's right to use and occupy any portion of the Property by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement." The Rental Payments shall be abated proportionately based on the percentage of the Property that is made unavailable for the District's use and occupancy and the percentage of the Property that is not made unavailable for the District's use and occupancy as a result of such damage, destruction, condemnation or title defect. In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the District's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which funds are available from the Reserve Fund or other funds and accounts established under the Trust Agreement (including proceeds of the Insurance Policy), or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or prepayment of the Certificates, there could be insufficient funds to make payments to Certificate Owners in full.

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

The District is not required under the Lease Agreement to maintain earthquake or flood insurance on the Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance." The District does not currently insure against the risks of earthquake or flood with respect to the Property and does not anticipate obtaining such insurance in the future. See "– Seismic Factors" below.

### **Limited Recourse on Default**

If the District defaults on its obligations to make Base Rental Payments, the Trustee, as assignee of the Corporation, may (subject to the restrictions described below) retain the Lease Agreement and hold the District liable for all Base Rental Payments on an annual basis and will have the right to reenter and relet the Property. In the event such reletting occurs, the District would be liable for any resulting deficiency in Base Rental Payments. Alternatively, the Trustee may (subject to the restrictions described below) terminate the Lease Agreement with respect to the Property and proceed against the District to recover damages pursuant to the Lease Agreement.

The Lease Agreement provides that, so long as the Insurer is not in default under the Insurance Policy, the Insurer will control all remedies upon an event of default under the Lease Agreement.

Due to the specialized nature of the Property, no assurance can be given that the Trustee will be able to relet any portion of the Property so as to provide rental income sufficient to make payments of principal and interest evidenced by the Certificates in a timely manner, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Certificates. In addition, due to the governmental function of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and reletting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such

reletting will not adversely affect the exclusion of any interest component of Base Rental Payments evidenced by the Certificates from federal or state income taxation.

### **No Acceleration Upon Default**

In the event of a default, there is no available remedy of acceleration of the Base Rental Payments due over the term of the Lease Agreement. The District will only be liable for Base Rental Payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's Base Rental Payments.

### **Substitution or Release of Property**

The Lease Agreement provides that, upon the consent of the Insurer and satisfaction of the other conditions specified therein, the District may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property. Thus, a portion of the property comprising the Property could be replaced with less valuable property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – No Consequential Damages; Use of the Property; Substitution or Release – Substitution or Release of the Property.”

### **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.

The obligations of the Insurer under the Insurance Policy are contractual obligations and in an event of default by the Insurer, the rights and remedies available may be limited by and subject to provisions of federal insolvency laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. Should the Insurer encounter financial difficulties, there could be adverse effects on the Owners of the Certificates. The applicable regulators can order an insurance company to stop paying claims, or to pay claims only with the permission of the regulators, even before the insurance company becomes the subject of a formal insolvency proceeding. An insolvent financial guaranty insurer may be able to retain its rights to control remedies and direct the Trustee, and its rights to consent to amendments of the documents, even though it is insolvent or not paying claims as required by the financial guaranty policy. An insolvent financial guaranty insurer may also be able to require the District to reimburse the Insurer before paying amounts due on the Certificates or other securities, regardless of what the documents provide. There may be other possible effects of the financial distress of the Insurer that could result in delays or reductions in payments on the Certificates, or result in losses to the Owners of the Certificates. Regardless of any specific adverse determinations, the fact of the financial distress of the Insurer could have an adverse effect on the liquidity and value of the Certificates.

**Bankruptcy of District.** The District may be eligible to become a debtor in a Chapter 9 bankruptcy case. If the District were to go into bankruptcy, it may be able to reject the Ground Lease or the Lease Agreement or assume the Ground Lease or the Lease Agreement, despite any provision of the Ground Lease or the Lease Agreement that makes the bankruptcy or insolvency of the District an event of default thereunder.

If the District rejects the Lease Agreement, the District's obligation to pay Base Rental Payments and Additional Rental 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. While the Corporation may be able to recover possession of the Property and re-let it, no assurance can be given that the new lease will provide for the same level of payments as the Lease Agreement. The Owners of the Certificates could suffer substantial losses.

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

If the District assumes the Lease Agreement, it may be able to assign it to a third party, notwithstanding the provisions of the transaction documents, and thereby replace the obligation of the District to pay Base Rental Payments and Additional Payments with the obligation of the third party assignee to make such payments. While there must be adequate assurances of the future performance of the assignee, that determination is made by the bankruptcy court, not the Trustee or the Owners of the Certificates, and the determination may turn out to have been wrong. There may be adverse tax consequences of such an assignment.

The District may be able to obtain authorization from the bankruptcy court to sell the Property to a third party, free and clear of the Ground Lease, the Lease Agreement, and the rights of the Trustee and the Owners of the Certificates. Under such circumstances, the Owners of the Certificates may suffer substantial losses.

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 District 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 District 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 District 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 District, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the Certificates.

***Bankruptcy of Corporation.*** The Corporation is not a special-purpose bankruptcy-remote entity, and could become a debtor in a bankruptcy case. The District and the Corporation intend the assignment to the Trustee of all of Corporation's right, title, and interest to receive the Base Rental Payments and Additional Rental 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 Base Rental Payments and Additional Rental Payments to the Trustee should be recharacterized 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 Ground 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 Ground Lease and the Lease Agreement, including the Base Rental Payments and Additional Rental 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 Base Rental Payments and Additional Rental 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 Ground Lease and the Lease Agreement, it may be able to reject the Ground Lease and the Lease Agreement despite any provision of the Ground Lease or the Lease Agreement which makes the bankruptcy or insolvency of the Corporation an event of default thereunder. If the Corporation rejects the Ground Lease or the Lease Agreement, the rights of the Trustee and the Owners of the Certificates to receive Base Rental Payments and Additional Rental 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. In addition, the Corporation may be able to sell or assign its leasehold estate in the Property, notwithstanding the provisions of the transaction documents. It is possible that such a sale or assignment would result in the termination of the Lease Agreement. If the Lease Agreement does terminate, the District's obligation to pay Base Rental Payments and Additional Rental Payments would terminate. Under such circumstances, the Owners of the Certificates could suffer substantial losses.

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 District to make payments directly to the Trustee, rather than to the Corporation, may no longer be enforceable, and all payments may be required to be made to the Corporation.

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.

### **Loss of Tax Exemption**

As discussed under the heading "TAX MATTERS," certain acts or omissions of the District in violation of its covenants in the Trust Agreement and the Lease Agreement, as well as certain other matters, could result in the interest evidenced by the Certificates being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates. Should such an event of taxability occur, the Certificates would not be subject to a special prepayment and would remain Outstanding until maturity or until prepaid under the provisions contained in the Trust Agreement.

## **Hazardous Substances**

The existence or discovery of hazardous materials may limit the beneficial use of the Property. In general, the owners and lessees of the Property may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance.

Further it is possible that the beneficial use of the Property may be limited in the future resulting from the current existence on the Property of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the Property of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly limit the beneficial use of the Property.

The District is unaware of the existence of hazardous substances on the Property sites which would materially interfere with the beneficial use thereof.

## **Seismic Factors**

The District, like most regions in the State, and the Property are located in an area of seismic activity from movements along active fault zones and, therefore, could be subject to potentially destructive earthquakes. Additionally, numerous minor faults transect the area. Seismic hazards encompass both potential surface rupture and ground shaking. The occurrence of severe seismic activity in the area of the District could result in substantial damage and interference with the District’s right to use and occupy all or a portion of the Property, which could result in the Base Rental Payments being subject to abatement. See “–Abatement” above. The District is not required by the Lease Agreement or otherwise to obtain or maintain earthquake insurance for the Property. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance.”

## **Economic Conditions in California**

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because much of the District’s revenues derive from payments from the State, the District’s revenues can vary significantly from year to year, even in the absence of significant education policy changes. Decreases in the State’s general fund revenues may significantly affect appropriations made by the State to school districts, including the District. See “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – State Funding of Education; State Budget Process” and “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.”

## **No Liability of Corporation to the Owners**

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

## **THE CORPORATION**

The Corporation was incorporated on January 31, 1992, as a California nonprofit public benefit corporation. The Corporation was formed for the primary purpose of providing financial assistance to the District by financing the design, development, acquisition, construction, improvement and remodeling of school buildings, facilities and equipment, and non-school buildings, facilities and equipment, together with site acquisition, development, landscaping, utilities, furnishings, improvements, parking and all appurtenant and related facilities. The Corporation is not obligated in any manner whatsoever to make Base Rental Payments.

The Corporation’s articles of incorporation and by-laws empower the Corporation to act as lessee under the Ground Lease and lessor under the Lease Agreement.

## **DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION**

### **Introduction**

The District is located in Northern California in the Sierra Nevada foothills between Sacramento and Lake Tahoe. The District was established in 1905 and occupies approximately 1,200 square miles, including portions of the City of Placerville, the County, and unincorporated portions of the County. The District operates four comprehensive high schools, one continuation high school, a virtual academy charter school, a career technical/regional occupational program and an independent study program. Total budgeted fiscal year 2019-20 enrollment is approximately 6,635 students (not including enrollment at Shenandoah Virtual Academy).

### **Board of Trustees**

The District is governed by a five-member Board of Trustees (the “Board of Trustees”), each member of which is elected by voters within the District to serve four-year terms. Elections for positions to the Board of Trustees are held every two years, alternating between two and three available positions. Each December the Board elects a President and Clerk to serve one-year terms. Current members of the Board of Trustees, together with their office and the date their current term expires, are set forth in the table below.

### **EL DORADO UNION HIGH SCHOOL DISTRICT (El Dorado County, California)**

#### **Board of Trustees**

Name	Office	Term Expires
Timothy M. Cary	President	December 2022
Kevin W. Brown	Clerk	December 2022
Jessicca K. Rodgers	Member	December 2020
David J. Del Rio	Member	December 2020
Lori M. Veerkamp	Member	December 2020



## **Superintendent and Business Services Personnel**

The Superintendent of the District is appointed by the Board of Trustees and reports to the Board of Trustees. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and Assistant Superintendent, Business Services is set forth below.

**Ron Carruth, Superintendent.** Mr. Carruth was appointed to serve as Superintendent of the District in April 2018. Previously, Mr. Carruth served as the Superintendent of the Whittier City School District in Whittier, California for ten years. Mr. Carruth also served as an Assistant Principal, Principal and Assistant Superintendent of Educational Services in the Whittier Union High School District. Mr. Carruth earned his Bachelor of Arts degree in English and Social Studies and his Master's degree in Educational Administration from Azusa Pacific University. In addition, Mr. Carruth earned his Doctorate degree in Organizational Development from the University of La Verne.

**Robert Whittenberg, Assistant Superintendent, Business Services.** Mr. Whittenberg was appointed to serve as Assistant Superintendent, Business Services of the District in June 2018. Previously, Mr. Whittenberg served as the Director of Business Services and Business Operations for the Whittier Union High School District for 11 years. Mr. Whittenberg also served as a teacher, tennis coach, department chair, and Assistant Principal in the Whittier Union High School District. Mr. Whittenberg is a graduate of the School Business Management Program from the University of Southern California Rossier School of Education. Mr. Whittenberg also holds a Master's degree in Educational Leadership from California Polytechnic State University and a Bachelor of Arts degree in English from Western Washington University

## **State Funding of Education; State Budget Process**

**General.** As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF") (see "– Allocation of State Funding to School Districts; Local Control Funding Formula" herein) and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "– Local Sources of Education Funding" herein). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has budgeted to receive approximately 49.64% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), budgeted at approximately \$37.96 million in fiscal year 2019-20. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "–Allocation of State Funding to School Districts; Local Control Funding Formula," "– Attendance and LCFF" and "Other District Revenues – Other State Revenues" below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations, and, consequently, the District's ability to pay Base Rental Payments.

Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

In connection with the State Budget Act for fiscal year 2013-14, the State and local education agencies therein implemented the LCFF. Funding from the LCFF replaced the revenue limit funding system and most categorical programs. See “– Allocation of State Funding to School Districts; Local Control Funding Formula” herein for more information.

**State Budget Process.** According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2019-20 State budget on June 27, 2019.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district’s State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected State officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White v. Davis* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

**Aggregate State Education Funding.** The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State’s share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year’s budget, from the Governor’s initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as “settle-up.” If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as “maintenance factor.”

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State's response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to years in which the Proposition 98 minimum guarantee was suspended. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the final Principal Payment Date of the Certificates, and the District takes no responsibility for informing owners of the Certificates as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. 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](http://www.dof.ca.gov), under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.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.

**2019-20 State Budget.** The Governor signed the fiscal year 2019-20 State Budget (the "2019-20 State Budget") on June 27, 2019. The 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20 that projects approximately \$143.8 billion in revenues, and \$91.9 billion in non-Proposition 98 expenditures and \$55.9 billion in Proposition 98 expenditures. The 2019-20 State Budget includes a \$1.4 billion reserve in the Special Fund for Economic Uncertainties. To provide immediate and long-term relief to school districts facing rising pension costs, the 2019-20 State Budget includes a \$3.15 billion non-Proposition 98 General Fund payment to the California State Teachers' Retirement System ("CalSTRS") and the California Public Employees' Retirement System ("CalPERS") Schools Pool. Of this amount, an estimated \$850 million will buy down the employer contribution rates in fiscal years 2019-20 and 2020-21. The 2019-20 State Budget includes total funding of \$103.4 billion (\$58.8 billion General Fund and \$44.6 billion other funds) for all K-12 education programs. The 2019-20 State Budget provides \$1.9 billion in new Proposition 98 funding for the LCFF, reflecting a 3.26% cost of living adjustment. The 2019-20 State Budget also includes a constitutionally required deposit into the Public School System Stabilization Account (also referred to as the Proposition 98 Rainy Day Fund) in the amount of \$376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps, as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20

deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately \$2.1 billion).

Certain budgeted adjustments for K-12 education set forth in the 2019-20 State Budget include the following:

- Special Education. The 2019-20 State Budget includes \$645.3 million ongoing Proposition 98 General Fund resources for special education, including \$152.6 million to provide for all Special Education Local Plan Areas with at least the statewide target rate for base special education funding, and \$492.7 million allocated based on the number of children ages 3 to 5 years with exceptional needs that the school district is serving.
- After School Education and Safety Program. The 2019-20 State Budget includes \$50 million ongoing Proposition 98 General Fund resources to provide an increase of approximately 8.3% to the per-pupil daily rate for the After School Education and Safety Program.
- Longitudinal Data System. The 2019-20 State Budget includes \$10 million one-time non-Proposition 98 General Fund resources to plan and develop a longitudinal data system to improve coordination across data systems and better track the impacts of State investments on achieving educational goals.
- Retaining and Supporting Well-Prepared Educators. The 2019-20 State Budget includes \$89.8 million one-time non-Proposition 98 General Fund resources to provide up to 4,487 grants of \$20,000 for students enrolled in a professional teacher preparation program who commit to working in a high-need field at a priority school for at least four years. The 2019-20 State Budget also includes \$43.8 million one-time non-Proposition 98 General Fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, to build capacity around key state priorities. Finally, the 2019-20 State Budget includes \$13.8 million ongoing federal funds to establish the 21st Century California Leadership Academy, to provide professional learning opportunities for public K-12 administrators and school leaders to acquire the knowledge, skills, and competencies necessary to successfully support the diverse student population served in California public schools.
- Broadband Infrastructure. The 2019-20 State Budget includes \$7.5 million one-time non-Proposition 98 general fund resources to assist school districts in need of infrastructure and updates to meet the growing bandwidth needs of digital learning.
- School Facilities Bond Funds. The 2019-20 State Budget assumes \$1.5 billion Proposition 51 bond funds, an increase of \$906 million over the prior year, to support school construction projects.
- Full-Day Kindergarten. The 2019-20 State Budget includes \$300 million one-time non-Proposition 98 General Fund resources to construct new or retrofit existing facilities to support full-day kindergarten programs, which will increase participation in kindergarten by addressing barriers to access.
- Proposition 98 Settle-Up. The 2019-20 State Budget includes an increase of \$686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through fiscal year 2017-18.

- Classified School Employees Summer Assistance Program. The 2019-20 State Budget includes an increase of \$36 million one-time Proposition 98 general fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.
- Wildfire-Related Cost Adjustments. The 2019-20 State Budget includes an increase of \$2 million one-time Proposition 98 general fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. Additionally, the 2019-20 State Budget includes an increase of \$727,000 one-time Proposition 98 general fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses. Further, the 2019-20 State Budget holds both school districts and charter schools impacted by the wildfires harmless for State funding for two years.

The complete 2019-20 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

***Future Budgets and Budgetary Actions.*** The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the District's ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2019-20 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District.

***Prohibitions on Diverting Local Revenues for State Purposes.*** Beginning in 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 State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of 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 redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment has been 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, which local redevelopment agencies have now been dissolved (see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – *Assembly Bill No. 26 & California Redevelopment Association v. Matosantos*” herein). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State’s authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years—such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State’s general fund.

***Allocation of State Funding to School Districts; Local Control Funding Formula.*** Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a “base revenue limit” per student multiplied by the district’s student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district’s prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district’s base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State “equalization aid.” To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State’s contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as “basic aid districts,” which are now referred to as “community funded districts.” School districts that received some equalization aid were commonly referred to as “revenue limit districts,” which are now referred to as “LCFF districts.” The District is an LCFF district.

Beginning in fiscal year 2013-14, the LCFF replaced the revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base grant (“Base Grant”) per unit of average daily attendance (“A.D.A.”) with additional supplemental funding (the “Supplemental Grant”) allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth. The LCFF was projected to have an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below, but achieved full implementation ahead of schedule in fiscal year 2018-19. The LCFF includes the following components:

- A Base Grant for each local education agency (“LEA”). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2018-19, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$8,503 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,818 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$8,050 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$9,572 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further,

this amount also includes a costs of living adjustment of 3.26% authorized by the 2019-20 State Budget.

- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a LEA's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.
- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF in fiscal year 2018-19. Upon full implementation in fiscal year 2018-19, LEAs now receive the greater of the Base Grant or the ERT.

Under LCFF, for community funded districts, local property tax revenues would be used to offset up to the entire allocation under the new formula. However, community funded districts would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

***Local Control Accountability Plans.*** A feature of the LCFF is a system of support and intervention for local educational agencies. School districts, county offices of education and charter schools are required to develop, implement and annually update a three-year LCAP. Each LCAP must be developed with input from teachers, parents and the community, and should describe local goals as they pertain to eight areas identified as state priorities, including student achievement, parent engagement and school climate, as well as detail a course of action to attain those goals. Moreover, the LCAPs must be designed to align with the district's budget to ensure adequate funding is allocated for the planned actions.

Each school district must submit its LCAP annually on or before July 1 for approval by its county superintendent. The county superintendent then has until August 15 to seek clarification regarding the contents of the LCAP, and the school district must respond in writing. The county superintendent can submit recommendations for amending the LCAP, and such recommendations must be considered, but are not mandatory. A school district's LCAP must be approved by its county superintendent by October 8 of each year if such superintendent finds (i) the LCAP adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the strategies outlined in the LCAP.

Performance evaluations are to be conducted to assess progress toward goals and guide future actions. County superintendents are expected to review and provide support to the school districts under their jurisdiction, while the State Superintendent of Public Instruction performs a corresponding role for county offices of education. The California Collaborative for Education Excellence (the "Collaborative"), a newly established body of educational specialists, was created to advise and assist local education agencies in achieving the goals identified in their LCAPs. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency's LCAP.

**Attendance and LCFF.** The following table sets forth the District’s actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”), and targeted Base Grant per unit of A.D.A. for fiscal years 2013-14 through 2019-20, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education and charter school attendance.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Average Daily Attendance, Enrollment and Targeted Base Grant**  
**Fiscal Years 2013-14 through 2019-20**

Fiscal Year		A.D.A./Base Grant		Enrollment <sup>(10)</sup>	
		9-12	Total A.D.A.	Total Enrollment	Unduplicated Percentage of EL/LI Students
2014-15	A.D.A. <sup>(1)</sup> :	6,473.64	6,473.64	6,810	19.93%
	Targeted Base Grant <sup>(2)(3)</sup> :	\$8,712	--	--	--
2015-16	A.D.A. <sup>(1)</sup> :	6,399.18	6,399.18	6,688	19.34%
	Targeted Base Grant <sup>(2)(4)</sup> :	\$8,801	--	--	--
2016-17	A.D.A. <sup>(1)</sup> :	6,316.49	6,316.49	6,649	18.64%
	Targeted Base Grant <sup>(2)(5)</sup> :	\$8,801	--	--	--
2017-18	A.D.A. <sup>(1)</sup> :	6,308.86	6,308.86	6,665	19.73%
	Targeted Base Grant <sup>(2)(6)</sup> :	\$8,939	--	--	--
2018-19	A.D.A. <sup>(1)</sup> :	6,373.78	6,373.78	6,739	20.55%
	Targeted Base Grant <sup>(2)(7)</sup> :	\$9,269	--	--	--
2019-20 <sup>(8)</sup>	A.D.A. <sup>(8)</sup> :	6,387.43	6,387.43	6,635	20.55%
	Targeted Base Grant <sup>(2)(9)</sup> :	\$9,572	--	--	--

<sup>(1)</sup> A.D.A. for the second period of attendance, typically in mid-April of each school year, which does not reflect subsequent revisions related to days deemed later by the California Department of Education to have a “material decrease” in attendance or attendance at Saturday school.

<sup>(2)</sup> Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF is now fully implemented as of the current fiscal year 2018-19, two years ahead of its anticipated implementation.

<sup>(3)</sup> Targeted fiscal year 2014-15 Base Grant amount reflects a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.

<sup>(4)</sup> Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

<sup>(5)</sup> Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

<sup>(6)</sup> Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.

<sup>(7)</sup> Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts.

This “super COLA” amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.

<sup>(8)</sup> Figures are estimates.

<sup>(9)</sup> Targeted fiscal year 2019-20 Base Grant amount reflects a 3.26% cost-of-living adjustment from targeted fiscal year 2018-19 Base Grant amounts.

<sup>(10)</sup> Reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and California Longitudinal Pupil Achievement Data System (“CALPADS”) for the 2015-16 through 2017-18 school year. For purposes of calculating Supplemental and Concentration Grants, a school district’s fiscal year 2013-14 percentage of unduplicated EL/LI Students was expressed solely as a percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment was based on the two-year average of EL/LI Students enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI Students has been based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: El Dorado Union High School District.

The District received approximately \$62.91 million (unaudited) in aggregate revenues reported under LCFF sources in fiscal year 2018-19, and has budgeted to receive approximately \$65.28 million in aggregate revenues under the LCFF in fiscal year 2019-20 (or approximately 85.38% of its general fund revenues in fiscal year 2019-20). Such amount includes supplemental grants budgeted to be approximately \$2.61 million in fiscal year 2019-20.



## Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, the base revenue limit) before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to receive. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received only its special categorical aid which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some State equalization aid were commonly referred to as "revenue limit districts." The District was a revenue limit district and is now referred to as an LCFF district.

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, community funded districts would continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. See "State Funding of Education; State Budget Process – *Allocation of State Funding to School Districts; Local Control Funding Formula*" herein for more information about the LCFF.

Local property tax revenues account for approximately 49.87% of the District's aggregate revenues reported under LCFF sources and are budgeted to be approximately \$32.56 million, or 42.58% of total general fund revenues in fiscal year 2019-20.

For information about the property taxation system in California and the District's property tax base, see "DISTRICT HISTORY, OPERATIONS AND FINANCIAL INFORMATION – Local Property Taxation – *Assessed Valuation of Property Within District.*"

For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below.

***Effect of Changes in Enrollment.*** Changes in local property tax income and A.D.A. affect LCFF districts and community funded districts differently.

In an LCFF district, such as the District, increasing enrollment increases the total amount distributed under the LCFF and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth; and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In community funded districts, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

## **Other District Revenues**

**Federal Revenues.** The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 2.53% (or approximately \$1.93 million) of the District’s general fund budgeted revenues for fiscal year 2019-20.

**Other State Revenues.** In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 6.84% (or approximately \$5.23 million) of the District’s general fund budgeted revenues for fiscal year 2019-20.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District’s State lottery revenue is budgeted at approximately \$1.34 million for fiscal year 2019-20.

**Other Local Revenues.** In addition to ad valorem property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 5.25% (or approximately \$4.01 million) of the District’s general fund budgeted revenues for fiscal year 2019-20.

## **Local Property Taxation**

Taxable property located in the District has a 2019-20 assessed value of \$23,910,603,217. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described under the heading, “*–State-Assessed Property*” below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See “*–Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

**State-Assessed Property.** Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The

value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

**Classification of Locally Taxed Property.** Locally taxed 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 and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as “utility” property.

**Assessed Valuation of Property Within District.** The following table sets forth the assessed valuations of the various classes of property in the District for fiscal years 2011-12 through 2019-20.

**EL DORADO UNION HIGH SCHOOL DISTRICT  
(El Dorado County, California)  
Assessed Valuations  
Fiscal Years 2011-12 through 2019-20**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2011-12	\$16,874,516,161	\$4,067,126	\$393,486,497	\$17,272,069,784
2012-13	16,852,102,109	4,067,126	402,942,117	17,259,111,352
2013-14	17,001,850,219	4,067,126	394,259,969	17,400,177,314
2014-15	17,935,766,735	4,067,126	405,320,863	18,345,154,724
2015-16	18,895,653,958	1,950,514	411,205,020	19,308,809,492
2016-17	19,966,845,613	1,950,514	418,802,793	20,387,598,920
2017-18	21,208,994,833	1,950,514	393,153,404	21,604,098,751
2018-19	22,497,227,906	1,950,514	445,124,177	22,944,302,597
2019-20	23,430,586,629	421,305	479,595,283	23,910,603,217

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, drought, toxic dumping, etc. When

necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also “–*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

***Appeals of Assessed Valuation; Blanket Reductions of Assessed Values.*** There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction or reconstruction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property’s then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner’s property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner’s property in any one year must submit an application to the county assessment appeals board (the “Appeals Board”). Following a review of the application by the county assessor’s office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal’s filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (such pre-reduction level escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. According to representatives of the County assessor’s office, the County has in the past, pursuant to Article XIII A of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the District in the future.

See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues” for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

**Assessed Valuation by Jurisdiction.** The following table describes a distribution of taxable real property located in the District by jurisdiction.

**EL DORADO UNION HIGH SCHOOL DISTRICT  
(El Dorado County, California)  
2019-20 Assessed Valuation by Jurisdiction**

Jurisdiction:	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Placerville	\$ 1,191,501,865	4.98%	\$ 1,191,501,865	100.00%
Unincorporated El Dorado County	22,719,101,352	95.02	28,454,136,631	79.84
Total District	\$23,910,603,217	100.00%		
El Dorado County	\$23,910,603,217	100.00%	\$34,754,837,370	68.80%

Source: California Municipal Statistics, Inc.

**Assessed Valuation by Land Use.** The following table sets forth a distribution of taxable property located in the District on the 2019-20 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**EL DORADO UNION HIGH SCHOOL DISTRICT  
(El Dorado County, California)  
Fiscal Year 2019-20 Assessed Valuation and Parcels by Land Use**

	2019-20 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Total
<b>Non-Residential:</b>				
Agricultural/Timber	\$ 21,330,296	0.09%	695	1.07%
Commercial	891,534,502	3.81	785	1.21
Vacant Commercial	63,093,290	0.27	285	0.44
Industrial	884,259,737	3.77	844	1.30
Vacant Industrial	62,865,046	0.27	270	0.42
Recreational	143,927,541	0.61	152	0.23
Government/ Social/Institutional	11,842,320	0.05	94	0.15
Miscellaneous	30,743,855	0.13	54	0.08
Subtotal Non-Residential	\$ 2,109,596,587	9.00%	3,179	4.91%
<b>Residential:</b>				
Single Family Residence	\$19,575,653,419	83.55%	47,986	74.05%
Condominium/Townhouse	105,536,987	0.45	680	1.05
Mobile Home	515,863,019	2.20	3,333	5.14
2-3 Residential Units	119,630,154	0.51	462	0.71
4+ Residential Units/Apartments	354,798,125	1.51	301	0.46
Miscellaneous Residential	52,717,179	0.22	566	0.87
Vacant Residential	596,791,159	2.55	8,297	12.80
Subtotal Residential	\$21,320,990,042	91.00%	61,625	95.09%
Total	\$23,430,586,629	100.00%	64,804	100.00%

<sup>(1)</sup> Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

**Assessed Valuation of Single Family Homes.** The following table sets forth the assessed valuation of single-family homes in the District’s boundaries for fiscal year 2019-20, including the median and average assessed valuation of single-family parcels.

**EL DORADO UNION HIGH SCHOOL DISTRICT  
(El Dorado County, California)  
Per Parcel 2019-20 Assessed Valuation of Single Family Homes**

	Number of Parcels	2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	47,986	\$19,575,653,419	\$407,945	\$363,516

2019-20 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	565	1.177%	1.177%	\$ 20,254,129	0.103%	0.103%
\$50,000 - \$99,999	1,933	4.028	5.206	149,662,179	0.765	0.868
\$100,000 - \$149,999	2,948	6.143	11.349	374,224,360	1.912	2.780
\$150,000 - \$199,999	3,941	8.213	19.562	691,438,574	3.532	6.312
\$200,000 - \$249,999	4,597	9.580	29.142	1,036,822,485	5.296	11.608
\$250,000 - \$299,999	4,703	9.801	38.943	1,291,476,434	6.597	18.206
\$300,000 - \$349,999	4,241	8.838	47.781	1,376,637,505	7.032	25.238
\$350,000 - \$399,999	3,912	8.152	55.933	1,464,811,543	7.483	32.721
\$400,000 - \$449,999	3,602	7.506	63.439	1,531,031,207	7.821	40.542
\$450,000 - \$499,999	3,276	6.827	70.266	1,554,612,923	7.942	48.484
\$500,000 - \$549,999	3,125	6.512	76.779	1,640,552,619	8.381	56.864
\$550,000 - \$599,999	2,622	5.464	82.243	1,505,107,604	7.689	64.553
\$600,000 - \$649,999	2,038	4.247	86.490	1,269,542,325	6.485	71.038
\$650,000 - \$699,999	1,538	3.205	89.695	1,036,190,476	5.293	76.331
\$700,000 - \$749,999	1,121	2.336	92.031	811,025,377	4.143	80.474
\$750,000 - \$799,999	849	1.769	93.800	655,952,038	3.351	83.825
\$800,000 - \$849,999	602	1.255	95.055	496,008,092	2.534	86.359
\$850,000 - \$899,999	493	1.027	96.082	430,476,576	2.199	88.558
\$900,000 - \$949,999	366	0.763	96.845	338,236,017	1.728	90.286
\$950,000 - \$999,999	240	0.500	97.345	233,746,667	1.194	91.480
\$1,000,000 and greater	1,274	2.655	100.000	1,667,844,289	8.520	100.000
Total	47,986	100.000%		\$19,575,653,419	100.000%	

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

***Largest Taxpayers in District.*** The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2019-20 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District.

**EL DORADO UNION HIGH SCHOOL DISTRICT  
(El Dorado County, California)  
Largest 2019-20 Local Secured Taxpayers**

Property Owner	Primary Land Use	2019-20 Assessed Valuation	Percent of Total <sup>(1)</sup>
1. WIM Core Portfolio Owner	Industrial/Office	\$ 54,770,400	0.23%
2. California Physicians Service	Office Building	53,463,196	0.23
3. Lennar Homes of CA	Residential Development	52,254,867	0.22
4. SI 48 LLC	Apartments	35,594,110	0.15
5. WRI Golden State LLC	Shopping Center	30,460,882	0.13
6. Oakmont Prop Lesarra	Residential Development	30,244,267	0.13
7. Sunset Tartesso AZ LLC	Shopping Center	29,835,000	0.13
8. Safeway Inc.	Supermarket	27,318,171	0.12
9. EDH Retirement Residence	Assisted Living Facility	26,603,451	0.11
10. EDH Waterfront	Shopping Center	25,440,631	0.11
11. Target Corporation	Shopping Center	24,779,990	0.11
12. Marketplace at Town Center	Shopping Center	24,420,000	0.10
13. Sterling Ranch Associates	Apartments	24,000,000	0.10
14. El Dorado Hills Theatre	Movie Theater	23,628,196	0.10
15. CPSL SPE	Apartments	22,400,354	0.10
16. Serrano Associates LLC	Residential/Golf	21,366,458	0.09
17. Toll CA X	Residential Development	20,766,059	0.09
18. Lake Forest Apartments LLC	Apartments	20,119,966	0.09
19. Sierra Pacific Industries	Industrial	20,031,288	0.09
20. WFC Cameron Park LLC	Supermarket	19,625,000	0.08
		\$587,122,286	2.51%

<sup>(1)</sup> 2019-20 Local secured assessed valuation: \$23,430,586,629  
Source: California Municipal Statistics, Inc.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer’s financial situation and ability or willingness to pay property taxes. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District’s control. See “–*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” above.

**Tax Rates.** The following table sets forth the total *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 100-013). This Tax Rate Area comprises approximately 6.41% of the total assessed value of the District for fiscal year 2018-19.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Typical Tax Rate per \$100 Assessed Valuation (TRA 100-013)**  
**Fiscal Years 2014-15 through 2018-19**

	2014-15	2015-16	2016-17	2017-18	2018-19 <sup>(1)</sup>
General	1.0000	1.0000	1.0000	1.0000	1.000000
Rescue Union School District	.0319	.0326	.0312	.0294	.026798
El Dorado Union High School District	.0199	.0196	.0183	.0164	.014688
Los Rios Community College District	.0113	.0091	.0141	.0130	.013100
Total All Property	1.0631	1.0613	1.0636	1.0588	1.054586
El Dorado Irrigation District	.0102	.0093	.0089	.0038	.00400
Total Land Only	.0102	.0093	.0089	.0038	.00400

<sup>(1)</sup> Information regarding the typical tax rate per \$100 assessed valuation for fiscal year 2019-20 is not available at this time.  
Source: California Municipal Statistics, Inc.

**Tax Charges and Delinquencies**

A school district’s share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Refunding Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The county treasurer-tax collector prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer-tax collector.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the county treasurer-tax collector may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer-tax collector may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.



The following table sets forth real property tax charges and corresponding delinquencies for the District’s general obligation bond debt service levy, with respect to the property located in the District, for fiscal years 2013-14 through 2017-18.

**EL DORADO UNION HIGH SCHOOL DISTRICT  
(El Dorado County, California)  
Secured Tax Charges and Delinquencies  
Fiscal Years 2013-14 through 2017-18**

	Secured Tax Charge <sup>(1)</sup>	Amount Delinquent June 30	% Delinquent June 30
2013-14	\$178,419,979.30	\$2,119,034.09	1.19%
2014-15	188,923,900.51	2,075,696.07	1.10
2015-16	196,245,925.31	1,187,130.92	0.60
2016-17	208,396,564.61	1,896,299.69	0.91
2017-18	218,499,966.80	2,135,078.29	0.98

<sup>(1)</sup> All secured *ad valorem* taxes collected by the County for property located within the District except for El Dorado Irrigation District *ad valorem* tax for land only property.

<sup>(2)</sup> Information regarding the secured tax charges and delinquencies for fiscal year 2019-20 is not available at this time.  
Source: California Municipal Statistics, Inc.

**Teeter Plan**

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including the District, receives the full amount of uncollected ad valorem secured roll taxes credited to its fund (including delinquent taxes, if any), in the same manner as if the full amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected that would have been due the local agency. The County applies the Teeter Plan to secured roll taxes levied for repayment of general obligation bonds, inclusive of school and community college district bonds.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors of the County may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency

**Charter Schools**

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the California Education Code (the “Charter School Law”). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education or the State Board of Education. A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to (a) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system, (b) hold schools accountable for meeting measurable pupil outcomes and

provide schools a way to shift from a rule-based to a performance-based system of accountability, and (c) provide competition within the public school system to stimulate improvements in all public schools.

A school district has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools that receive their funding directly from the State are generally not included in a school district's financial reports and audited financial statements and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Dependent charter schools receive their funding from the school district and would generally be included in the school district's financial reports and audited financial statements.

There is currently one charter school, Shenandoah Virtual Academy, operating in the District. In 2001, the District approved a charter petition for Shenandoah Virtual Academy, which began operations in 2002. Shenandoah Virtual Academy is a dependent charter school, which serves grades 9 through 12. Enrollment in fiscal year 2018-19 was 100 students and is budgeted to be approximately 110 students in fiscal year 2019-20. The District's audited financial statements for fiscal year 2017-18, which are included as Appendix B, include the operations of Shenandoah Virtual Academy.

The District can make no representation as to whether any additional charter schools will be established within the territory of the District, or as to the impact Shenandoah Virtual Academy or any other charter school developments may have on the District's enrollment, A.D.A. or finances in future years.

### **Significant Accounting Policies and Audited Financial Reports**

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2018, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District's former independent auditor, Goodell, Porter, Sanchez & Bright, LLP ("GPSB"), Certified Public Accountants, Sacramento, California, for fiscal years 2013-14 through 2015-16, and by the District's current independent auditor, Crowe LLP, Certified Public Accountants ("Crowe LLP"), Sacramento, California, for fiscal years 2016-17 and 2017-18. The District's contract with GPSB terminated at the end of fiscal year 2015-16 and subsequently, pursuant to a selection process involving requests for proposals from multiple accounting firms, Crowe LLP was selected as the District's auditor.

The change in auditors in fiscal year 2016-17 resulted in the District presenting certain financial information differently in its audited financial statements. Thus, the information presented in the tables below for fiscal years 2013-14 through 2015-16 and fiscal years 2016-17 and 2017-18 are categorized differently. Although historical total revenue and expenditure figures are comparatively consistent, the categorical breakdown of revenues and expenditures is different for the revised accounting formats and is not directly comparable.

GPSB and Crowe LLP have not been requested to consent to the use or to the inclusion of their respective reports in this Official Statement, and they have not audited or reviewed this Official Statement.

The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The following table sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2013-14 through 2015-16. The table on page 46 sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for fiscal years 2016-17 and 2017-18.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Statement of General Fund Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2013-14 through 2015-16**

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
<u>Revenues</u>			
LCFF Sources			
State Apportionments	\$23,415,156	\$25,503,715	\$27,707,346
Local Sources	24,604,867	26,093,800	28,078,228
Total LCFF Sources	48,020,023	51,597,515	55,785,574
Federal Revenue	1,677,056	1,739,207	1,673,314
Other State Revenue	3,899,916	4,480,722	9,148,680
Other Local Revenue	6,063,171	4,778,180	4,444,549
Total Revenues	59,660,166	62,595,624	71,052,117
<u>Expenditures</u>			
Certificated Salaries	28,377,738	29,828,682	31,656,320
Classified Salaries	9,897,266	10,843,133	11,491,778
Employee Benefits	10,349,127	12,584,016	14,143,019
Books and Supplies	3,450,571	3,981,446	3,067,029
Services and Other Operating Expenditures	5,993,834	6,217,615	7,261,315
Capital Outlay	1,519,945	583,293	453,403
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	33	-	-
Other Outgo	2,215,799	2,396,815	1,233,631
Total Expenditures	61,804,313	66,435,000	69,306,495
Excess of Revenues Over (Under) Expenditures	(2,144,147)	(3,839,376)	1,745,622
Other Financing Sources (Uses):			
Operating Transfers In	120,495	-	-
Operating Transfers Out	(1,079,392)	(489,178)	(410,000)
Total Other Financing Sources (Uses)	(958,897)	(489,178)	(410,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(3,103,044)	(4,328,554)	1,335,622
Fund Balances – July 1	18,522,881	15,419,837	11,091,283
Fund Balances – June 30	<u>\$15,419,837</u>	<u>\$11,091,283</u>	<u>\$12,426,905</u>

Source: El Dorado Union High School District Audited Financial Reports for fiscal years 2013-14 through 2015-16.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Statement of General Fund Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2016-17 and 2017-18**

	Fiscal Year 2016-17 <sup>(1)</sup>	Fiscal Year 2017-18 <sup>(1)</sup>
Revenues:		
LCFF:		
State apportionment	\$27,544,198	\$26,973,542
Local sources	29,835,874	31,708,155
Total LCFF	57,380,072	58,681,697
Federal sources	1,862,686	1,866,363
Other state sources	7,085,278	6,368,782
Other local sources	4,571,792	5,580,093
Total revenues	70,899,828	72,496,935
Expenditures:		
Current:		
Certificated salaries	31,540,611	32,204,750
Classified salaries	11,593,470	11,876,006
Employee benefits	16,018,656	17,109,069
Books and supplies	3,717,387	3,002,926
Contract services and operating expenditures	8,004,488	8,238,383
Other outgo	1,512,682	1,495,151
Capital outlay	979,416	2,492,334
Total expenditures	73,366,710	76,418,619
(Deficiency) excess of revenues (under) over expenditures	(2,466,882)	(3,921,684)
Other financing sources (uses):		
Transfers in	72,789	68,909
Transfers out	-	-
Proceeds from capital leases	-	964,795
Total other financing sources (uses)	72,789	1,033,704
Change in fund balances	(2,394,093)	(2,887,980)
Fund Balances – July 1	12,426,905	10,032,812
Fund Balances – June 30	\$10,032,812	\$7,144,832

<sup>(1)</sup> The reduction in ending fund balances for fiscal years 2016-17 and 2017-18 is due to deficit spending as a result of increasing pension costs and planned one-time expenditures.  
Source: El Dorado Union High School District Audited Financial Reports for fiscal years 2016-17 and 2017-18.

The following table sets forth the general fund balance sheet of the District for fiscal years 2013-14 through 2015-16. The table on page 48 sets forth the general fund balance sheet of the District for fiscal years 2016-17 and 2017-18.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Summary of General Fund Balance Sheet**  
**Fiscal Years 2013-14 through 2015-16**

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
<u>Assets</u>			
Cash	\$11,060,383	\$9,471,903	\$11,676,312
Accounts Receivable	5,427,207	1,750,305	933,823
Due From Other Funds	104	973	82,406
Stores Inventory	7,647	21,085	9,216
Prepaid Expenditures	581,830	651,157	627,856
	<u>\$17,077,171</u>	<u>\$11,895,423</u>	<u>\$13,329,613</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$1,592,830	\$570,824	\$855,447
Unearned Revenue	64,504	11,266	47,261
Due to Other Funds	-	222,050	-
	<u>1,657,334</u>	<u>801,140</u>	<u>902,708</u>
Fund Balances:			
Nonspendable	606,142	688,907	653,737
Restricted	1,808,894	719,343	2,312,487
Committed	585,900	489,390	186,904
Assigned	1,070,083	1,032,253	1,054,986
Unassigned	11,348,818	8,161,390	8,218,791
	<u>15,419,837</u>	<u>11,091,283</u>	<u>12,426,905</u>
Total Fund Balances	<u>15,419,837</u>	<u>11,091,283</u>	<u>12,426,905</u>
Total Liabilities and Fund Balances	<u>\$17,077,171</u>	<u>\$11,895,423</u>	<u>\$13,329,613</u>

Source: El Dorado Union High School District Audited Financial Reports for fiscal years 2013-14 through 2015-16.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Summary of General Fund Balance Sheet**  
**Fiscal Years 2016-17 and 2017-18**

	Fiscal Year 2016-17	Fiscal Year 2017-18
<b>ASSETS</b>		
Cash and investments:	-	-
Cash in County Treasury	\$9,169,487	\$6,154,534
Cash in revolving fund	16,665	16,665
Cash with Fiscal Agent	-	-
Receivables	943,618	1,165,043
Prepaid expenditures	638,483	462,445
Stores inventory	17,473	7,266
Due from other Funds	-	68,868
	<b>\$10,785,726</b>	<b>\$7,874,821</b>
<b>Total Assets</b>	<b>\$10,785,726</b>	<b>\$7,874,821</b>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$740,816	\$700,775
Unearned revenue	12,098	29,214
Due to other funds	-	-
	752,914	729,989
<b>Total Liabilities</b>	<b>752,914</b>	<b>729,989</b>
Fund balances:		
Nonspendable	672,621	486,376
Restricted	1,825,612	1,280,392
Assigned	979,910	1,015,539
Unassigned	6,554,669	4,362,525
	10,032,812	7,144,832
<b>Total fund balances</b>	<b>10,032,812</b>	<b>7,144,832</b>
<b>Total liabilities and fund balances</b>	<b>\$10,785,726</b>	<b>\$7,874,821</b>

Source: El Dorado Union High School District Audited Financial Reports for fiscal years 2016-17 and 2017-18.

**District Budget Process and County Review**

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

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

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15

of such year written recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

The governing board of the school district, together with the county superintendent, must review and respond to the recommendations of the county superintendent on or before October 8 at a regular meeting of the governing board of the school district. The county superintendent will examine and approve or disapprove of the revised budget by November 8 of such year. If the county superintendent disapproves a revised budget, the county superintendent will call for the formation of a budget review committee. By December 31 of each year, every school district must have an adopted budget, or the Superintendent of Public Instruction (the "State Superintendent") may impose a budget and will report such school district to the State Legislature and the Department of Finance.

Subsequent to approval, the county superintendent will monitor each school district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the school district can meet its current or subsequent year financial obligations.

If, after taking various remedial actions, the county superintendent determines that a school district cannot meet its current or the subsequent year's obligations, the county superintendent will notify the school district's governing board, the State Superintendent and the president of the State board (or the president's designee) of the determination and take at least one of the following actions, and all actions that are necessary to ensure that the school district meets its financial obligations: (a) develop and impose, after also consulting with the State Superintendent and the school district's governing board, revisions to the budget that will enable the school district to meet its financial obligations in the current fiscal year, (b) stay or rescind any action inconsistent with the ability of the school district to meet its obligations for the current or subsequent fiscal year, (c) assist in developing, in consultation with the school district's governing board, a financial plan that will enable the school district to meet its future obligations, (d) assist in developing, in consultation with the school district's governing board, a budget for the subsequent fiscal year, and (e) as necessary, appoint a fiscal advisor to perform the aforementioned duties. The county superintendent will also make a report to the State Superintendent and the president of the State board or the president's designee about the financial condition of the school district and the remedial actions proposed by the county superintendent. However, the county superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the county superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200 and the Education Code (Section 42100 et. seq.), each school district is required to file two interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that, based on then current projections, will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that, based on then current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that, based on then current projections, will not meet its financial obligations for the current fiscal year or the two subsequent fiscal years. A certification may be revised to a negative or qualified certification by the county superintendent, as appropriate. A school district that receives a qualified or negative certification for its second interim report must provide to the county superintendent, the State Controller and the Superintendent no later than

June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30.

Any school district that receives a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax and revenue anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the school district, unless the county superintendent determines that the school district's repayment of indebtedness is probable. In the last five years, the District has not received a negative or qualified certification for an interim financial report.

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from ad valorem property taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president's designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district's return to fiscal solvency.

In the event the State elects to provide an emergency apportionment to a school district, such apportionment will constitute an advance payment of apportionments owed to the school district from the State School Fund and the Education Protection Account. The emergency apportionment may be accomplished in two ways. First, a school district may participate in a two-part financing in which the school district receives an interim loan from the State General Fund, with the agreement that the school district will subsequently enter into a lease financing with the California Infrastructure and Economic Development Bank for purposes of financing the emergency apportionment, including repaying such amounts advanced to the State General Fund. State law provides that so long as bonds from such lease financing are outstanding, the recipient school district (via its administrator) cannot file for bankruptcy. As an alternative, a school district may receive an emergency apportionment from the State General Fund that must be repaid in 20 years. Each year, the State Superintendent will withhold from the apportionments to be made to the school district from the State School Fund and the Education Protection Account an amount equal to the emergency apportionment repayment that becomes due that year. The determination as to whether the emergency apportionment will take the form of a lease financing or an emergency apportionment from the State General Fund will be based upon the availability of funds within the State General Fund.

The table on the following page sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2019-20 and unaudited actuals for fiscal years 2016-17 through 2018-19.

[Remainder of page left intentionally blank.]



**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**General Fund Budgets for Fiscal Years 2016-17 through 2019-20 and**  
**Unaudited Actuals for Fiscal Years 2016-17 through 2018-19**

	2016-17 Original Budget	2016-17 Unaudited Actuals <sup>(1)(2)</sup>	2017-18 Original Budget	2017-18 Unaudited Actuals <sup>(1)(2)</sup>	2018-19 Original Budget	2018-19 Unaudited Actuals	2019-20 Original Budget
<b>REVENUES</b>							
LCFF Sources	\$57,365,582.00	\$57,380,071.10	\$58,450,175.00	\$58,681,697.93	\$62,995,978.00	\$62,911,120.44	\$65,278,707.00
Federal Revenue	1,694,404.00	1,862,686.34	1,673,529.00	1,866,362.49	1,853,125.00	2,029,206.23	1,931,244.00
Other State Revenue	5,764,962.00	7,085,277.99	4,647,115.00	6,368,781.98	6,962,603.00	9,343,488.06	5,232,770.00
Other Local Revenue	4,604,051.00	4,571,549.53	4,584,349.00	5,580,090.90	4,074,855.00	4,756,376.40	4,013,959.00
<b>TOTAL REVENUES</b>	<b>69,428,999.00</b>	<b>70,899,584.96</b>	<b>69,355,168.00</b>	<b>72,496,933.30</b>	<b>75,886,561.00</b>	<b>79,040,191.13</b>	<b>76,456,680.00</b>
<b>EXPENDITURES</b>							
Certificated Salaries	31,585,502.00	31,540,610.18	31,399,674.00	32,204,749.54	31,926,239.00	32,593,941.91	33,349,564.00
Classified Salaries	11,569,615.00	11,593,469.39	11,698,266.00	11,876,005.11	11,814,751.00	12,336,041.18	12,508,927.00
Employee Benefits	15,428,774.00	15,918,655.84	16,877,994.00	17,009,069.35	18,318,133.00	21,322,389.84	19,829,769.00
Books and Supplies	3,013,163.00	3,717,387.60	2,483,178.00	3,002,926.50	2,357,693.00	3,292,302.32	2,246,629.00
Services, Other Operating Expenses	6,419,011.00	7,817,340.88	7,166,311.00	8,238,381.92	7,807,106.00	8,793,438.75	8,354,364.00
Capital Outlay	471,029.00	979,416.05	200,000.00	1,527,539.50	360,000.00	409,868.37	100,000.00
Other Outgo (excluding Direct Support/Indirect Costs)	1,426,369.00	1,512,682.43	1,597,118.00	1,495,150.53	1,740,932.00	1,848,197.48	1,847,893.00
Transfers of Direct Support/Indirect Costs	(71,952.00)	(72,789.00)	(69,179.00)	(68,909.00)	(85,967.00)	(83,210.00)	(84,411.00)
<b>TOTAL EXPENDITURES</b>	<b>69,841,511.00</b>	<b>73,106,773.37</b>	<b>71,353,362.00</b>	<b>75,284,913.45</b>	<b>74,238,887.00</b>	<b>80,512,969.85</b>	<b>78,152,735.00</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(412,512.00)</b>	<b>(2,107,188.41)</b>	<b>(1,998,194.00)</b>	<b>(2,787,980.15)</b>	<b>1,647,674.00</b>	<b>(1,472,778.72)</b>	<b>(1,696,055.00)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Inter-fund Transfers Out	-	(100,000.00)	(100,000.00)	(100,000.00)	-	-	-
<b>TOTAL, OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(100,000.00)</b>	<b>(100,000.00)</b>	<b>(100,000.00)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<b>(412,512.00)</b>	<b>(2,207,188.41)</b>	<b>(2,098,194.00)</b>	<b>(2,887,980.15)</b>	<b>1,647,674.00</b>	<b>(1,472,778.72)</b>	<b>(1,696,055.00)</b>
<b>BEGINNING BALANCE, as of July 1</b>	<b>10,806,739.70</b>	<b>12,240,000.75</b>	<b>8,981,763.55</b>	<b>10,032,812.34</b>	<b>6,123,476.78</b>	<b>7,144,832.19</b>	<b>5,465,642.54</b>
<b>Audit Adjustments</b>							
<b>As of July 1 – Audited</b>	<b>10,806,739.70</b>	<b>12,240,000.75</b>	<b>8,981,763.55</b>	<b>10,032,812.34</b>	<b>6,123,476.78</b>	<b>7,144,832.19</b>	<b>5,465,642.54</b>
<b>Adjusted Beginning Balance</b>	<b>10,806,739.70</b>	<b>12,240,000.75</b>	<b>8,981,763.55</b>	<b>10,032,812.34</b>	<b>6,123,476.78</b>	<b>7,144,832.19</b>	<b>5,465,642.54</b>
<b>ENDING BALANCE</b>	<b>\$10,394,227.70</b>	<b>\$10,032,812.34</b>	<b>\$6,883,569.55</b>	<b>\$7,144,832.19</b>	<b>\$7,771,150.78</b>	<b>\$5,672,053.47</b>	<b>\$3,769,587.54</b>
<b>Unrestricted Balance</b>	<b>\$10,026,129.76</b>	<b>\$8,207,200.31</b>	<b>\$6,545,208.70</b>	<b>\$5,864,440.34</b>	<b>\$7,486,694.51</b>	<b>\$4,961,346.05</b>	<b>\$3,606,138.96</b>
<b>Restricted Balance</b>	<b>\$368,097.94</b>	<b>\$1,825,612.03</b>	<b>\$338,360.85</b>	<b>\$1,280,391.85</b>	<b>\$284,456.27</b>	<b>\$710,707.42</b>	<b>\$163,448.58</b>

<sup>(1)</sup> The District engaged in deficit spending in fiscal years 2016-17 and 2017-18, and the District plans to continue to deficit spending in fiscal year 2018-19 and 2019-20. The deficit spending is due in part to increasing pension costs and planned one-time expenditures.

<sup>(2)</sup> The figures reflected in the District's unaudited actuals for fiscal years 2016-17 and 2017-18 differ from the District's audited financial statements for these fiscal years due to the inclusion of the financial activity of the Deferred Maintenance Fund in the audited financial statements.

Source: El Dorado Union High School District adopted general fund budgets for fiscal years 2016-17 through 2019-20 and unaudited actuals for fiscal years 2016-17 through 2018-19.

## District Debt Structure

**Long-Term Debt Summary.** A schedule of changes in the District’s long-term obligations for the year ended June 30, 2018, consisted of the following:

Long-Term Debt	Balance, July 1, 2017, as Restated	Additions	Deductions	Balance, June 30, 2018	Amounts Due Within One Year
General Obligation Bonds <sup>(1)</sup>	\$ 64,179,904	-	\$2,278,894	\$ 61,901,010	\$1,648,589
Accreted interest	5,698,648	\$1,117,578	235,338	6,580,888	270,914
Unamortized premiums	3,360,146	-	197,656	3,162,490	197,656
Certificates of Participation <sup>(2)</sup>	6,902,147	-	440,768	6,461,379	405,497
Capitalized lease obligation	-	964,795	-	964,795	82,241
Net OPEB liability	2,867,817	-	31,081	2,836,736	-
Net pension liability	68,809,000	5,147,000	-	73,956,000	-
Compensated absences	706,199	52,012	-	758,211	-
Total	<u>\$152,523,861</u>	<u>\$7,281,385</u>	<u>\$3,183,737</u>	<u>\$156,621,509</u>	<u>\$2,604,897</u>

<sup>(1)</sup> Excludes the 2020 Refunding Bonds. See “—General Obligation Bonds” below for more information.

<sup>(2)</sup> Excludes the Certificates; includes the Prior Certificates to be redeemed.

Source: El Dorado Union High School District Audited Financial Report for fiscal year 2017-18.

### **General Obligation Bonds.**

**1997 Authorization.** At a special election held on June 3, 1997, the District received authorization under Measure E to issue bonds of the District in an aggregate principal amount not to exceed \$17,180,000 for the purpose of constructing a new high school at the district-owned El Dorado Township site. The measure required approval by at least two-thirds of the votes cast by eligible voters within the District (the “1997 Authorization”) and received an affirmative vote of approximately 68.6% of the votes cast by eligible voters within the District. On August 27, 1997, the District issued its General Obligation Bonds, Election of 1997, Series 1997A (the “Series 1997A Bonds”) in the aggregate principal amount of \$13,000,000, as its first series of bonds to be issued under the 1997 Authorization. On September 3, 1998, the District issued its General Obligation Bonds, Election of 1997, Series 1998 (the “Series 1998 Bonds”) in the aggregate principal amount of \$4,180,000, as its second and final series of bonds to be issued under the 1997 Authorization.

**2008 Authorization.** At an election held on June 3, 2008, the District received authorization under Measure Q to issue bonds of the District in an aggregate principal amount not to exceed \$66,300,000 to improve student safety and the quality of education at every school by repairing, updating, constructing, furnishing and equipping school facilities, including technology, job training, science and health facilities, roofs, electrical, plumbing and heating systems. The measure required approval by at least 55% of the votes cast by eligible voters within the District (the “2008 Authorization”) and received an affirmative vote of approximately 56.2% of the votes cast by eligible voters within the District. On September 30, 2008, the District issued its General Obligation Bonds, Election of 2008, Series 2008 (the “Series 2008 Bonds”) in the aggregate principal amount of \$34,000,000. The Series 2008 Bonds were issued as the first series of bonds to be issued under the 2008 Authorization. On August 4, 2010, the District issued its Series 2010 Bonds in the aggregate principal amount of \$17,300,000, as the second series of bonds to be issued under the 2008 Authorization. On August 16, 2012, the District issued its Series 2012 Bonds in the aggregate initial principal amount of \$14,999,903.90, consisting of current interest bonds and capital appreciation bonds. The Series 2012 Bonds were issued as the third and final series of bonds to be issued under the 2008 Authorization.

**Refundings.** On May 7, 2008, the District issued its 2008 General Obligation Refunding Bonds (the “2008 Refunding Bonds”) in the aggregate principal amount of \$12,340,000 to refund the then outstanding Series 1997A Bonds and Series 1998 Bonds.

On November 29, 2016, the District issued its 2016 General Obligation Refunding Bonds (the “2016 Refunding Bonds”) in the aggregate principal amount of \$33,195,000 to (i) refund, on a current basis, a portion of the then-outstanding Series 2008 Refunding Bonds, and (ii) refund, on a current basis, the then-outstanding Series 2008 Bonds.

On or about May 5, 2020, the District is expected to issue its General Obligation Refunding Bonds, Series 2020 (Forward Delivery) (the “2020 Refunding Bonds”) in the aggregate principal amount of \$13,590,000 to (i) refund, on a forward basis, a portion of the outstanding Series 2010 Bonds, and (ii) pay the costs of issuance of the 2020 Refunding Bonds.

**Capital Leases.** In November 2017, the District entered into a capital lease agreement with Santander Bank for the purchase of six buses. The lease is for \$964,795 to be repaid in 120 monthly installments that represent principal and interest.

The following is a summary of future payments on the capital lease:

Year Ending June 30,	Lease Payments
2019	\$ 116,009
2020	116,009
2021	116,009
2022	116,009
2023	116,009
2024-2028	580,045
Total payments	<u>1,160,090</u>
Less amount representing interest	<u>(195,295)</u>
Net present value of minimum payments	<u>\$ 964,795</u>

Source: El Dorado Union High School District Audited Financial Report for fiscal year 2017-18.

For more information about Capital Leases, see Note 5 to the District’s financial statements attached hereto as APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.”

**Other Postemployment Benefits (OPEBs).** In addition to the retirement plan benefits with CalSTRS and CalPERS (described below), the District provides healthcare benefits to eligible employees who retire from the District, as part of a single-employer defined benefit postemployment health care plan (the “Plan”). The Plan is administered by the District and allows the employees who retired after having achieved retirement eligibility requirements to continue receiving medical insurance coverage. The District’s Board of Trustees has the authority to establish the requirements for paying for the Plan’s benefits as they come due.

In June 2015, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“Statement Number 75”). Other post-employment benefits (meaning other than pension benefits) (“OPEB”) generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The objective of Statement Number 75 is to

improve accounting and financial reporting by the State and local governments for OPEB by requiring the recognition of entire OPEB liability, a more comprehensive measure of OPEB expense, new note disclosures and certain required supplementary information. In addition, Statement Number 75 sets forth additional accounting methods to improve the usefulness of information about OPEB included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. Statement Number 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Statement Number 75 replaces GASB Statements Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and Number 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The District has implemented Statement No. 75 beginning with its audited financial statements for fiscal year 2017-18.

The District participates in the California School Boards Association (CSBA) GASB 45 Solutions Program (the "Solutions Program") to pre-fund OPEB liabilities. The Solutions Program is an agent multiple-employer plan consisting of an aggregation of single-employer plans. Public Agency Retirement Services ("PARS") was appointed as administrator for the Solutions Program and U.S. Bank was appointed as trustee. The Solutions Program serves as a qualified irrevocable trust for the accumulation of assets of member districts to ensure that funds are dedicated to service the needs of employees and retirees. The District's contributions to the irrevocable trust established by the Solutions Program is included in the Public Agencies Post-Employment Benefits Trust financial statements.

***Benefits Provided.*** The District offers limited post-employment retiree benefits to each of the three classes of employees. The major provisions of the plans are as follows:

Represented Certificated Staff who have at least 10 years with the District and have reached age 55 are eligible to receive the same benefit cap the District provides to current employees for health insurance for a period of five years or to age 65, whichever is first. Additionally they may work 18 days a year for a payment of \$4,000. This provision will remain active for employees hired on or before June 30, 2012, and will not be in effect for employees hired beyond this date.

Represented Classified Staff who have at least 15 years with the District and have reached age 50 are eligible to receive the same benefit cap the District provides to current employees for health insurance for a period of five years or until they reach Medicare eligibility, whichever is first. This provision will remain active for employees hired on or before June 30, 2012, and will not be in effect for any employees hired beyond this date.

Management Staff members who had at least 10 years with the District and had reached age 50 and who retire after October 1, 2005 will be eligible for one-time payments ranging from \$10,000 to \$30,000 depending on their length of their service. There will be no continued annual payments to them or guaranteed days of work. This provision will remain active for employees hired on or before July 1, 2010, and will not be in effect for any employee hired beyond this date.

Expenditures for post-retirement healthcare benefits are recognized as the premiums are paid. Benefits are provided by the District on a pay-as-you-go basis. The District's Board of Trustees has the authority to change benefits. The Plan benefits through an agent multiple-employer OPEB plan that is administered by PARS.

Eligible employees are not permitted to make contributions to the Plan. The Plan administrator will, on behalf of the employer, make all contributions to the trustee. All contributions will be paid to the trustee

for investment and reinvestment pursuant to the terms of the trust agreement. The District does not have contractually required contribution rates but contributes in an amount sufficient to fully fund the net OPEB obligation over a period not-to-exceed 30 years. Contributions to the trust from the District were \$477,483 for fiscal year 2017-18. Employees are not required to contribute to the Plan.

Total Compensation Systems, Inc., Westlake Village, California, has prepared an actuarial report dated as of November 29, 2018. According to the actuarial report, as of June 30, 2018, the District had a total OPEB liability of \$5,265,260. The District has set aside funds to cover retiree health liabilities in a Statement Number 75 qualifying trust. The Fiduciary Net Position of this trust, at June 30, 2018, was \$2,428,524, leaving a Net OPEB Liability of \$2,836,736. As of June 30, 2018, a discount rate of 6.0%, an inflation rate of 2.75%, a 4.0% health care cost trend rate and 2.75% payroll increase, were used. The Plan consisted of 37 inactive Plan members (covering spouses or beneficiaries currently receiving benefits) and 256 active employees in fiscal year 2017-18. For more information regarding the actuarial valuation, see Note 9 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

***Tax and Revenue Anticipation Notes.*** The District did not issue tax and revenue anticipation notes ("TRANS") in fiscal year 2018-19 and does not expect to issue TRANS in fiscal year 2019-20. The District may issue TRANS or borrow funds in future fiscal years as and if necessary to supplement cash flow.

### **Direct and Overlapping Debt**

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective August 28, 2019, for debt outstanding as of September 1, 2019. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column 2 sets forth the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. 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.

[Remainder of page left intentionally blank.]

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Statement of Direct and Overlapping Bonded Debt**

August 28, 2019

2019-20 Assessed Valuation: \$23,910,603,217

	% Applicable <sup>(1)</sup>	Debt 9/1/19
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Los Rios Community College District	11.729%	\$ 44,044,154
El Dorado Union High School District	100.000	58,527,303 <sup>(2)</sup>
Buckeye Union School District	100.000	23,775,000
Camino Union School District	100.000	3,820,000
Gold Oak Union School District	100.000	2,192,344
Gold Trail Union School District	100.000	885,000
Mother Lode Union School District	100.000	6,955,000
Placerville Union School District	100.000	3,794,987
Pollock Pines School District	100.000	8,493,004
Rescue Union School District	100.000	20,556,282
Cameron Park Community Services District	100.000	6,575,000
El Dorado Irrigation District	99.966	244,917
El Dorado County Community Facilities Districts	100.000	122,675,000
Statewide Communities Infrastructure Program (SCIP) 1915 Act Bonds	100.000	12,020,112
Other 1915 Act Bonds	100.000	80,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$314,638,103
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
El Dorado County Certificates of Participation	68.752%	\$ 39,284,893
Sierra Joint Community College District Certificates of Participation	0.001	37
El Dorado Union High School District Certificates of Participation	100.000	6,055,882 <sup>(3)</sup>
Buckeye Union School District Certificates of Participation	100.000	18,945,000
Placerville Union School District General Fund Obligations	100.000	1,450,000
Rescue Union School District Certificates of Participation	100.000	11,905,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 77,640,812
COMBINED TOTAL DEBT		\$392,278,915 <sup>(4)</sup>
<u>Ratios to 2019-20 Assessed Valuation:</u>		
Direct Debt (\$58,527,303).....	0.24%	
Combined Direct Debt (\$64,583,185) .....	0.27%	
Total Direct and Overlapping Tax and Assessment Debt.....	1.32%	
Combined Total Debt .....	1.64%	

<sup>(1)</sup> 2018-19 ratios.

<sup>(2)</sup> Excludes the 2020 Refunding Bonds. See "District Debt Structure – General Obligation Bonds" for more information.

<sup>(3)</sup> Excludes the Certificates; includes the Prior Certificates to be redeemed.

<sup>(4)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

## Employment

As of May 24, 2019, the District employed 611 employees, consisting of 309 non-management certificated employees, 46 certificated management employees, 237 classified non-management employees, and 19 classified management employees. For the year ended June 30, 2019, the total certificated and classified payrolls were \$32.59 million (unaudited) and \$12.34 million (unaudited), respectively. For fiscal year 2019-20, the total certificated and classified payrolls are budgeted to be approximately \$33.35 million and \$12.51 million, respectively. These employees, except management and some part-time employees, are represented by the bargaining units as noted below:

Name of Bargaining Unit	Number of FTEs Represented	Current Contract Expiration Date
El Dorado Union High School District California School Employees Association Chapter No. 267	237	June 30, 2019 <sup>(1)</sup>
California Teachers Association	309	June 30, 2019 <sup>(1)</sup>

<sup>(1)</sup> The District expects to continue to operate under the terms of this bargaining agreement until a new contract is negotiated.  
Source: El Dorado Union High School District.

## Retirement Benefits

The District participates in retirement plans with CalSTRS, which covers all full-time certificated District employees, including teachers and administrators, and CalPERS, which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

**CalSTRS.** Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, covered employees contributed 8.00% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the member and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. However, on July 1, 2018, for members hired on or after January 1, 2013, the rate increased from 9.205% of pay to 10.250% of pay. The State’s total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 9.328%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

On February 1, 2017, the State Teachers’ Retirement Board voted to adopt revised actuarial assumptions reflecting members’ increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016 actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017 actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor.

As of June 30, 2017, an actuarial valuation (the “2017 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$107.3 billion, an increase of approximately \$10.6 million from the June 30, 2016 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 62.6%, 63.7%, and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2017 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” a 7.00% investment return assumption consistent with the State Teachers’ Retirement Board’s decision on February 1, 2017, 3.00% interest on member accounts, projected 3.50% wage growth, projected 2.75% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2017 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See “–Governor’s Pension Reform” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

Pursuant to Assembly Bill 1469, school district’s contribution rates will increase in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	17.10*
2020	18.10*

\* Pursuant to the 2019-20 State Budget. See “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget.”  
Source: Assembly Bill 1469.



The following table sets forth the District's employer contributions to CalSTRS as well as the State's required non-employer contribution for fiscal years 2015-16 through 2017-18, the unaudited and the budgeted contributions for fiscal years 2018-19 and 2019-20, respectively.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Contributions to CalSTRS for Fiscal Years 2015-16 through 2019-20**

Fiscal Year	District's Contribution	State's On-Behalf Contribution
2015-16	\$3,284,778	\$1,952,392
2016-17	3,839,157	3,185,397
2017-18	4,460,871	3,083,165
2018-19 <sup>(1)</sup>	5,098,247	4,748,024
2019-20 <sup>(2)</sup>	5,443,260	2,894,102

<sup>(1)</sup> Unaudited actuals for fiscal year 2018-19.

<sup>(2)</sup> Original adopted budget for fiscal year 2019-20.

Source: El Dorado Union High School District.

The District's total employer contributions to CalSTRS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

CalSTRS produces a comprehensive annual financial report and actuarial valuations which include financial statements and required supplementary information. Copies of the CalSTRS comprehensive annual financial report and actuarial valuations may be obtained from CalSTRS. The information presented in these reports is not incorporated by reference in this Official Statement.

**CalPERS.** All qualifying classified employees of K-12 school districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such school districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Accordingly, the District cannot provide any assurances that the District's required contributions to CalPERS in future years will not significantly vary from any current projected levels of contributions to CalPERS.

School districts are currently required to contribute to CalPERS at an actuarially determined rate, which was 11.847%, 13.888% and 15.531% of eligible salary expenditures for fiscal years 2015-16, 2016-17, and 2017-18, respectively, and 18.062% of eligible salary expenditures for fiscal year 2018-19. Plan participants enrolled in CalPERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which was 6% of their respective salaries in fiscal years 2015-16 and 2016-17, 6.50% in fiscal year 2017-18 and 7.00% in fiscal year 2018-19.

Since the June 30, 2015 valuation, CalPERS has employed an amortization and smoothing policy that apportions all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period. In contrast, the previous policy spread investment returns over a 15-year period with experience gains and losses spread over a rolling 30-year period. On December 21,

2016, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the CalPERS Schools Pool Actuarial Valuation as of June 30, 2017 (the “2017 CalPERS Schools Pool Actuarial Valuation”). The amounts of the pension/award benefit obligation or UAAL will vary from time to time depending upon actuarial assumptions, and actual rates of return on investments, salary scales, and levels of contribution.

The actuarial funding method used in the 2017 CalPERS Schools Pool Actuarial Valuation is the “Entry Age Normal Cost Method.” The 2017 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.75% inflation and payroll growth of 3.00% compounded annually. The 2017 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.375% compounded annually (net of administrative expenses) as of June 30, 2017, 7.25% compounded annually (net of administrative expenses) as of June 30, 2018, and 7.0% compounded annually (net of administrative expenses) as of June 30, 2019. The first reduction in the investment rate of return will impact the District’s employer contribution rates beginning in fiscal year 2018-19. The CalPERS Board also adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption from 2.75% as of June 30, 2017, to 2.625% as of June 30, 2018, and finally to 2.50% as of June 30, 2019. The reduction in the inflation assumption results in decreases in both the normal cost and the accrued liabilities in the future. The overall payroll growth will be reduced from 3.0% annually as of June 30, 2017, to 2.875% as of June 30, 2018, and finally to 2.75% as of June 30, 2019.

On April 16, 2019, the CalPERS Board established the employer contribution rates for fiscal year 2019-20 and released certain information from the CalPERS Schools Pool Actuarial Valuation as of June 30, 2018, ahead of its summer 2019 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date, to those hired after such date, the projected contribution for fiscal year 2020-21 is projected to be 23.6%, with annual increases and decreases thereafter, resulting in a projected 26.5% employer contribution rate for fiscal year 2025-26.

The following table sets forth the District’s total employer contributions to CalPERS for fiscal years 2015-16 through 2017-18, the unaudited contribution and budgeted contribution for fiscal year 2018-19 and 2019-20, respectively.

**EL DORADO UNION HIGH SCHOOL DISTRICT**  
**(El Dorado County, California)**  
**Contributions to CalPERS for Fiscal Years 2015-16 through 2019-20**

Fiscal Year	Contribution
2015-16	\$1,407,695
2016-17	1,596,425
2017-18	1,812,812
2018-19 <sup>(1)</sup>	2,869,705
2019-20 <sup>(2)</sup>	2,480,553

<sup>(1)</sup> Unaudited actuals for fiscal year 2018-19.  
<sup>(2)</sup> Original adopted budget for fiscal year 2019-20.  
Source: El Dorado Union High School District.

The District’s total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPR (see “–Governor’s Pension Reform”

below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

***Governor's Pension Reform.*** On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$127,200 for 2017, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Notes 7 and 8 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

***GASB 67 and 68.*** In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were typically included as notes to the government's financial statements); (ii) full pension costs are shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities are required to be used for certain

purposes of the financial statements, which generally increases pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15.

### **Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures**

The District is a member with other school districts of a joint powers authority (“JPA”), Schools Insurance Authority (SIA), for the operation of a common risk management and insurance program for property and liability and workers’ compensation coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage in the prior year.

The relationship between the District and the JPA is such that the JPA is not component unit of the District for financial reporting purposes.

See Note 10 to the District’s financial statements attached hereto as APPENDIX B—“FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018” for more information.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS**

### **Limitations on Revenues**

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

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

***County of Orange v. Orange County Assessment Appeals Board No. 3.*** Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more

than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

**Legislation Implementing Article XIII A.** Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

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

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

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979, thereby adding Article XIII B to the State 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 appropriation 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 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State’s allowable limit.

#### **Article XIII C and Article XIII D of the California Constitution**

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

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be

limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

### **Statutory Limitations**

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in *Santa Clara County Transportation Authority v. Gardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

### **Proposition 98 and Proposition 111**

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K-12 districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9%, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent

the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

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

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 districts were guaranteed the greater of (a) 40.9% of general fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a "credit" to be paid in future years when general fund revenue growth exceeds personal income growth.

#### **Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos***

On February 1, 2012, pursuant to the California Supreme Court's decision in *California Redevelopment Association v. Matosantos*, Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency were transferred to the control of its successor agency and, unless otherwise

required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

It is possible that there will be additional legislation proposed and/or enacted to clarify various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a “tax claw back” provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This “tax claw back” provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

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

On November 6, 2012, voters approved Proposition 30, also referred to as the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment. Proposition 30 temporarily (a) increased the personal income tax on certain of the State’s income taxpayers by one to three percent for a period of seven years beginning with the 2012 tax year and ending with the 2019 tax year, and (b) increased the sales and use tax by one-quarter percent for a period of four years beginning on January 1, 2013 and ending with the 2016 tax year. The revenues generated from such tax increases are included in the calculation of the Proposition 98 minimum funding guarantee (see “– Proposition 98 and Proposition 111” above). The revenues generated from such temporary tax increases are deposited into a State account created pursuant to Proposition 30 (the Education Protection Account), and 89% of the amounts therein are allocated to school districts and 11% of the amounts therein are allocated to community college districts.

The Proposition 30 sales and use tax increases expired at the end of the 2016 tax year. Under Proposition 30, the personal income tax increases were set to expire at the end of the 2018 tax year. However, the California Tax Extension to Fund Education and Healthcare Initiative (“Proposition 55”), approved by the voters on November 8, 2016, extends by 12 years the temporary personal income tax increases on incomes over \$250,000 that was first enacted by Proposition 30; Proposition 55 did not extend the sales and use tax increases imposed by Proposition 30. Revenues from the income tax increase under Proposition 55 will be allocated to school districts and community colleges in the State.

### **Applications of Constitutional and Statutory Provisions**

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION — State Funding of Education; State Budget Process.”

### **Proposition 2**

*General.* Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of



reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

**Rainy Day Fund.** The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues; (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year's deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year's deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the "Public School System Stabilization Account") to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

The 2019-20 State Budget includes a constitutionally required deposit into the Public School System Stabilization Account in the amount of \$376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps under SB 585 or SB 751 (described below), as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately \$2.1 billion). For more information, see "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget" herein.

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

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

**SB 751.** Senate Bill 751 ("SB 751"), enacted on October 11, 2017, alters the reserve requirements imposed by SB 858. Under SB 751, in a fiscal year immediate after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3% of the combined total general fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised cannot have an assigned or unassigned ending fund balance that exceeds 10% of those funds. SB 751 excludes from the requirements of those provisions basic aid school districts (also known as community funded districts) and small school districts having fewer than 2,501 units of average daily attendance.

## **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

## **ESCROW VERIFICATION**

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriter relating to the computation of projected receipts of principal and interest on the Defeasance Securities, and the projected payments of principal, redemption premium, if any, and interest to refund the Prior Certificates will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the "Verification Agent"). Such computations will be based solely on assumptions and information supplied by the District and the Underwriter. The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study to evaluate the assumptions and information on which the computations are based, and will express no opinion on the data used, the reasonableness of the assumptions or the achievability of the projected outcome.

## **RATINGS**

The Certificates were assigned an underlying rating of "A+" by S&P. The rating agency may have obtained and considered information and material which has not been included in this Official Statement. Generally, rating agencies base their ratings on information and material so furnished and on investigations, studies and assumptions made by them (which may include information and material from the District which is not included in this Official Statement). The rating is not a recommendation to buy, sell or hold the Certificates. The rating reflects only the view of the rating agency and an explanation of the significance of its rating may be obtained from it. There is no assurance that a rating of a rating agency will be maintained for any given period of time or that such rating may not be revised downward or withdrawn entirely by the rating agency, if in its own judgment, circumstances warrant. Any such downward change in or withdrawal may have an adverse effect on the market price of the Certificates. Neither the Underwriter nor the District has undertaken any responsibility after the execution and delivery of the Certificates to assure the maintenance of the rating or to oppose any such revision or withdrawal.

In addition, S&P is expected to assign its insured rating of "AA" to the Certificates with the understanding that upon delivery of the Certificates, the Insurance Policy will be delivered by the Insurer. See also "CERTIFICATE INSURANCE" herein. Such rating is expected to be assigned solely as a result of the issuance of the Insurance Policy and would reflect only S&P's view of the claims-paying ability and financial strength of the Insurer. Neither the Underwriter nor the District has made any independent investigation of the claims-paying ability of the Insurer and no representation is made that the insured rating of the Certificates based upon the purchase of the Insurance Policy will remain the same. The existence of the Insurance Policy will not, of itself, negatively affect the underlying ratings. However, any downward revision or withdrawal of any rating of the Insurer may have an adverse effect on the market price or marketability of the Certificates.

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, special counsel to the District ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the District under the

Lease Agreement and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest evidenced by the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix C hereto.

To the extent the issue price of any scheduled principal payment of the Certificates is less than the amount payable on the scheduled principal payment date of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest evidenced by the Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular scheduled principal payment date of the Certificates is the first price at which a substantial amount of such scheduled principal payment date of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any schedule principal payment date of the Certificates accrues daily over the term to the scheduled principal payment date of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on scheduled principal date) of such Certificates. Beneficial Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original execution and delivery thereof or otherwise, for an amount higher than their principal evidenced thereby payable on the scheduled principal payment date thereof (or, in some cases, at their earlier prepayment date) (“Premium Certificates”) will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest evidenced by obligations such as the Certificates. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest evidenced by the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person), whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel’s attention after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest evidenced by the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest evidenced by, the Certificates may otherwise affect a Certificate holder's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel is expected to express no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to Certificates ends with the execution and delivery of the Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the District or the Beneficial Owners to incur significant expense.

#### **CERTAIN LEGAL MATTERS**

Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, will render its opinion with respect to the legality of the Lease Agreement and the Trust Agreement. A copy of its legal opinion will accompany the original delivery of each Certificate. The form of the legal opinion proposed to be delivered by Special Counsel is included as Appendix C to this Official Statement. Special Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, for the Underwriter by Norton Rose Fulbright US LLP, and for the District and the Corporation by Kronick, Moskovitz, Tiedemann & Girard. From time to time, Orrick, Herrington & Sutcliffe LLP may represent the Underwriter on matters unrelated to the Certificates.

## **MUNICIPAL ADVISOR**

Fieldman, Rolapp & Associates, Inc. (the “Municipal Advisor”), has been engaged by the District to perform financial services in connection with the delivery of the Certificates and certain other financial matters. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Municipal Advisor is not contractually obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

## **ABSENCE OF MATERIAL LITIGATION**

At the time of delivery of and payment for the Certificates, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the District, threatened against the District (i) which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Certificates, the Lease Agreement, the Ground Lease, the Trust Agreement, the Assignment Agreement or the Continuing Disclosure Certificate, (ii) contesting the validity of the Lease Agreement, the Ground Lease, the Trust Agreement, the Assignment Agreement or the Continuing Disclosure Certificate, the powers of the District to enter into or perform its obligations under the Lease Agreement, the Ground Lease, the Trust Agreement or the Continuing Disclosure Certificate, or the existence or powers of the District, or (iii) which, if determined adversely to the District, would materially impair the District’s ability to meet its obligations under the Lease Agreement or materially and adversely affect the District’s financial condition.

The District is occasionally subject to other lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

## **UNDERWRITING**

The Certificates are to be purchased by Raymond James & Associates, Inc. (the “Underwriter”). The Underwriter has agreed, subject to certain terms and conditions set forth in the Certificate Purchase Agreement, dated \_\_\_\_\_, 2019, by and between the Underwriter and the District, to purchase the Certificates at a purchase price of \$\_\_\_\_\_ (which represents the aggregate principal amount of the Certificates, [plus/less] \$\_\_\_\_\_ of [net] original issue [premium/discount], and less \$\_\_\_\_\_ of Underwriter’s discount). The Underwriter will purchase all the Certificates if any are purchased. The Certificates may be offered and sold to certain dealers (including dealers depositing said Certificates into investment trusts) and others at prices lower than the initial public offering price, and the public offering price may be changed from time to time by the Underwriter.

## **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. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Certificates.

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

**EL DORADO UNION HIGH SCHOOL  
DISTRICT**

By: \_\_\_\_\_/s/\_\_\_\_\_  
Superintendent

## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following summary discussion of selected provisions of the Lease Agreement, the Ground Lease, the Assignment Agreement and the Trust Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.*

### MASTER DEFINITIONS

**“Additional Rental Payments”** means all amounts payable by the District as Additional Rental Payments pursuant to the Lease Agreement.

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

**“Assignment Agreement”** means the Assignment Agreement, dated as of the date of the Trust Agreement, by and between the Corporation and the Trustee, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Authorized Corporation Representative”** means the President of the Corporation, the Treasurer of the Corporation, the Secretary of the Corporation, the Clerk of the Corporation, and any other person authorized by the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement.

**“Authorized Denominations”** means \$5,000 or any integral multiple thereof.

**“Authorized District Representative”** means the President of the Board of Trustees, the Clerk of the Board of Trustees, and such other member of the Board of Trustees as the President may designate, the Superintendent of the District, the Assistant Superintendent, Business Services of the District, and any person authorized by the Board of Trustees of the District to act on behalf of the District under or with respect to the Trust Agreement.

**“Base Rental Deposit Date”** means the 15th day next preceding each Interest Payment Date.

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

**“Base Rental Payment Schedule”** means the schedule of Base Rental Payments payable to the Corporation from the District pursuant to the Lease Agreement.

**“Base Rental Payments”** means all amounts payable to the Corporation from the District as Base Rental Payments pursuant to the Lease Agreement.

**“Beneficial Owners”** means those Persons for whom the Participants have caused the Depository to hold Book-Entry Certificates.

**“Book-Entry Certificates”** means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of the Trust Agreement.

**“Business Day”** means a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city or cities in which the Principal Office of the Trustee is located are authorized or required by law to be closed, or (c) a day on which the New York Stock Exchange is closed.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Certificates.

**“Certificate Purchase Agreement”** means the Certificate Purchase Agreement, by and between the Purchaser and the District relating to the Certificates.

**“Certificate Year”** means each twelve-month period beginning on December 1 in each year and extending to the next succeeding November 30, both dates inclusive, except that the first Certificate Year shall begin on the Delivery Date and end on November 30, 2019.

**“Certificates”** means the El Dorado Union High School District Refunding Certificates of Participation, Series 2019, executed and delivered by the Trustee pursuant to the Trust Agreement.

**“Code”** means the Internal Revenue Code of 1986.

**“Continuing Disclosure Certificate”** means the Continuing Disclosure Certificate, dated the Delivery Date, executed by the District, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Corporation”** means the El Dorado Union High School District Financing Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State of California, and its successors.

**“Corporation Event of Default”** means an event described as such in the Lease Agreement.

**“Costs of Issuance”** means all the costs of executing and delivering the Certificates, including, all printing and document preparation expenses in connection with the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees, title insurance fees, market study fees, legal fees and expenses of counsel with respect to the execution and delivery of the Certificates, any computer and other expenses incurred in connection with the Certificates, the fees and expenses of the Trustee, including fees and expenses of its counsel, the fees and expenses of any municipal advisor to the District, any premium for municipal bond insurance or a reserve surety, and other fees and expenses incurred in connection with the execution of the Certificates or the redemption of the Prior Current Interest Certificates, to the extent such fees and expenses are approved by the District.

**“Costs of Issuance Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Defeasance Securities”** means (a) non-callable direct obligations of the United States of America (“United States Treasury Obligations”), (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed



directly and individually against the obligor and the underlying United States Treasury Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, (c) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (d) subject to the prior written consent of the Insurer, securities eligible for “AAA” defeasance under then existing criteria of S&P, or any combination thereof.

“**Delivery Date**” means the date of delivery of the Certificates.

“**Depository**” means the securities depository acting as Depository pursuant to the Trust Agreement.

“**District**” means the El Dorado Union High School District, a school district organized and existing under the laws of the State of California, and its successors.

“**DTC**” means The Depository Trust Company, New York, New York, and its successors.

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

“**Escrow Agreement**” means the Escrow Agreement, dated as of October 1, 2019, by and between the Escrow Bank and the District, relating to the Prior Current Interest Certificates.

“**Escrow Bank**” means Zions Bancorporation, National Association, as prior trustee and escrow bank under the Escrow Agreement, and any successor thereto.

“**Fair Rental Value**” means, with respect to the Property, the annual fair rental value thereof, as set forth in the Lease Agreement.

“**Ground Lease**” means the Ground Lease, dated as of the date of the Trust Agreement, by and between the District and the Corporation, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof and of the Lease Agreement.

“**Hazardous Materials**” means flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the Corporation, the District, the Property or the business operations conducted by the Corporation or the District thereon.

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

**“Insurance Business Day”** means any day other than (a) a Saturday or Sunday, (b) any day on which the Principal Office of the Trustee or the Principal Office of the Insurer are closed, and (c) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York.

**“Insurance Policy”** means the Municipal Bond Insurance Policy, and any endorsement thereto, issued by the Insurer guaranteeing the scheduled payment of the interest and principal evidenced by the Certificates when due, or any insurance policy substituted for said Municipal Bond Insurance Policy.

**“Insurer”** means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

**“Insurer’s Fiscal Agent”** means a fiscal agent appointed by the Insurer for purposes of, and in accordance with the terms contained in, the Insurance Policy.

**“Insurer Rate”** means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, at its principal office in the City of New York, New York, as its prime or base lending rate (the “Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest evidenced by the Certificates, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. Interest at the Insurer Rate shall be computed on the basis of the actual days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate, the Prime Rate shall be the prime rate or base lending rate of such other bank, banking association or trust company as the Insurer, in its sole and absolute discretion, shall designate. If the interest provisions of this paragraph shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Trust Agreement, then, to the extent permissible by law, all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party to the Trust Agreement, be applied as additional interest for any later periods of time when amounts are outstanding under the Trust Agreement to the extent that interest otherwise due under the Trust Agreement for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by the Insurer or Reserve Insurer, as applicable, with the same force and effect as if the District had specifically designated such extra sums to be so applied and the Insurer or Reserve Insurer, as applicable, had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created in the Trust Agreement exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

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

**“Interest Payment Date”** means June 1 and December 1 of each year commencing December 1, 2019.

**“Laws and Regulations”** means any applicable law, regulation, code, order, rule, judgment or consent agreement, including those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Property.

**“Lease Agreement”** means the Lease Agreement, dated as of the date of the Trust Agreement, by and between the District and the Corporation, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Letter of Representations”** means the letter of the District delivered to and accepted by the Depository on or prior to the delivery of the Certificates as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry Certificates, as originally executed or as it may be amended or supplemented or replaced by a letter to a substitute Depository.

**“Mandatory Sinking Account Payment”** means the principal evidenced by the Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the Trust Agreement.

**“Mandatory Sinking Account Payment Date”** means, for the Certificates with a stated Principal Payment Date of December 1, 20\_\_, December 1, 20\_\_, and each December 1 thereafter continuing through and including December 1, 20\_\_, and for the Certificates with a stated Principal Payment Date of December 1, 20\_\_, December 1, 20\_\_, and each December 1 thereafter continuing through and including December 1, 20\_\_.

**“Moody’s”** means Moody’s Investors Service, Inc., its successors and assigns, and, if Moody’s Investors Service, Inc., shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

**“Net Proceeds”** means any insurance proceeds or condemnation award in excess of \$50,000 paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

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

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the District.

**“Outstanding”** means, with respect to the Certificates, as of any date, Certificates theretofore or thereupon being executed and delivered under the Trust Agreement, except (a) Certificates canceled by the Trustee or delivered to the Trustee for cancellation on or prior to such date, (b) Certificates in lieu of which other Certificates have been executed and delivered, or that have been paid without surrender thereof pursuant to the Trust Agreement, and (c) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement.

**“Owner”** means, with respect to a Certificate, the Person in whose name such Certificate is registered on the Registration Books.

**“Participating Underwriter”** has the meaning ascribed to such term in the Continuing Disclosure Certificate.

**“Participant”** means any entity which is recognized as a participant by the Depository in the book-entry system of maintaining records with respect to Book-Entry Certificates.

**“Permitted Encumbrances”** means, with respect to the Property, as of any particular time, (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Lease Agreement described under the heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Taxes,” permit to remain unpaid, (b) the Assignment Agreement, (c) the Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally would exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the District, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions that exist of record as of the Delivery Date that the District certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement, (g) all of the rights of (i) Nextel of California, Inc. under the Communications Site Sublease Agreement, dated September 29, 2006 (the “Nextel Communications Agreement”), by and between the District and Nextel of California, Inc., and (ii) Omnipoint Communications, Inc. under the Communications Site Sublease Agreement, dated September 1, 2006 (the “T-Mobile Communications Agreement” and together with the Nextel Communications Agreement, the “Communications Agreements”), by and between the District and Omnipoint Communications, Inc., both as amended and extended from time to time, provided, however, that any amendments to the Communications Agreements after the date of the Lease Agreement materially affecting the rights of the Insurer shall be subject to the consent of the Insurer, which shall not be reasonably withheld, (h) all of the rights of California Solar 3, LLC under the Solar Power Purchase Agreement, dated November 13, 2018 (the “Power Purchase Agreement”), by and between the District and California Solar 3, LLC, as amended from time to time, provided, however, that any amendments to the Power Purchase Agreement after the date hereof materially affecting the rights of the Insurer shall be subject to the consent of the Insurer, which shall not be reasonably withheld, and (i) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date that the District certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement and to which the Corporation and the Insurer consents in writing.

**“Permitted Investments”** means the following:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), and obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America (“Federal Securities);

(b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand deposit accounts or time deposits (including certificates of deposit) in a federal or state chartered bank (including the Trustee and its affiliates) or a state licensed branch of a foreign bank or a state or federal association (as defined in Section 5102 of the California Financial Code), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated A1 or better by S&P, or (ii) such demand deposit accounts or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated in the highest short-term rating category by S&P, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank whose short-term obligations are rated in the highest short-term rating category by S&P, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Code and which are rated A or better by S&P;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by S&P;

(h) money market funds which are rated Am or better by S&P, including funds for which the Trustee and its affiliates provide investment advisory or other management services;

(i) an investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution or corporation, the long-term unsecured obligations of which are or, in the case of an insurance company, the long term financial strength of which is, rated "AA-" or better by S&P at the time of initial investment; provided, that the investment agreement shall be subject to a downgrade provision with at least the following requirements:

(1) the agreement shall provide that within ten Business Days after the financial institution's long-term unsecured credit rating has been withdrawn, suspended, or reduced below "AA-" by S&P (such events referred to as "rating downgrades") the financial institution shall give notice to the District and the Trustee and, within such ten-day period, and for as long as the rating downgrade is in effect, shall deliver in the name of the Trustee Federal Securities with an aggregate current market value equal to at least 105% of the principal amount of the investment agreement invested with the financial institution at that time, and shall deliver additional Federal Securities as needed to maintain an aggregate current market value equal to at least 105% of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly, and

(2) the agreement shall provide that, if the financial institution's long-term unsecured credit rating is reduced below "A-" by S&P, the financial institution shall give notice of the downgrade to the District and the Trustee within five Business Days, and the Trustee may, upon five Business Days' written notice to the financial institution, withdraw all amounts invested pursuant to the investment agreement, with accrued but unpaid interest thereon to the withdrawal date, and terminate the agreement.

(j) repurchase agreements with (i) any domestic bank, or domestic branch of a foreign bank, the long-term debt of which is rated at least “A” by S&P and Moody’s; (ii) any broker-dealer with “retail customers” or a related affiliate thereof, which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (iii) any other entity (or entity whose obligations are guaranteed by an affiliate or parent company) rated at least “A” by S&P and Moody’s, provided that:

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

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

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

(4) all other requirements of S&P and Moody’s in respect of repurchase agreements shall be met; and

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

**“Persons”** means an individual, corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**“Policy Payments Account”** means the account by that name established and held by the Trustee pursuant to paragraph (d) of the provisions of the Trust Agreement described under the heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Deposits to Policy Payments Account; Payments Under the Insurance Policy.”

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

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

**“Principal Office”** means the Trustee’s principal corporate trust office in Los Angeles, California, or any other office designated by the Trustee.

**“Principal Payment Date”** means, with respect to a Certificate, the date on which the principal evidenced by such Certificate is scheduled, as of the date of execution and delivery of such Certificate, to become due and payable.

**“Prior Current Interest Certificates”** means the El Dorado Union High School District (El Dorado County, California) 2009 Refunding Certificates of Participation in the form of current interest certificates.

**“Prior Trust Agreement”** means the Trust Agreement, dated as of December 1, 2009, by and among the District, the Corporation and Zions Bancorporation, National Association, as successor trustee, relating to the Prior Current Interest Certificates.

**“Prior Trustee”** means Zions Bancorporation, National Association, as successor trustee under the Prior Trust Agreement, and any successor thereto.

**“Property”** means the real property described in Exhibit B to the Lease Agreement and any improvements thereto.

**“Purchaser”** means Raymond James & Associates, Inc., as underwriter and purchaser of the Certificates pursuant to the Certificate Purchase Agreement.

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

**“Rebate Requirement”** has the meaning ascribed thereto in the Tax Certificate.

**“Record Date”** means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

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

**“Release”** means to pump, spill, leak, dispose of, empty, discharge or release.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Delivery Date through June 30, 2020 and, thereafter, the twelve-month period commencing on July 1 of each year during the term of the Lease Agreement.

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

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

**“Reserve Insurer”** means Assured Guaranty Municipal Corp., as New York stock insurance company, or any successor thereto or assignee thereof.

**“Reserve Policy”** means the Municipal Bond Debt Service Reserve Insurance Policy, and any endorsement thereto, issued by the Reserve Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof.

**“Reserve Requirement”** means, as of any date of calculation, an amount equal to the least of (a) “10% of the proceeds of the issue,” within the meaning of Section 148 of the Code, (b) the maximum amount of principal and interest evidenced by the Certificates coming due in any Certificate Year and (c) 125% of the average amount of principal and interest evidenced by the Certificates coming due in each Certificate Year.

**“S&P”** means S&P Global Ratings, a business unit of Standard and Poor’s Financial Services, LLC, its successors and assigns, and, if S&P Global Ratings shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

**“Scheduled Termination Date”** means December 1, 20\_\_.

**“Tax Certificate”** means the Tax Certificate executed by the District at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Trust Agreement”** means the Trust Agreement, dated as of October 1, 2019, by and among the Trustee, the Corporation and the District, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Trustee”** means Zions Bancorporation, National Association, as trustee under the Trust Agreement, or any successor thereto as Trustee thereunder substituted in its place as provided therein.

**“Verification Report”** means, with respect to the deemed payment of Certificates pursuant to clause (ii) of paragraph (a) of the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements of clause (ii) of paragraph (a) of the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificates Deemed To Have Been Paid.”

**“Written Certificate of the Corporation”** means a written certificate signed in the name of the Corporation by an Authorized Corporation Representative. Any such certificate may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

**“Written Certificate of the District”** or **“Written Request of the District”** means, respectively, a written certificate or written request signed in the name of the District by an Authorized District Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

## **GROUND LEASE**

### **Lease of the Property; Rental**

Lease of Property. The District leases to the Corporation, and the Corporation leases from the District, for the benefit of the Owners of the Certificates, the Property, subject only to Permitted Encumbrances, to have and to hold for the term of the Ground Lease.



Rental. The Corporation shall pay, or cause to be paid, to the District as and for rental of the Property under the Ground Lease, an amount set forth in the Ground Lease (the “Ground Lease Payment”). The Ground Lease Payment shall be paid from the proceeds of the Certificates; provided, however, that in the event the available proceeds of the Certificates are not sufficient to enable the Corporation to pay such amount in full, the remaining amount of the Ground Lease Payment shall be reduced to an amount equal to the amount of such available proceeds. The District shall deposit the Ground Lease Payment in one or more separate funds or accounts to be held and administered for the purpose of redeeming the Prior Current Interest Certificates.

The Corporation and the District find and determine that the amount of the Ground Lease Payment does not exceed the fair market value of the leasehold interest in the Property which is conveyed under the Ground Lease by the District to the Corporation. No other amounts of rental shall be due and payable by the Corporation for the use and occupancy of the Property under the Ground Lease.

### **Quiet Enjoyment**

The parties intend that the Property will be leased back to the District pursuant to the Lease Agreement for the term thereof. It is further intended that, to the extent provided in the Ground Lease and in the Lease Agreement, if an event of default occurs under the Lease Agreement, the Corporation, or its assignee, will have the right, for the then remaining term of the Ground Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. Subject to any rights the District may have under the Lease Agreement (in the absence of an event of default) to possession and enjoyment of the Property, the District covenants and agrees that it will not take any action to prevent the Corporation from having quiet and peaceable possession and enjoyment of the Property during the term of the Ground Lease and will, at the request of the Corporation and at the District’s cost, to the extent that it may lawfully do so, join in any legal action in which the Corporation asserts its right to such possession and enjoyment.

### **Special Covenants and Provisions**

Waste. The Corporation agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

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

Waiver of Personal Liability. All liabilities under the Ground Lease on the part of the Corporation shall be solely liabilities of the Corporation as a nonprofit public benefit corporation, and the District releases each and every director, officer and employee of the Corporation of and from any personal or individual liability under the Ground Lease. No director, officer or employee of the Corporation shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the District or to any other party whomsoever for anything done or omitted to be done by the Corporation under the Ground Lease.

All liabilities under the Ground Lease on the part of the District shall be solely liabilities of the District as a school district, and the Corporation releases each and every member, officer and employee of

the District of and from any personal or individual liability under the Ground Lease. No member, officer or employee of the District shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the Corporation or to any other party whomsoever for anything done or omitted to be done by the District under the Ground Lease.

Taxes. The District covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property.

Right of Entry. The District reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same.

Representations of the District. The District represents and warrants to the Corporation, the Insurer and the Trustee as follows:

(a) the District has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations thereunder, and has duly authorized the execution of the Ground Lease;

(b) except for Permitted Encumbrances, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property for school purposes as contemplated by the District;

(c) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes, have been paid in full; and

(d) the Property is necessary to the District in order for the District to perform its governmental function relating to public education.

Representations of the Corporation. The Corporation represents and warrants to the District, the Insurer and the Trustee that the Corporation has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Ground Lease.

### **Assignment, Selling and Subleasing**

Assignment to Trustee; Third-Party Beneficiaries. The Corporation and District acknowledge that the Corporation has assigned its right, title and interest in and to the Ground Lease to the Trustee pursuant to the Assignment Agreement. The District understands and agrees that, upon the execution and delivery of the Assignment Agreement (which is occurring simultaneously with the execution and delivery of the Ground Lease), substantially all right, title and interest of the Corporation in and to the Ground Lease will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The District thereby consents to such sale, assignment and transfer. Upon the execution and delivery of the Assignment Agreement, references in the operative provisions of the Ground Lease to the Corporation shall be deemed to be references to the Trustee, as assignee of the Corporation. The District consents to the Trust Agreement and acknowledges and agrees to the rights of the Trustee and the Insurer as set forth therein. As a material inducement to the Trustee and the Insurer, the Corporation and the District agree that the Trustee and the Insurer shall be third-party beneficiaries of the Ground Lease.

Assignment, Selling and Subleasing. The Ground Lease may be assigned or sold, and the Property may be subleased, as a whole or in part, by the Corporation, with the prior written consent of the Insurer,

or at the direction of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), without the necessity of obtaining the consent of the District, if an event of default occurs under the Lease Agreement. The Corporation shall, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the District a true and correct copy of such assignment, sublease or sale, as the case may be.

Restrictions on District. The District agrees that, except with respect to Permitted Encumbrances and except as provided in the Ground Lease, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Ground Lease.

## **Improvements**

Title to all improvements made on the Property during the term of the Ground Lease shall vest in the District, but shall be subject to the terms of the Ground Lease.

## **Term; Termination**

Term. The term of the Ground Lease shall commence as of the date of commencement of the term of the Lease Agreement and shall remain in full force and effect from such date to and including the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Ground Lease.

Extension; Early Termination. If, on the Scheduled Termination Date, the Certificates shall not be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement shall have been abated at any time, then the term of the Ground Lease shall be automatically extended until the date upon which all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms, except that the term of the Ground Lease shall in no event be extended more than ten years beyond the Scheduled Termination Date. If, prior to the Scheduled Termination Date, all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms, the term of the Ground Lease shall end simultaneously therewith.

Action on Default. In each and every case upon the occurrence and during the continuance of a default by the Corporation under the Ground Lease, the District shall have all the rights and remedies permitted by law, except the District, to the extent permitted by law, waives any and all rights to terminate the Ground Lease.

## **Miscellaneous**

Binding Effect. The Ground Lease shall inure to the benefit of and shall be binding upon the District, the Corporation and their respective successors and assigns.

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

Amendments; Substitution and Release. The Ground Lease may be amended, changed, modified, altered or terminated (subject to the prior written consent of the Insurer) only in accordance with the

provisions of the Lease Agreement. The District shall have the right to substitute alternate real property for the Property or to release portions of the Property as provided in the Lease Agreement.

Governing Law. The Ground Lease shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## **LEASE AGREEMENT**

### **Lease of Property; Term**

Lease of Property. (a) The Corporation leases to the District and the District leases from the Corporation the Property, on the terms and conditions set forth in the Lease Agreement, and subject to all Permitted Encumbrances.

(b) The leasing of the Property by the District to the Corporation pursuant to the Ground Lease shall not effect or result in a merger of the District's leasehold estate in the Property as lessee under the Lease Agreement and its fee estate in the Property as lessor under the Ground Lease, and the Corporation shall continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The Lease Agreement shall constitute a sublease with respect to the Property. The leasehold interest in the Property granted by the District to the Corporation pursuant to the Ground Lease is and shall be independent of the Lease Agreement; the Lease Agreement shall not be an assignment or surrender of the leasehold interest in the Property granted to the Corporation under the Ground Lease.

Term; Occupancy. (a) The term of the Lease Agreement shall commence on the Delivery Date and shall end on the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Scheduled Termination Date the Certificates shall not be fully paid, or provision therefor made in accordance with the defeasance provisions described in the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments shall remain due and payable or shall have been abated at any time and for any reason, then the term of the Lease Agreement shall be automatically extended until the date upon which all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, except that the term of the Lease Agreement shall in no event be extended more than ten years beyond the Scheduled Termination Date. If prior to the Scheduled Termination Date, or prior to the date to which the term of the Lease Agreement has been extended pursuant to the Lease Agreement, all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, the term of the Lease Agreement shall end simultaneously therewith.

(b) The District shall take possession of the Property on the Delivery Date.

### **Rental Payments**

Base Rental Payments. (a) *General.* Subject to the provisions of the Lease Agreement described under the heading “ – Rental Abatement” and “EMINENT DOMAIN; PREPAYMENT” and the provisions thereof relating to a revision of the Base Rental Payment Schedule pursuant to paragraph (b) below, the District shall pay to the Corporation, as Base Rental Payments, the amounts, at the times, specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments shall constitute principal components and a portion of which shall constitute interest components. The interest components of the Base Rental Payments shall be paid by the District as and constitute interest paid on the principal

components of the Base Rental Payments. Except to the extent specified in the Lease Agreement described under the heading “–Rental Abatement,” Rental Payments, including Base Rental Payments, shall be paid by the District to the Corporation for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

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

(b) *Payments other than Regularly Scheduled Payments.* If the term of the Lease Agreement shall have been extended pursuant to the provisions of the Lease Agreement described under the heading “LEASE OF PROPERTY; TERM – Term; Occupancy,” the obligation of the District to pay Rental Payments shall continue to and including the date of termination of the term of the Lease Agreement as so extended. Upon such extension, the principal and interest components of the Base Rental Payments shall be established so that the principal components will in the aggregate be sufficient to pay all extended and unpaid principal components and the interest components will in the aggregate be sufficient to pay all extended and unpaid interest components; provided, however, that the Rental Payments payable in any Rental Period shall not exceed the annual fair rental value of the Property

Additional Rental Payments. The District shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Corporation or the District or affecting the Property or the respective interests or estates of the Corporation or the District therein;

(b) all reasonable administrative costs of the Corporation relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Corporation under the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable 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 Trust Agreement or the Lease Agreement or to defend the Corporation and its members, directors, officers, agents and employees;

(c) insurance premiums for all insurance required pursuant to the provisions of the Lease Agreement described under the heading “INSURANCE;”

(d) any amounts with respect to the Lease Agreement, the Trust Agreement or the Certificates required to be rebated to the federal government in accordance with section 148(f) of the Code; and

(e) all other payments not constituting Base Rental Payments required to be paid by the District under the provisions of the Lease Agreement or the Trust Agreement, including amounts payable to the Insurer or the Reserve Insurer.

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

Fair Rental Value. The parties to the Lease Agreement have agreed and determined that the Rental Payments are not in excess of the Fair Rental Value of the Property. In making such determination of Fair Rental Value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom that will accrue to the District and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement shall be paid in lawful money of the United States of America to or upon the order of the Trustee, as assignee of the Corporation, at the Principal Office of the Trustee, or such other place or entity as the Trustee shall designate. Each Base Rental Payment shall be deposited with the Trustee, as assignee of the Corporation, no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment that shall not be paid by the District when due and payable under the terms of the Lease Agreement shall bear interest from the date when the same is due under the Lease Agreement until the same shall be paid (a) at the Insurer Rate to the extent that (i) such Base Rental Payment has been paid to the Owners, on behalf of the District, by the Insurer pursuant to the Insurance Policy, or (ii) such Base Rental Payment has been paid to the Owners, on behalf of the District, from moneys on deposit in the Reserve Fund as a result of a payment under the Reserve Policy, or (b) in all other cases, at the rate equal to the highest rate of interest evidenced by any of the Outstanding Certificates. Notwithstanding any dispute between the Corporation and the District, the District shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the District was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the District with the Trustee pursuant to this paragraph on any date shall be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Appropriations Covenant. The District covenants to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The covenants on the part of the District 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 District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

Rental Abatement. (a) Except as otherwise specifically provided in the Lease Agreement described under this heading "RENTAL PAYMENTS – Rental Abatement," during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property, Rental Payments shall be abated proportionately based on the percentage of the Property that is made unavailable for the District's use and occupancy and the percentage of the Property that is not made unavailable for the District's use and occupancy as a result of such damage, destruction, condemnation or title defect, and the District waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The District and the Corporation shall, in a reasonable manner and in good faith, determine the amount of such abatement; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the District during such Rental Period. The District and the Corporation shall provide the Trustee and the Insurer with a certificate setting forth the amount of abatement and the basis therefor. Such abatement shall continue for the period commencing with the date

of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and, to the extent necessary to pay extended and unpaid Rental Payments, the term of the Lease Agreement shall be extended as provided in the Lease Agreement described under the heading "LEASE OF PROPERTY; TERM – Term; Occupancy," except that the term of the Lease Agreement shall in no event be extended more than ten years beyond the Scheduled Termination Date.

(b) Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Trust Agreement, Rental Payments shall not be abated as provided above but, rather, shall be payable by the District as a special obligation payable solely from said funds and accounts.

### **Maintenance; Alterations and Additions**

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the District, and the District shall pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Rental Payments, the Corporation agrees to provide only the Property.

Additions to Property. Subject to the provisions of the Lease Agreement described under the heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Liens," the District and any sublessee shall, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements shall remain the sole property of the District or such sublessee, and neither the Corporation nor the Trustee shall have any interest therein. Such additions, modifications and improvements shall not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to this paragraph, shall be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

Installation of District's Equipment. The District and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the District or such sublessee, and neither the Corporation nor the Trustee shall have any interest therein. The District or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the District or any sublessee from purchasing items to be installed pursuant to this paragraph under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

## Insurance

Property Casualty Insurance; Rental Interruption Insurance. (a) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard comprehensive general liability insurance policy or policies in protection of the District, the Corporation and their respective members, directors, 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 ownership of the 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 a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single 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 or required to be carried by the District. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid. The District's obligations under this paragraph may be maintained in whole or in part in the form of self-insurance by the District, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(b) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the District in connection with the Property and to cover full liability for compensation under any such act. The District's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(c) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood) to the full insurable value of the Property, subject to a \$100,000 loss deductible provision, unless some other deductible is acceptable to the Insurer. Full insurable value shall not be less than the principal evidenced by the Outstanding Certificates. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in the Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds." The District's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(d) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, rental interruption insurance to cover the Corporation's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to paragraph (c) above in an amount equal to the lesser of (i) the amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period, or (ii) such lesser amount as may be agreed to by the Insurer. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Pledge; Base Rental Payment Fund." The District's obligations under this paragraph may not be satisfied by self-insurance.



(e) The insurance required by the Lease Agreement described under this heading “INSURANCE – Property Casualty Insurance; Rental Interruption Insurance,” shall be provided by carriers rated at least “A” by A.M. Best Company or S&P, unless the Insurer shall approve in writing an insurer with a lower rating.

Title Insurance. The District shall provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate amount of principal evidenced by the Certificates. Said policy or policies shall insure (a) the fee interest of the District in the Property, (b) the Corporation’s ground leasehold estate in the Property under the Ground Lease, and (c) the District’s leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances; provided, however, that one or more of said estates may be insured through an endorsement to such policy or policies. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in the Trust Agreement described under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund.” So long as any of the Certificates remain Outstanding, each policy of title insurance obtained pursuant to or required by the Lease Agreement shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Certificate Owners.

Additional Insurance Provision; Form of Policies. (a) The District shall pay or cause to be paid when due the premiums for all insurance policies required by the provisions of the Lease Agreement described under the heading “INSURANCE – Property Casualty Insurance; Rental Interruption Insurance,” and shall promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies shall contain a standard lessee clause in favor of the Trustee and the general liability insurance policies shall be endorsed to show the Trustee as an additional insured. All such policies shall provide that the Trustee and the Insurer shall be given 30 days notice of the expiration thereof, any intended cancellation thereof or any reduction in the coverage provided thereby. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee; provided, however, that the Trustee shall not agree to any adjustment, compromise or settlement without the Insurer’s written consent.

(b) The District shall cause to be delivered to the Trustee and the Insurer on or before August 15 of each year, commencing August 15, 2019, a schedule of the insurance policies being maintained in accordance with the Lease Agreement and a Written Certificate of the District stating that such policies are in full force and effect and that the District is in full compliance with the requirements of the provisions of the Lease Agreement described under the heading “INSURANCE.” The District shall, upon request of the Insurer, deliver to the Insurer certificates or duplicate originals or certified copies of each insurance policy described in such schedule. The Trustee shall be entitled to rely upon said Written Certificate of the District as to the District’s compliance with the provisions of the Lease Agreement described under the heading “INSURANCE.” Neither the Trustee nor the Insurer shall be responsible for the sufficiency of coverage or amounts of such policies. All policies of insurance required by the Lease Agreement shall be in form satisfactory to the Insurer.

Self-Insurance. Insurance provided through a California joint powers authority of which the District is a member or with which the District contracts for insurance shall be deemed to be self-insurance for purposes of the Lease Agreement. All statements of self-insurance provided in accordance with the Lease Agreement shall be in form satisfactory to the Insurer. Any self-insurance maintained by the District pursuant to the provisions of the Lease Agreement described under the heading “INSURANCE,” shall comply with the following terms:

(a) the self-insurance program shall be approved in writing by the Insurer;

(b) the self-insurance program shall be approved in writing by an Independent Insurance Consultant;

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

(d) the self-insured claims reserve fund shall be held in a separate trust fund; and

(e) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by the Independent Insurance Consultant, shall be maintained.

### **Defaults and Remedies**

Defaults and Remedies. (a) (i) If the District shall fail (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease Agreement, or in the Trust Agreement to be kept or performed by the District, or (ii) upon the happening of any of the events specified in paragraph (b) below, the District shall be deemed to be in default under the Lease Agreement and it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. In determining whether a default has occurred under clause (i)(A) of the preceding sentence, no effect shall be given to payments made under the Insurance Policy. The District shall in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A), or (ii) of the preceding sentence, unless the District shall have failed, for a period of 30 days or such additional time as is reasonably required, but in no event greater than 60 days without the prior written consent of the Insurer, to correct any such default after notice by the Corporation or the Insurer to the District properly specifying wherein the District has failed to perform any such covenant, condition or agreement. Upon any such default, the Corporation, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the Lease Agreement in the manner provided in the Lease Agreement on account of default by the District, notwithstanding any re-entry or re-letting of the Property as provided for in subparagraph (2) of the Lease Agreement, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District. In the event of such termination, the District agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Corporation all damages recoverable at law that the Corporation may incur by reason of default by the District, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions in the Lease Agreement contained. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Corporation nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Corporation to protect the Corporation's interest under the Lease Agreement shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District shall be or become effective by operation of law or acts of the parties to the Lease Agreement, or otherwise, unless and until the Corporation shall have given written notice to the District of the election on the part of the Corporation to terminate the Lease Agreement. The District covenants and agrees that no

surrender of the 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 by the Corporation by such written notice.

(2) Without terminating the Lease Agreement (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the District, regardless of whether or not the District has abandoned the Property, or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for in subparagraph (1) of the Lease Agreement, the District shall remain liable and agrees to keep or perform all covenants and conditions in the Lease Agreement contained to be kept or performed by the District and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Corporation may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Corporation elect to re-enter as in the Lease Agreement provided, the District irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to re-let the Property, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period as the Corporation may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District, and the District indemnifies and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions in the Lease Agreement contained. The District agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-letting shall constitute a surrender or termination of the Lease Agreement irrespective of the use or 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 District the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner provided for in subparagraph (1) of the Lease Agreement. The District further agrees to pay the Corporation the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the District of the completion and installation of such additions or alterations.

Pursuant to the Lease Agreement, the District waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the District, or any other person, that may be in or upon the Property.

(b) If (i) the District's interest in the Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Corporation and the Insurer, as in the Lease Agreement thereafter provided for, (ii) the District or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act

or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the District asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the District's debts or obligations, or offers to the District's creditors to effect a composition or extension of time to pay the District's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the District's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the District, or if a receiver of the business or of the property or assets of the District shall be appointed by any court, except a receiver appointed at the instance or request of the Corporation, or if the District shall make a general assignment for the benefit of the District's creditors, or (iii) the District shall abandon or vacate the Property, then the District shall be deemed to be in default under the Lease Agreement.

(c) In addition to the other remedies set forth in the provisions of the Lease Agreement described under this heading “– Defaults and Remedies,” upon the occurrence of an event of default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in the Corporation by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the District and of its board, officers or employees shall be enforceable by the Corporation by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(i) *Accounting.* By action or suit in equity to require the District and its board, officers and employees and its assigns to account as the trustee of an express trust.

(ii) *Injunction.* By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Corporation.

(iii) *Mandamus.* By mandamus or other suit, action or proceeding at law or in equity to enforce the Corporation's rights against the District (and its board, officers and employees) and to compel the District to perform and carry out its duties and obligations under the law and its covenants and agreements with the District as provided in the Lease Agreement.

Each and all of the remedies given to the Corporation under the Lease Agreement or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease Agreement shall not impair the right of the Corporation to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term “re-let” or “re-letting” as used in the Lease Agreement described under this heading “– Defaults and Remedies,” shall include, but not be limited to, re-letting by means of the operation by the Corporation of the Property. If any statute or rule of law validly shall limit the remedies given to the Corporation under the Lease Agreement, the Corporation nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Corporation shall prevail in any action brought to enforce any of the terms and provisions of the Lease Agreement, the District shall pay a reasonable amount as and for attorney's fees incurred by the Corporation in attempting to enforce any of the remedies available to the Corporation under the Lease Agreement.

Notwithstanding anything to the contrary contained in the Lease Agreement, the Corporation shall have no right upon a default under the Lease Agreement by the District or otherwise to accelerate Rental Payments.

Notwithstanding anything to the contrary contained in the Lease Agreement, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, no remedy shall be exercised under

the Lease Agreement without the prior written consent of the Insurer and the Insurer shall have the right to direct the exercise of any remedy under the Lease Agreement.

(d) Notwithstanding anything in the Lease Agreement to the contrary, the termination of the Lease Agreement by the Corporation on account of a default by the District under the Lease Agreement described under this heading “– Defaults and Remedies,” shall not effect or result in a termination of the lease of the Property by the District to the Corporation pursuant to the Ground Lease.

Waiver. Failure of the Corporation to take advantage of any default on the part of the District shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Corporation to insist upon performance by the District of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Corporation on account of such default. A waiver of a particular default shall not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement shall not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

Corporation Event of Default; Action on Corporation Event of Default. The failure by the Corporation to observe and perform the covenants, agreements or conditions on its part contained in the provisions of the Lease Agreement described under the heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Quiet Enjoyment,” if such failure shall have continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Corporation, the Trustee and the Insurer, by the District, shall constitute a Corporation Event of Default under the Lease Agreement; provided, however, that if the Corporation shall fail to correct such failure within such 60 day period, the Insurer shall have 90 additional days to correct such failure on behalf of the Corporation prior to such failure constituting a Corporation Event of Default; and, provided further that if, in the reasonable opinion of the Corporation or the Insurer, as applicable, the failure stated in the notice can be corrected, but not within such 60 or 90 day period, such failure shall not constitute a Corporation Event of Default if corrective action is instituted by the Corporation or the Insurer within such 60 or 90 day period and the Corporation or the Insurer, as applicable, shall thereafter diligently and in good faith cure such failure in a reasonable period of time. In each and every case upon the occurrence and during the continuance of a Corporation Event of Default by the Corporation under the Lease Agreement, the District shall have all the rights and remedies permitted by law; provided that a Corporation Event of Default shall not permit the nonpayment of rent or the termination of the Lease Agreement by the District. Notwithstanding anything to the contrary contained in the Lease Agreement, the provisions of this paragraph shall not impair, restrict or limit the application of the provisions of the Lease Agreement described under the heading “RENTAL PAYMENTS – Rental Abatement.”

### **Eminent Domain; Prepayment**

Eminent Domain. If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the District) shall be taken under the power of eminent domain, the term of the Lease Agreement shall cease as of the day that possession shall be so taken. If less than all of the Property shall be taken under the power of eminent domain and the remainder is usable for public purposes by the District at the time of such taking, then the Lease Agreement shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement described under the heading “RENTAL PAYMENTS – Rental Abatement. So long as any Certificate is Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, shall be paid to the Trustee and applied to the prepayment of Certificates as provided in prepayment provisions of the Trust Agreement and as described under the heading “FUNDS AND ACCOUNTS;

RENTAL PAYMENTS – Application of Net Proceeds.” Any such award made after all of the Certificates, and all other amounts due under the Trust Agreement and under the Lease Agreement, have been fully paid, shall be paid to the Corporation and to the District as their respective interests may appear.

Prepayment. (a) The District may prepay all or a portion of the Base Rental Payments which are payable on or after December 1, 20\_\_, from any source of available funds, on any date on or after December 1, 20\_\_, by paying (A) all or a portion, as elected by the District, of the principal components of the Base Rental Payments, and (B) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment.

(b) The District may prepay, from any source of available funds, all or any portion of the Base Rental Payments by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Trust Agreement described under the heading “DEFEASANCE” sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the District has a right to prepay such Base Rental Payments pursuant to the preceding paragraph (a), and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with the preceding paragraph (a).

(c) If less than all of the Base Rental Payments are prepaid pursuant to the provisions of the Lease Agreement then, as of the date of such prepayment pursuant paragraph (a) above, or the date of a deposit pursuant to paragraph (b) above, the principal and interest components of the Base Rental Payments shall be recalculated in order to take such prepayment into account. The District agrees that if, following a partial prepayment of Base Rental Payments, the Property is damaged, destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the District shall not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the District shall not be entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid pursuant to the provisions of the Lease Agreement and if all amounts due to the Insurer have been paid in full then, as of the date of such prepayment pursuant to paragraph (a) above, or deposit pursuant to paragraph (b) above, the term of the Lease Agreement shall be terminated.

(e) Prepayments of Base Rental Payments made pursuant to the provisions of the Lease Agreement shall be applied to the prepayment of Certificates as provided in the prepayment provisions of the Trust Agreement.

(f) Before making any prepayment pursuant to the provisions of the Lease Agreement described under the heading “EMINENT DOMAIN; PREPAYMENT,” the District shall give written notice to the Corporation and the Insurer specifying the date on which the prepayment will be made, which date shall be not less than 40 nor more than 60 days from the date such notice is given, unless the Corporation and the Insurer agree to a different notice period.

## **Representations and Warranties; Covenants**

Representations of the District. The District represents and warrants that, as of the Delivery Date:

(a) the District has the full power and authority to enter into, to execute and to deliver the Lease Agreement and the Trust Agreement, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement and the Trust Agreement;

(b) the Property is not located in a 100-year flood plain;

(c) the District has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Property or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any Laws and Regulations;

(d) without limiting the generality of the foregoing, neither the District nor to the best of its knowledge, after due inquiry, any prior or present owner, tenant or subtenant of the Property has, other than as set forth in this paragraph or as may have been remediated in accordance with Laws and Regulations (i) used, treated, stored, transported or disposed of any material amount of Hazardous Materials on, from or beneath the Property, (ii) Released any material amount of Hazardous Materials on, from or beneath the Property, or (iii) stored any material amount of petroleum products at the Property in underground storage tanks; provided, however, that excluded from the representations and warranties in this paragraph with respect to Hazardous Materials are those Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance of school buildings, the use, treatment, storage, transportation and disposal of which has been and shall be in compliance with all Laws and Regulations;

(e) no portion of the Property located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Property, respectively; and

(f) the District has not received any notice from any insurance company that has issued a policy with respect to the Property or from the applicable state or local government agency responsible for insurance standards (or any other body exercising similar functions) requiring the performance of any repairs, alterations or other work, which repairs, alterations or other work have not been completed at the Property, respectively. The District has not received any notice of default or breach which has not been cured under any covenant, condition, restriction, right-of-way, reciprocal easement, agreement or other easement affecting the Property which is to be performed or complied with by it.

Representations of the Corporation. The Corporation represents and warrants that the Corporation, as of the Delivery Date, has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Assignment Agreement and the Trust Agreement, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Assignment Agreement and the Trust Agreement.

Right of Entry. The Corporation shall have the right to enter upon and to examine and inspect the Property during reasonable business hours, and in emergencies at all times, for any reasonable purpose connected with the Corporation's rights or obligations under the Lease Agreement, and for all other lawful purposes. The Insurer shall have the right to enter upon and to examine and inspect the Property during reasonable business hours, and in emergencies at all times, for any reasonable purpose connected with the Insurer's rights or obligations under the Lease Agreement.

Quiet Enjoyment. The District, by keeping and performing the covenants and agreements in the Lease Agreement contained, shall at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Corporation.

Liens. In the event the District shall at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the District shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the District in, upon or about the Property and that may be secured by a mechanics', materialmen's or other lien against the Property or the Corporation's interest therein, and shall cause each such lien to be fully discharged and released at the time the performance of any obligation

secured by any such lien matures or becomes due, provided, however that, if the District desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the District shall forthwith pay and discharge said judgment.

Taxes. (a) The District shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Corporation or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

(b) After giving notice to the Corporation, the Insurer and the Trustee, the District or any sublessee may, at the District's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation, the Insurer or the Trustee shall notify the District or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the District or such sublessee shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation, the Insurer and the Trustee.

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the District under the Lease Agreement shall be sold, mortgaged, pledged, assigned or transferred by the District by voluntary act or by operation of law or otherwise; provided, however, that the Property may be subleased in whole or in part by the District with the prior written consent of the Corporation and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and, provided, further, that, any such sublease shall be subject to all of the following conditions:

(a) the Lease Agreement and the obligation of the District to make all Rental Payments under the Lease Agreement shall remain the primary obligation of the District;

(b) the District shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such sublease;

(c) no such sublease by the District shall cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;

(d) any sublease of the Property by the District shall explicitly provide that such sublease is subject to all rights of the Corporation under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the District; and

(e) the District shall furnish the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes.

Environmental Compliance. (a) Neither the District nor the Corporation shall use or permit the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or



dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Property and then only in compliance with all Environmental Regulations, nor shall it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee or agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Property or onto any other property, excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of school districts, the use, storage, treatment, transportation and disposal of which shall be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the Corporation or the District shall promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so released on, from or beneath the Property or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained in the Lease Agreement, underground storage tanks shall only be permitted subject to compliance with paragraph (d) below and only to the extent necessary to maintain the improvements on the Property.

(b) The District and the Corporation shall comply with, and shall cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Property to comply with, all Environmental Regulations, and shall keep the Property free and clear of any liens imposed pursuant thereto, provided, however, that any such liens, if not discharged, may be bonded. The District and the Corporation shall cause each tenant under any lease, and use their best efforts to cause all of such tenant's subtenants, agents, licensees, employees, contractors, guests and invitees and the guests and invitees of all of the foregoing to comply with all Environmental Regulations with respect to the Property; provided, however, that the Corporation and the District shall remain solely responsible for ensuring such compliance and such limitation shall not diminish or affect in any way the Corporation's or the District's obligations contained in paragraph (c) below. Upon receipt of any notice from any Person with regard to the Release of Hazardous Materials on, from or beneath the Property, the District or the Corporation, as appropriate, shall give prompt written notice thereof to the District or the Corporation, as appropriate, the Trustee, and the Insurer prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the provisions of the Lease Agreement described under the heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Representations of the District" is not true or correct, the Corporation and the District shall, to the extent permitted by law, defend, indemnify and hold harmless the Corporation, the Insurer and the Trustee and any director, member, officer, employee, successor or assign thereof, from and against any claims, demands, penalties, fines, attorneys' fees, including, attorneys' fees incurred to enforce the indemnification contained in the Lease Agreement described under this heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Environmental Compliance," consultants' fees, investigation and laboratory fees, liabilities, settlements (five Insurance Business Days' prior notice of which the Corporation, the Insurer or the Trustee, as appropriate, shall have delivered to the District), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Property, (ii) any personal injury, including wrongful death, or property damage, real or personal, arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Insurance Business Days' prior notice of which the Corporation, the Insurer or the Trustee, as appropriate, shall have delivered to the District), or governmental order relating to Hazardous Materials on, from or beneath the Property, (iv) any violation of Environmental Regulations or paragraphs (a) or (b) above by either the District or the Corporation or any of their agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for

the recovery of environmental cleanup or removal costs. To the extent that either the Corporation or the District is strictly liable under any Environmental Regulation, the District's obligation to the Corporation, the Insurer and the Trustee and the other indemnitees under the foregoing indemnification shall likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under this paragraph shall survive the payment of all Certificates and the discharge of the Trust Agreement.

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

Condemnation. So long as the Certificates are Outstanding, the District to the extent it may lawfully so bind itself shall not exercise the power of condemnation with respect to the Property. To the extent permitted by law, if for any reason the foregoing covenant is determined to be unenforceable or if the District shall fail or refuse to abide by such covenant and condemns the Property, the value of the District's leasehold estate under the Lease Agreement in the Property shall be not less than the amount sufficient to pay the Base Rental Payments to the first date on which they may be prepaid pursuant to the provisions of the Lease Agreement described under the heading "EMINENT DOMAIN; PREPAYMENT – Prepayment" and to prepay the Base Rental Payments on such date.

Other Obligations. Except for the Certificates and Permitted Encumbrances, the District shall not, during the term of the Lease Agreement, issue or incur or cause to be executed and delivered, directly or indirectly, any additional certificates of participation, notes, bonds or other indebtedness that are either (a) payable from or secured by lease payments or rentals payable under the Lease Agreement, or (b) secured by, or granted a lien on, the Property.

Corporation Not Liable; Indemnification. None of the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof shall be liable to the District or to any other Person for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the District shall, at its expense, indemnify and hold the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any Person arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the Person seeking indemnity. The District at its expense shall pay and indemnify and save the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims arising from (a) any condition of the Property and the adjoining sidewalks and passageways, (b) any breach or default on the part of the District in the performance of any covenant or agreement to be performed by the District pursuant to the Lease Agreement, (c) any act or negligence of licensees in connection with their use, occupancy or operation of the Property, or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in the Lease Agreement described under this heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Corporation Not Liable; Indemnification," but excepting the negligence or willful misconduct of the Person seeking indemnity. In the event that any action or proceeding is brought against the Corporation, the Insurer or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the District, upon notice from the Corporation, the Insurer or the Trustee or such director, member, officer or employee thereof, shall

resist or defend such action or proceeding by counsel reasonably satisfactory to the Corporation, the Insurer or the Trustee or such director, member, officer or employee thereof.

Notwithstanding the fact that it is the intention of the parties that the Corporation, the Insurer and the Trustee and all directors, members, officers and employees thereof shall not incur any pecuniary liability by reason of the terms of the Lease Agreement, or the undertakings required of the Corporation under the Lease Agreement or any director, member, officer or employee thereof, by reason of the execution and delivery of the Certificates, by reason of the execution or authorization of any document or certification in connection with the Certificates including, the Trust Agreement, the Lease Agreement or any preliminary or final official statement, by reason of the performance or nonperformance of any act required of any of them by the Lease Agreement or the Trust Agreement or by reason of the performance or nonperformance of any act requested of any of them by the District, the Corporation, the Insurer or the Trustee, including all claims, liabilities, damages, losses or expenses arising in connection with the violation of any statute or regulation pertaining to the foregoing; nevertheless, if the Corporation, the Insurer or the Trustee or any director, member, officer or employee thereof should incur any such pecuniary liability, then in such event the District shall indemnify and hold harmless the Corporation, the Insurer and the Trustee, and all directors, members, officers and employees thereof, against all claims by or on behalf of any Person arising out of the same, or in connection with any action or proceeding brought thereon, but excepting the negligence or willful misconduct of the Person seeking indemnity, and upon notice from the Corporation, the Insurer or the Trustee, the District shall defend the Corporation, the Insurer and the Trustee in any such action or proceeding. The provisions in the Lease Agreement described under this heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Corporation Not Liable; Indemnification,” shall survive the termination of the Lease Agreement for any claim, proceeding or action arising from any event or omission occurring during the term of the Lease Agreement.

Title to Property upon Termination. Upon the termination or expiration of the term of the Lease Agreement other than as provided in the defaults and remedies, eminent domain provisions of the Lease Agreement, and the first date upon which the Certificates are no longer Outstanding, all right, title and interest in and to the Property shall vest in the District. Upon any such termination or expiration, the Corporation shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

#### **No Consequential Damages; Use of the Property; Substitution or Release**

No Consequential Damages. In no event shall the Corporation be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the District’s use of the Property.

Use of the Property. The District shall not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the District shall comply in all respects, including, with respect to the use, maintenance and operation of the Property, with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the District may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Corporation, adversely affect the estate of the Corporation in and to any of the Property or its interest or rights under the Lease Agreement.

Substitution or Release of the Property. The District shall have the right, but only with the written consent of the Insurer, to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement pursuant to the provisions of the Lease Agreement under

this heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property.” All costs and expenses incurred in connection with such substitution or release shall be borne by the District. Notwithstanding any substitution or release pursuant to the provisions of the Lease Agreement under this heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property,” there shall be no reduction in or abatement of the Base Rental Payments due from the District under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property shall be subject to the following specific conditions, which are made conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the District shall have found, and shall have delivered a certificate to the District, the Insurer and the Trustee setting forth its findings, that the Property, as constituted after such substitution or release (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the District in any Rental Period, and (ii) has a useful life equal to or greater than the useful life of the Property, as constituted prior to such substitution or release;

(b) the District shall have obtained or caused to be obtained a CLTA or an ALTA title insurance policy or policies with respect to any substituted property in the amount of the fair market value of such substituted property of the type and with the endorsements described in the Lease Agreement described under the heading “INSURANCE – Title Insurance;” provided, however, that such fair market value shall have been determined by an independent certified real estate appraiser selected by the District, which appraiser shall have delivered a certificate to the District, the Insurer and the Trustee setting forth its findings;

(c) the District shall have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes;

(d) the District shall have given, or shall have made arrangements to be given, any notice of the occurrence of such substitution or release required to be given pursuant the Continuing Disclosure Certificate;

(e) the District, the Corporation and the Trustee shall have executed, and the District shall have caused to be recorded with the El Dorado County Recorder, any document necessary to reconvey to the District the portion of the Property being substituted or released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(f) the District shall have certified to the Corporation and the Insurer that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Property for which it is being substituted.

### **Miscellaneous**

Net-Net-Net Lease. The Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the Rental Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-off whatsoever and notwithstanding any dispute between the District and the Corporation.

Amendments. (a) The Lease Agreement and the Ground Lease, and the rights and obligations of the Corporation and the District thereunder, may be amended at any time by an amendment thereto which

shall become binding upon execution by the District and the Corporation, but only with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, provided that no such amendment shall (i) extend the payment date of any Base Rental Payment, reduce the interest component or principal component of any Base Rental Payment or change the prepayment terms and provisions, without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owner of each Certificate so affected, or (ii) reduce the percentage of the aggregate amount of principal evidenced by the Certificates, the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owners of all the Certificates then Outstanding.

(b) The Lease Agreement and the Ground Lease, and the rights and obligations of the District and the Corporation thereunder, may also be amended at any time by an amendment to the Lease Agreement or thereto which shall become binding upon execution by the District and the Corporation, but without the written consents of any Owners, but only with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Corporation or the District to be observed or performed in the Lease Agreement or therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to surrender any right or power reserved in the Lease Agreement or therein to or conferred in the Lease Agreement or therein on the Corporation or the District, and which in either case shall not materially adversely affect the interests of the Insurer or the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease Agreement or therein or in regard to questions arising under the Lease Agreement or thereunder which the Corporation or the District may deem desirable or necessary and not inconsistent therewith, and which shall not materially adversely affect the interests of the Insurer or the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest components of Base Rental Payments;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement described under the heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property” or

(v) to make such other changes in the Lease Agreement or therein or modifications thereto as the Corporation or the District may deem desirable or necessary, and which shall not materially adversely affect the interests of the Insurer or the Owners.

Assignment to Trustee; Effect. The District understands and agrees that, upon the execution and delivery of the Assignment Agreement, which is occurring simultaneously with the execution and delivery of the Lease Agreement, all right, title and interest of the Corporation in and to the Lease Agreement will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The District consents to such sale, assignment and transfer. Upon the execution and delivery of the Assignment

Agreement, references in the operative provisions of the Lease Agreement to the Corporation shall be deemed to be references to the Trustee, as assignee of the Corporation.

Rights of Insurer. As long as the Insurance Policy is in effect and the Insurer is not in default in respect of its payment obligations thereunder, the Insurer shall be deemed to be the sole and exclusive Owner of the Outstanding Certificates for purposes of all defaults and remedies; provided, however, that the Insurer shall not be deemed to be the sole and exclusive Owner of the Outstanding Certificates for purposes of all defaults and remedies, and shall not have the right to direct District, Corporation, Trustee or Owner action, during any period if:

(a) the Insurer shall fail to make any payment under the Insurance Policy when due and such failure shall continue for three Business Days;

(b) any material provision of the Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested in writing by the Insurer; or

(c) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer under Article 16 of the Insurance Law of the State of New York or any successor provision thereto and such proceeding is not terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding.

Third-Party Beneficiary. The Insurer is a third-party beneficiary of the Lease Agreement.

Validity and Severability. If for any reason the Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable or unenforceable by the Corporation or by the District, or if for any reason it is held by such a court that any of the covenants and conditions of the District under the Lease Agreement, including the covenant to pay Rental Payments, is unenforceable for the full term of the Lease Agreement, then and in such event the Lease Agreement is and shall be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the District annually in consideration of the right of the District to possess, occupy and use the Property, and all of the terms, provisions and conditions of the Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Governing Law. The Lease Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## **ASSIGNMENT AGREEMENT**

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged by the Assignment Agreement, does sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Certificates, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided, however, that the Corporation shall retain its rights under the Lease Agreement to indemnification and to payment or reimbursement of its reasonable costs and expenses. The assignment is absolute and is presently effective. All such right, title and interest so sold, assigned and transferred by the Corporation to the Trustee shall be administered by the Trustee in accordance with the provisions of the Trust Agreement, the Lease Agreement and the Ground Lease.

Acceptance. The Trustee accepts the foregoing sale, assignment and transfer, subject to the terms and provisions of the Trust Agreement, and agrees that all of the Base Rental Payments shall be applied and the right, title and interest so sold, assigned and transferred shall be exercised by the Trustee as provided in the Trust Agreement, the Lease Agreement and the Ground Lease.

Conditions. Excepting only the sale, assignment and transfer to the Trustee of the Corporation's right, title and interest in and to the Ground Lease and the Lease Agreement pursuant to the provisions of the Assignment Agreement described under the heading "Assignment," the Assignment Agreement shall impose no obligations whatsoever upon the Trustee beyond those expressly provided in the Trust Agreement, the Lease Agreement and the Ground Lease.

Third-Party Beneficiary. The Insurer is a third-party beneficiary of the Assignment Agreement.

Amendment. The Assignment Agreement shall not be amended, supplemented or otherwise modified without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

Further Assurances. The Corporation shall 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 Assignment Agreement, and for the better assuring and confirming to the Trustee, for the benefit of the owners of the Certificates, the right, title and interest intended to be sold, assigned and transferred pursuant to the Assignment Agreement.

Captions. The captions or headings in the Assignment Agreement are for convenience only and in no way define or limit the scope or intent of any provision of the Assignment Agreement.

Governing Law. The Assignment Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## **TRUST AGREEMENT**

### **Terms and Conditions of Certificates**

Certificate Registration Books. (a) The Trustee shall keep at its Principal Office sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection and copying by the District and the Insurer at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement.

(b) The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not the principal or interest evidenced by such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability evidenced by such Certificate to the extent of the sum or sums so paid.

Transfer and Payment of Certificates; Exchange of Certificates. Each Certificate is transferable by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, upon surrender of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Certificate shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Each Certificate may be exchanged at the Principal Office of the Trustee for Certificates evidencing principal in a like aggregate amount and having the same stated Principal Payment Date in such Authorized Denominations as the Owner thereof may request. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period commencing on the date five days before the date of selection of Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Book-Entry System. (a) The Certificates shall initially be executed and delivered as Book-Entry Certificates and the Certificates for each stated Principal Payment Date shall be in the form of a separate single fully registered Certificate (which may be typewritten). The ownership of each Book-Entry Certificate shall be registered in the Registration Books in the name of the Nominee, as nominee of the Depository. Payment of principal or interest evidenced by any Book-Entry Certificate registered in the name of the Nominee shall be made on the applicable payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the Registration Books.

(b) With respect to Book-Entry Certificates, the District, the Corporation and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such Book-Entry Certificates. Without limiting the immediately preceding sentence, the District, the Corporation and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Certificates, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Registration Books, of any notice with respect to Book-Entry Certificates, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Certificates to be prepaid in the event Certificates are prepaid in part, (iv) the payment to any Participant or any other person, other than an Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest evidenced by Book-Entry Certificates, or (v) any consent given or other action taken by the Depository as Owner.

(c) The District and the Trustee may treat and consider the person in whose name each Book-Entry Certificate is registered in the Registration Books as the absolute Owner of such Book-Entry Certificate for the purpose of payment of principal, prepayment premium, if any, and interest evidenced by such Certificate, for the purpose of selecting any Certificates, or portions thereof, to be prepaid, for the purpose of giving notices of prepayment and other matters with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and the District, the Corporation and the Trustee shall not be affected by any notice to the contrary.

(d) In the event of a prepayment of all or a portion of a Certificate, the Depository, in its discretion, (i) may request the Trustee to execute and deliver a new Certificate, or (ii) if DTC is the sole



Owner of such Certificate, shall make an appropriate notation on the Certificate indicating the date and amounts of the reduction in principal evidenced thereby resulting from such prepayment, except in the case of final payment, in which case such Certificate must be presented to the Trustee prior to payment.

(e) The Trustee shall pay all principal, premium, if any, and interest evidenced by the Certificates only to or “upon the order of” (as that term is used in the Uniform Commercial Code as adopted in the State of California) the respective Owner, as shown in the Registration Books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal, premium, if any, and interest evidenced by the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Registration Books, shall receive a Certificate evidencing principal, premium, if any, and interest evidenced by the Certificates. Upon delivery by the Depository to the Owners, the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Trust Agreement with respect to Record Dates, the word Nominee in the Trust Agreement shall refer to such nominee of the Depository.

(f) In order to qualify the Book-Entry Certificates for the Depository’s book-entry system, the District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Corporation, the District or the Trustee any obligation whatsoever with respect to persons having interests in such Book-Entry Certificates other than the Owners, as shown on the Registration Books. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the District, the District, the Corporation and the Trustee shall take such other actions, not inconsistent with the Trust Agreement, as are reasonably necessary to qualify Book-Entry Certificates for the Depository’s book-entry program.

(g) In the event the District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Certificates and that such Certificates should therefore be made available and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Certificates. In such event, the Trustee shall transfer and exchange certificated Certificates as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Certificates, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the District shall discontinue the Book-Entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each stated Principal Payment Date of such Book-Entry Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository, then the Certificates shall no longer be restricted to being registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Certificates shall designate, in accordance with the provisions of the Trust Agreement described under the headings “TERMS AND CONDITIONS OF CERTIFICATES – Transfer and Payment of Certificates; Exchange of Certificates” and “ –Certificates Mutilated, Lost, Destroyed or Stolen.” Whenever the Depository requests the District to do so, the District will cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Certificates to any Participant having Book-Entry Certificates credited to its account with the Depository, and (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Certificates.

(h) Notwithstanding any other provision of the Trust Agreement to the contrary, if DTC is the sole Owner of the Certificates, so long as any Book-Entry Certificate is registered in the Registration Books

in the name of the Nominee, all payments of principal, premium, if any, and interest evidenced by such Certificate and all notices with respect to such Certificate shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(i) In connection with any notice or other communication to be provided to Owners pursuant to the Trust Agreement by the District, the Corporation or the Trustee, with respect to any consent or other action to be taken by Owners, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date no later than 15 calendar days in advance of such record date to the extent possible. Notice to the Depository shall be given only when DTC is the sole Owner of the Certificates.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it shall prepare and execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Office of the Trustee in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like principal amount and having the same stated Principal Payment Date and number in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and disposed of in a manner deemed appropriate by the Trustee. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like principal amount and having the same stated Principal Payment Date, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under the provisions of the Trust Agreement summarized in this paragraph and of the expenses which may be incurred by it under the provisions of the Trust Agreement summarized in this paragraph. Any Certificate executed and delivered under the provisions of the Trust Agreement summarized in this paragraph in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates executed and delivered under the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of the Trust Agreement summarized in this paragraph, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which evidences principal that is then payable, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the District.

## **Funds and Accounts; Rental Payments**

Pledge; Base Rental Payment Fund. (a) Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, in order to secure the District's obligations under the Trust Agreement and under the Lease Agreement, the District irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund), which amounts shall be used for the payment of the Base Rental Payments in accordance with the terms of the Trust Agreement and of the Lease Agreement. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(b) It is the intent of the parties to the Trust Agreement that the Corporation not have any right, title or interest in or to the amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. If, contrary to the intent of the parties to, the Corporation is found to have any right, title or interest in or to any such amounts, then, subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, the Corporation irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund). Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Corporation, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(c) All Base Rental Payments shall be paid directly by the District to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments paid by the District shall be deposited by the Trustee in the Base Rental Payment Fund, which the Trustee shall establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. The moneys in the Base Rental Payment Fund shall be held in trust by the Trustee and shall be disbursed only for the purposes and uses in the Trust Agreement authorized. Any Net Proceeds of rental interruption insurance received with respect to the Property shall be deposited in the Base Rental Payment Fund.

(d) Pursuant to the Assignment Agreement, the Corporation has sold, assigned and transferred to the Trustee, irrevocably and absolutely, for the benefit of the Owners, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided, however, that the Corporation has retained the rights to indemnifications and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Ground Lease, 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.

Deposit of Base Rental Payments. The Trustee shall transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Trust Agreement, to the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. The moneys in each of such funds shall be held in trust by the Trustee and shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) *Interest Fund.* The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. On each Interest Payment Date, the Trustee shall withdraw from the Interest Fund, for payment to the Owners, the interest evidenced by the Certificates coming due on such Interest Payment Date.

(b) *Principal Fund.* The Trustee, on each Principal Payment Date and each Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. On each Principal Payment Date and each Mandatory Sinking Account Payment Date, the Trustee shall withdraw from the Principal Fund, for payment to the Owners, the principal evidenced by the Certificates due and payable on such Principal Payment Date or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) *Prepayment Fund.* The Trustee, on the prepayment date specified in the Written Request of the District filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee shall deposit in the Prepayment Fund any amounts required to be deposited therein pursuant to the provisions of the Trust Agreement described under the headings “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds” or “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Title Insurance.” Moneys in the Prepayment Fund shall be used by the Trustee for the purpose of paying the interest, premium, if any, and principal evidenced by the Certificates to be prepaid. All moneys held by the Trustee in the Prepayment Fund shall either be held uninvested or invested in Defeasance Securities, which mature in sufficient amounts and on the dates needed to make the prepayments of Certificates for which such moneys were deposited.

Application of Net Proceeds. If the Property or any portion thereof shall be damaged or destroyed, subject to the further requirements of the Trust Agreement summarized under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds,” the District shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the District elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Trust Agreement.

The Net Proceeds of any insurance (other than Net Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, shall be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the District, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the District in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the District shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee and the Insurer in writing as to whether the District intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the District does intend to replace or repair the Property or portions thereof, the District shall deposit with the Trustee the full amount of any insurance deductible to be deposited to the special account.

If such damage, destruction or loss was such that there resulted a substantial interference with the District's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments would result from such damage or destruction pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement" (disregarding, for the purpose of determining whether such an abatement would result, the provisions of paragraph (b) of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), then the District shall be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the insurance proceeds and other legally available funds to the prepayment, as set forth in the extraordinary prepayment provisions of the Trust Agreement, in full of all the Outstanding Certificates or all of those Outstanding Certificates which would have been payable from that portion of the Base Rental Payments which would be abated as a result of the damage or destruction (disregarding, for the purpose of determining what portion of the Base Rental Payments would be so abated, the provisions of paragraph (b) of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"). Funds to be applied to the prepayment of Certificates in accordance with clause (b) above shall be deposited in the Prepayment Fund. Any proceeds of any insurance, including the proceeds of any self-insurance remaining after the portion of the Property which was damaged or destroyed is restored to and made available to the District in substantially the same condition and annual fair rental value as that which existed prior to the damage or destruction as required by clause (a) above or the prepayment of Certificates as required by clause (b) above, in each case as evidenced by a Written Certificate of the District to such effect, shall be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement (taking into account amounts available under any Reserve Facility). If the District is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above or to use such amounts to prepay Certificates as set forth in clause (b) above, then such proceeds shall be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement (taking into account amounts available under any Reserve Facility). Any amounts not required to be so deposited into the Reserve Fund shall, if there is first delivered to the Trustee and the Insurer a Written Certificate of the District to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the sum of the then unpaid principal components of Base Rental Payments, be paid to the District to be used for any lawful purpose.

The proceeds of any award in eminent domain with respect to the Property shall be deposited by the Trustee in the Prepayment Fund and applied to the prepayment of Outstanding Certificates pursuant to the extraordinary prepayment provisions of the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property shall be applied and disbursed by the Trustee as follows:

(a) if the District determines (and sets forth in a Written Certificate of the District) that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the District under the Lease

Agreement, such proceeds shall, with the written approval of the Insurer, be remitted to the District and used for any lawful purpose thereof; or

(b) if the District determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and would result in an abatement in whole or in part of Rental Payments payable by the District under the Lease (disregarding, for the purpose of determining whether such an abatement would result, the provisions of paragraph (b) of the Lease Agreement described under the heading “BASE RENTAL PAYMENTS – Rental Abatement”), then the District shall, in a Written Request of the District, direct the Trustee to, and the Trustee shall, immediately deposit such proceeds in the Prepayment Fund and such proceeds shall, with the written approval of the Insurer, be applied to the prepayment of Certificates in the manner provided in the extraordinary prepayment provisions of the Trust Agreement.

Reserve Fund. (a) The Trustee shall establish and maintain the Reserve Fund until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. There shall be deposited in the Reserve Fund on the Delivery Date the Reserve Policy pursuant the extraordinary prepayment provisions of the Trust Agreement. The moneys in the Reserve Fund and any Reserve Facility shall be held in trust by the Trustee and shall be used and disbursed only for the purposes and uses in the Trust Agreement authorized.

(b) The District may substitute a Reserve Facility for all or a part of the Reserve Facility then on deposit in the Reserve Fund by depositing such substitute Reserve Facility with the Trustee so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under such Reserve Facility and any previously substituted Reserve Facilities, shall be at least equal to the Reserve Requirement; provided, however, that, prior to any such substitution, the Trustee shall have received the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). The District shall not substitute any Reserve Facility in lieu of all or any portion of moneys on deposit in the Reserve Fund without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). Moneys for which a Reserve Facility has been substituted as provided in the Trust Agreement shall be transferred, at the election of the District, to the Base Rental Payment Fund, or upon receipt of an Opinion of Counsel to the effect that such transfer, in and of itself, will not adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes, to a special account to be held by the Trustee and applied to the payment of capital costs of the District, as directed in a Written Request of the District. Any amounts paid pursuant to any Reserve Facility shall be deposited in the Reserve Fund.

(c) Amounts on deposit in the Reserve Fund which were not derived from payments under any Reserve Facility credited to the Reserve Fund to satisfy a portion of the Reserve Requirement shall be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under any such Reserve Facility. In order to accomplish such use and withdrawal of such amounts not derived from payments under any such Reserve Facility, the Trustee shall, as and to the extent necessary, liquidate any investments purchased with such amounts. If and to the extent that, more than one Reserve Facility is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, drawings thereunder, and repayment of expenses with respect thereto, shall be made on a pro-rata basis (calculated by reference to the policy limits available thereunder without regard to the legal or financial ability or willingness of any Reserve Facility provider to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw).

If, on any Interest Payment Date, the amount on deposit in the Interest Fund is insufficient to pay the interest evidenced by the Certificates payable on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

If a Reserve Facility is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, the Trustee shall make a claim for payment under such Reserve Facility, in accordance with the provisions thereof, in an amount which, together with other available moneys in the Reserve Fund, will be sufficient to make said deposit in the Interest Fund.

If, on any Principal Payment Date or Mandatory Sinking Account Payment Date, the amount on deposit in the Principal Fund is insufficient to pay the principal evidenced by the Certificates payable on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency. If a Reserve Facility is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, the Trustee shall make a claim for payment under such Reserve Facility, in accordance with the provisions thereof, in an amount which, together with other available moneys in the Reserve Fund, will be sufficient to make said deposit in the Principal Fund.

Moneys, if any, on deposit in the Reserve Fund shall be withdrawn and applied by the Trustee for the final payment of principal and interest evidenced by the Certificates.

(d) In the event of any transfer from the Reserve Fund or the making of any claim under any Reserve Facility, the Trustee shall, within five days thereafter, provide written notice to the District of the amount and the date of such transfer or claim.

(e) To the extent that proceeds of a payment under the Reserve Policy are applied to the payment of interest or principal evidenced by a Certificate, the Reserve Insurer shall become the Owner of such portion of such Certificate and the right to receive payment of such interest or principal and shall be fully subrogated to all of the Owner's rights thereunder to the extent of such payment, including the Owner's rights to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for interest, the Trustee shall note the Reserve Insurer's rights as subrogee on the Registration Books, and (ii) in the case of subrogation as to claims for principal, the Trustee shall note the Reserve Insurer's rights as subrogee on the Registration Books upon surrender of the Certificate evidencing such principal by the Owner thereof to the Trustee.

(f) If, as a result of the District's non-payment, when due, of all or a portion of a Base Rental Payment (other than a non-payment caused by an abatement of Rental Payments pursuant to the provision of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), a claim has been made under the Reserve Policy and the Reserve Insurer has paid such claim, the first of Base Rental Payments, including the interest component thereof, calculated at the Insurer Rate as provided in the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Payment Provisions," thereafter received from the District under the Lease Agreement and not needed to pay the principal or interest evidenced by the Certificates on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be paid to the Reserve Insurer, as the Owner of the Certificates (or portions thereof) evidencing such delinquent Base Rental Payment, in repayment of such payment by the Reserve Insurer until such payment is paid in full. If as a result of the District's non-payment of all or a portion of a Base Rental Payment (which non-payment is caused by an abatement of Rental Payments pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement), a claim has been made on the Reserve Policy and the Reserve Insurer has paid such claim, the Reserve Insurer, as the Owner of the Certificates (or portions thereof) evidencing such abated Base Rental Payment, shall be entitled to receive, during the extension of the term of the Lease Agreement provided for in the provisions of the Lease Agreement described under the heading "LEASE OF PROPERTY; TERM – Term; Occupancy," any amounts paid in respect of such abated and unpaid Base Rental Payment pursuant to paragraph (b) of the provisions of the Lease Agreement described under "RENTAL PAYMENTS – Base Rental Payments" and the provisions of the Lease Agreement described

under the heading “RENTAL PAYMENTS – Payment Provisions.” Any such payment by the District pursuant to the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund,” shall be applied first to the interest component of such delinquent Base Rental Payment due the Reserve Insurer and second to the principal components of such delinquent Base Rental Payment due the Reserve Insurer.

(g) If (i) the sum of the amount on deposit in the Reserve Fund, plus the amount available under all available Reserve Facilities, is less than the Reserve Fund Requirement, (ii) there are no amounts then due to the Reserve Insurer under the Reserve Policy, and (iii) there are no amounts then due to the provider of any other Reserve Facility under such Reserve Facility, the first of Base Rental Payments thereafter received from the District under the Lease Agreement and not needed to pay the principal or interest evidenced by the Certificates on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used, first, to reinstate the amounts available under the Reserve Facilities that have been drawn upon and, second, to increase the amount on deposit in the Reserve Fund, so that the amount available under the Reserve Facilities, when added to the amount on deposit in the Reserve Fund, shall equal the Reserve Requirement.

(h) If, as a result of the payment of principal or interest evidenced by the Certificates or otherwise, the Reserve Requirement is reduced, amounts on deposit in the Reserve Fund in excess of such reduced Reserve Requirement shall be transferred to the Base Rental Payment Fund.

(i) On any date on which Certificates are defeased in accordance with the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” the Trustee shall, if so directed in a Written Request of the District, transfer any moneys in the Reserve Fund in excess of the Reserve Requirement resulting from such defeasance to the entity or fund so specified in such Written Request of the District, to be applied to such defeasance.

Rebate Fund. (a) In addition to the other funds and accounts created pursuant to the Trust Agreement, the Trustee shall establish and maintain the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates pursuant to the provisions of the Trust Agreement described under the heading “DEFEASANCE” or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the District’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the District’s calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the principal and interest evidenced by the Certificates and after payment of any amounts described in the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” shall be withdrawn by the Trustee and remitted to the District.

Costs of Issuance Fund. (a) The Trustee shall establish and maintain a separate special fund to be held by the Trustee designated the “Costs of Issuance Fund.” On the Delivery Date, there shall be deposited in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the provisions of the Trust Agreement.



(b) The Trustee shall disburse moneys from the Costs of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case upon the Written Request of the District, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Costs of Issuance Fund. On the last Business Day that is no later than six months after the Delivery Date, the Trustee shall transfer any amounts then remaining in the Costs of Issuance Fund to the Base Rental Payment Fund and the Trustee shall close the Costs of Issuance Fund.

Investments. (a) *General.* Except as otherwise provided in the Trust Agreement, all moneys in any of the funds or accounts established pursuant to the Trust Agreement and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Trust Agreement; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final stated Principal Payment Date of the Certificates; provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final stated Principal Payment Date of the Certificates. Absent timely written direction from the District, the Trustee shall invest any funds held by it in Permitted Investments described in clause (h) of the definition thereof.

(b) *Role and Responsibilities of the Trustee.* The Trustee or an affiliate thereof may act as principal or agent in the acquisition or disposition of any such Permitted Investment and shall be entitled to a customary and reasonable fee therefor. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District will not receive such confirmation to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee under the Trust Agreement. The Trustee may make any investments under the Trust Agreement through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manage in connection with any investments made by the Trustee under the Trust Agreement.

(c) *Valuation.* Investments (except investment agreements) in any fund or account established under the Trust Agreement shall be valued, exclusive of accrued interest, (i) not less often than semi-annually no later than April 15 and October 15 or more frequently if deemed necessary by the Insurer but not more often than monthly, and (ii) upon any draw upon the Reserve Fund. All investments of amounts deposited in any fund or account established under the Trust Agreement shall be valued at the market value thereof.

(d) *Earnings.* Subject to the provisions of the Trust Agreement described under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” any interest or profits received with respect to investments held in any of the funds or accounts established under the Trust Agreement (other than the Reserve Fund) shall be retained therein. Subject to the provisions of the Trust Agreement described

under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” any interest or profits received with respect to investments held in the Reserve Fund shall be transferred to the Base Rental Payment Fund. Notwithstanding the foregoing, any such transfer shall be made from the Reserve Fund only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund, together with amounts available to be drawn on all Reserve Facilities, if any, available therein, is at least equal to the Reserve Requirement.

## **Covenants**

Compliance with Trust Agreement. The Trustee will execute and deliver the Certificates only in accordance with the provisions of the Trust Agreement, and each of the Corporation and the District shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be complied with, kept, observed and performed by it.

Compliance with Ground Lease and Lease Agreement. Each of the Corporation and the District shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by it and, together with the Trustee, shall enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Corporation, the District and the Trustee shall faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or thereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or thereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The District will keep the Property and all parts thereof free from judgments and materialmen’s and mechanics’ liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances, and free from any claim or liability which materially impairs the District in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the District ten days’ written notice to comply therewith and failure of the District to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or, with the written consent of the Insurer, compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the District from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its obligation under the Trust Agreement to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates are Outstanding, neither the Trustee or the District shall create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Trust Agreement, other than the pledge and lien of the Trust Agreement.

The Trustee shall not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement.

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

Recordation. The District will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. (a) The District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest evidenced by the Certificates under Section 103 of the Code. Without limiting the generality of the foregoing, the District will comply with the requirements of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. This covenant shall survive payment in full or defeasance of the Certificates.

(b) In the event that at any time the District is of the opinion that for purposes of the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Trust Agreement, the District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," if the District shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest evidenced by the Certificates, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," and of the Tax Certificate, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

Continuing Disclosure. Each of the District and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate applicable to it. Notwithstanding any other provision of the Trust Agreement, failure of the District or the Trustee to comply with the Continuing Disclosure Certificate shall not constitute an event of default under the Trust Agreement; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate amount of principal evidenced by Outstanding Certificates and upon being indemnified to its reasonable satisfaction, shall) or any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Insurer or any Owner, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee, the Insurer and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Ground Lease or the Lease Agreement.

## **Default and Limitations of Liability**

Action on Default. If an event of default (within the meaning of the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES”) shall happen, then such event of default shall constitute an event of default under the Trust Agreement. The Trustee, as assignee of the Corporation, may give notice of an event of default under the Lease Agreement to the District, and shall do so if directed in writing to do so by the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) or the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding. In each and every case during the continuance of an event of default, the Trustee (a) may, with the prior written consent of the Insurer, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding, and (b) shall, upon being indemnified to its reasonable satisfaction, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, at the direction of the Insurer, upon notice in writing to the District and the Corporation, exercise any of the remedies granted to the Corporation under the Lease Agreement and, in addition, with the written consent or at the written direction of the Insurer, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Other Remedies of the Trustee.”

Other Remedies of the Trustee. Subject to the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Action on Default,” the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any member, director, officer or employee thereof, and to compel the District or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Owners; or

(c) by suit in equity upon the happening of any event of default under the Trust Agreement to require the District to account as the trustee of an express trust.

Non-Waiver. So long as the Insurer is not in default in its payment obligations under the Insurance Policy, the Trustee shall not waive any default or breach of duty or contract under the Trust Agreement without the prior written consent of the Insurer. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY” may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Insurer or any Owner, then subject to any adverse determination, the Trustee, the Insurer, such Owner, the Corporation and the District shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. Subject to the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Action on Default,” no remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation to the Owners. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease 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.

No Liability by the District to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or in the Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, 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.

No Liability of the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the Corporation or the District of the other agreements and covenants required to be performed by them, respectively, contained in the Lease Agreement, the Ground Lease or in the Trust Agreement.

Application of Amounts After Default. All payments received by the Trustee with respect to the rental of the Property after a default by the District pursuant to the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES” (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Corporation’s right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES,” shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

- (a) to the payment of all amounts due the Trustee under the provisions of the Trust Agreement described under the heading “THE TRUSTEE – Compensation and Indemnification;”
- (b) to the payment of all amounts then due for interest evidenced by the Certificates, in respect of which, or for the benefit of which, money has been collected (other than Certificates which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably

without preference or priority of any kind, according to the amounts of interest evidenced by such Certificates due and payable;

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

(d) to the extent not included in clause (b) or clause (c) above, to the payment of all amounts then due under the Trust Agreement to the Insurer.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless (a) such Owner shall have previously given written notice to the Trustee of a continuing event of default, (b) so long as the Insurer is not in default in its payment obligations under the Insurance Policy, such Owner shall have obtained the Insurer's consent to such institution or appointment, (c) the Owners of not less than 25% of the aggregate amount of principal evidenced by Certificates then Outstanding shall have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Trust Agreement, (d) such Owner or Owners shall have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, (e) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings, and (f) no direction inconsistent with such written request shall have been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate amount of principal evidenced by Certificates then Outstanding; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided and for the equal and ratable benefit of all the Owners of Certificates.

## **The Trustee**

Duties and Liabilities of Trustee. The Trustee shall, prior to an event of default, and after the curing or waiver of all events of default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Trust Agreement. The Trustee shall, during the existence of any event of default which has not been cured or waived, 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 a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Qualifications; Removal and Resignation; Successors. (a) The Trustee initially a party to the Trust Agreement and any successor thereto shall at all times be a trust company, national banking association or

bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$250,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this paragraph the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an event of default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time (i) requested to do so by the Insurer (as long as the Insurer is not in default in its payment obligations under the Insurance Policy) or by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority of the aggregate amount of principal evidenced by the Certificates at the time Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with paragraph (a) above, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the District and the Insurer, and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of paragraph (a) above, the Trustee shall resign immediately in the manner and with the effect specified in the Trust Agreement described under this heading "THE TRUSTEE – Qualifications; Removal and Resignation; Successors."

(d) Upon removal or resignation of the Trustee, the District shall promptly appoint a successor Trustee by an instrument in writing, which appointment shall be subject to the prior written approval of the Insurer. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in paragraph (a) above. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Trust Agreement shall signify its acceptance of such appointment by executing and delivering to the District, the Corporation and its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Trust Agreement; but, nevertheless at the written request of the District, the Corporation or the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Trust Agreement set forth. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the

successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Trust Agreement to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under paragraph (a) above, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Trust Agreement to the contrary notwithstanding.

Liabilities of the Trustee. (a) The recitals of facts in the Trust Agreement shall be taken as statements of the District, and the Trustee shall not assume responsibility for the correctness of the same. The Trustee shall, however, be responsible for its representations contained in the Certificates.

(b) The Trustee makes no representations as to the validity or sufficiency of the Trust Agreement, the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or in respect of the security afforded by the Trust Agreement, and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to (i) the delivery of the Certificates for value, (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or (iii) the application of any moneys paid to the District or others in accordance with the Trust Agreement, except as to the application of any moneys paid to it in its capacity as Trustee.

(c) The Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct.

(d) No provision of the Trust Agreement or any other document related thereto shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties under the Trust Agreement through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(g) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.

(h) Before taking action under the provisions of the Trust Agreement described under the headings "DEFAULT AND LIMITATIONS OF LIABILITY," "THE TRUSTEE" or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate amount



of principal evidenced by the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

(j) The Trustee may become the Owner of Certificates 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 its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate amount of principal evidenced by the Certificates then Outstanding.

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

(l) The Trustee shall not be liable for the failure to take any action required to be taken by it under the Trust Agreement if and to the extent that the Trustee's taking such action is prevented by reason of an act of God, terrorism, war, riot, strike, fire, flood, earthquake, epidemic or other, similar occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care.

(m) The Trustee shall not be deemed to have knowledge of an event of default under the Trust Agreement unless it has actual knowledge thereof.

(n) The permissive right of the Trustee to do things enumerated in the Trust Agreement shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

(o) The Trustee shall not be responsible for or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Trust Agreement.

Right to Rely on Documents and Opinions. (a) The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by 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) may be deemed to be conclusively proved and established by a Written Certificate of the District, and such Written Certificate of the District shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Trust Agreement in reliance upon such Written Certificate of the District, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

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

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Certificates, the Base Rental Payments received by it and all funds and accounts established by it

pursuant to the Trust Agreement. Such books of record and account shall be available for inspection by the District, the Corporation and the Insurer during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the District a monthly accounting of the funds and accounts it holds under the Trust Agreement; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Trust Agreement shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the District, the Corporation, the Owners and their agents and representatives duly authorized in writing.

Compensation and Indemnification. The District shall pay to the Trustee from time to time all reasonable compensation pursuant to a pre-approved fee letter for all services rendered under the Trust Agreement, and also all reasonable expenses, charges, legal and consulting fees pursuant to a pre-approved fee letter and other disbursements pursuant to a pre-approved fee letter and those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Trust Agreement. The District shall, to the extent permitted by law, indemnify and save the Trustee harmless against any costs, claims, expenses (including fees and expenses of its counsel), and liabilities which it may incur in the exercise and performance of its powers and duties under the Trust Agreement, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the District to indemnify the Trustee shall survive the resignation or removal of the Trustee and the termination and discharge of the Trust Agreement.

#### **Amendment of or Supplement to Trust Agreement**

Amendment or Supplement. (a) The Trust Agreement and the rights and obligations of the District, the Corporation, if any, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement thereto which shall become binding when the prior written consents of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the provisions of the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Disqualified Certificates,” are filed with the Trustee. No such amendment or supplement shall (i) extend the stated Principal Payment Date of any Certificate or reduce the rate of interest applicable to the interest evidenced thereby or extend the time of payment of such interest or reduce the amount of principal evidenced thereby or reduce the amount of any Mandatory Sinking Account Payment or change the prepayment terms and provisions or the provisions regarding delivery of notice of prepayment without the prior written consent of the Owner of each Certificate so affected and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Trust Agreement prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Trust Agreement or deprive the Owners of the pledge contained in, and the lien and security interest created by, the Trust Agreement, except as expressly provided in the Trust Agreement, without the consent of the Owners of all of the Certificates then Outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), (iii) modify any of the rights or obligations of the Trustee without the prior written consent of the Trustee, or (iv) amend the provisions of the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement” without the prior written consent of the Owners of all Certificates then Outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

(b) The Trust Agreement and the rights and obligations of the District, the Corporation, if any, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement thereto which shall become binding upon execution, with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), but without the written consents of any Owners and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the District to be observed or performed in the Trust Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the District, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the District;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the District may deem desirable or necessary and not inconsistent therewith;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest evidenced by the Certificates; or

(iv) for any other reason, provided such amendment or supplement does not adversely affect the rights or interests of the Owners; provided, however, that the District and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this paragraph have been met with respect to such amendment or supplement.

The Trustee is not obligated to enter into any amendment or supplement that adversely affects the rights or obligations of the Trustee.

The Insurer shall be provided with a full original transcript of all proceedings relating to the amendment of or supplement to the Trust Agreement pursuant to the provisions of the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement.”

Disqualified Certificates. Certificates owned or held by or for the account of the District (but excluding Certificates held in any pension or retirement fund of the District) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT,” and shall not be entitled to consent to or take any other action provided in the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT,” and the Trustee may adopt appropriate regulations to require each Owner, before its consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Endorsement or Replacement of Certificates After Amendment or Supplement,” the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Certificate for such purpose at the Principal Office

of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates modified to conform to such action are necessary, modified Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. Subject to the receipt of the prior written consent of the Insurer as provided in the Trust Agreement described under the heading "AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement," the provisions of the Trust Agreement described under the heading "AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT" shall not prevent any Owner from accepting any amendment as to the particular Certificates owned by such Owner, provided that due notation thereof is made on such Certificates.

## **Defeasance**

Discharge of Trust Agreement. (a) If there shall be paid (i) to the Owners of all Outstanding Certificates the principal, interest and premium, if any, evidenced thereby at the times and in the manner stipulated in the Trust Agreement, and (ii) all other amounts due under the Trust Agreement and under the Lease Agreement, then the Owners shall cease to be entitled to the pledge of the assets provided for in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District under the Trust Agreement shall thereupon cease, terminate and become void and the Trust Agreement shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation and the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the principal, interest and premium, if any, evidenced by the Certificates.

(b) Subject to the provisions of paragraph (a) above, when any Certificate shall have been paid and if, at the time of such payment, each of the Corporation and the District shall have kept, performed and observed all of the covenants and promises in the Trust Agreement and the Lease Agreement required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Trust Agreement shall be considered to have been discharged in respect of such Certificate and such Certificate shall cease to be entitled to the pledge of the assets provided in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District under the Trust Agreement shall cease, terminate, become void and be completely discharged and satisfied as to such Certificate.

(c) Notwithstanding the discharge and satisfaction of the Trust Agreement or the discharge and satisfaction of the Trust Agreement in respect of any Certificate, those provisions of the Trust Agreement relating to the payment of the principal, interest and premium, if any, evidenced by Certificates, exchange and transfer of Certificates, replacement of mutilated, destroyed, lost or stolen Certificates, the safekeeping and cancellation of Certificates, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Certificate, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal, interest and premium, if any, evidenced by such Certificate, and to pay to the Owner of such Certificate the funds so held by the Trustee as and when such payment becomes due.

Certificates Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or prepayment of the principal evidenced by any Certificate and the payment of the interest evidenced thereby to the stated Principal Payment Date or prepayment date thereof, such

Certificate shall be deemed to have been paid within the meaning and with the effect provided in the provisions of the Trust Agreement described under the heading “DEFEASANCE – Discharge of Trust Agreement.” Any Outstanding Certificate shall prior to its stated Principal Payment Date or the prepayment date thereof be deemed to have been paid within the meaning of and with the effect expressed in the provisions of the Trust Agreement described under the heading “DEFEASANCE – Discharge of Trust Agreement,” if (i) in case any of such Certificates is to be prepaid on any date prior to its stated Principal Payment Date, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Trust Agreement related to prepayment notices, notice of prepayment of such Certificate on said prepayment date, said notice to be given in accordance with the provisions of the Trust Agreement related to prepayment notices, (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the interest evidenced by such Certificate to become due on and prior to its stated Principal Payment Date or the prepayment date thereof, as the case may be, and the principal and premium, if any, evidenced by such Certificate, and (iii) in the event such Certificate is not by its terms subject to prepayment within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Certificate that the deposit required by clause (ii) above has been made with the Trustee and that such Certificate is deemed to have been paid in accordance with the provisions of the Trust Agreement described under this heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” and stating stated Principal Payment Date or prepayment date upon which money is to be available for the payment of the principal and premium, if any, evidenced by such Certificate.

(b) No Certificate shall be deemed to have been paid pursuant to clause (ii) of paragraph (a) above unless (i) all amounts currently due to the Insurer under the Insurance Policy and to the Reserve Insurer under the Reserve Policy shall have been paid in full, and (ii) the District shall have caused to be delivered to the District and the Trustee (A) an executed copy of a Verification Report with respect to such deemed payment, addressed to the District, the Insurer and the Trustee, in form and in substance acceptable to the District, the Insurer and the Trustee, (B) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (a) above resulting in such deemed payment, which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, in form and in substance acceptable to the Insurer, and (C) a copy of an Opinion of Counsel, dated the date of such deemed payment and addressed to the District, the Insurer and the Trustee, in form and in substance acceptable to the District, the Insurer and the Trustee, to the effect that such Certificate has been paid within the meaning and with the effect expressed in the Trust Agreement, the Trust Agreement has been discharged in respect of such Certificate and all agreements, covenants and other obligations of the District and the Corporation under the Trust Agreement as to such Certificate have ceased, terminated, become void and been completely discharged and satisfied. In the event a forward purchase agreement is to be employed in connection with the Defeasance Securities purchased to defease Certificates, such agreement shall be subject to the approval of the Insurer and shall be accompanied by such opinions of counsel as may be required by the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five (5) Business Days prior to the funding of the escrow.

Unclaimed Moneys. Subject to the escheat laws of the State, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal evidenced by any of the Certificates which remain unclaimed for two years after the date when such interest or principal evidenced by such Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal

evidenced by such Certificates have become payable, shall, at the Written Request of the District be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal evidenced by such Certificates.

### **Insurance Policy and Reserve Policy Provisions**

Insurer To Be Deemed Owner; Rights of the Insurer; Payments by the Insurer; Notices. The provisions of the Trust Agreement described under this heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS,” shall apply notwithstanding any other provision of the Trust Agreement to the contrary so long as the Insurer is not in default in its payment obligations under the Insurance Policy.

(a) The Insurer shall at all times be deemed the sole and exclusive Owner of the Outstanding Certificates for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies, including but not limited to approval of or consent to any amendment of or supplement to the Trust Agreement which requires the consent or approval of the Owners of a majority of the aggregate principal evidenced by the Certificates then Outstanding pursuant to the Trust Agreement; provided, however, that the Insurer shall not be deemed to be the sole and exclusive Owner of the Outstanding Certificates with respect to any amendment or supplement to the Trust Agreement which seeks to amend or supplement the Trust Agreement for the purposes set forth in clauses (i), (ii) or (iv) of paragraph (a) of the provisions of the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement,” and provided further that the Insurer shall not be deemed the sole and exclusive Owner of the Outstanding Certificates with respect to any amendment or supplement to the Trust Agreement, and shall not have the right to direct or consent to District, Corporation, Trustee or Owner action as provided in the Trust Agreement, if:

(i) the Insurer shall be in payment default under the Insurance Policy and such failure shall continue for three Business Days;

(ii) any material provision of the Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested in writing by the Insurer; or

(iii) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer under Article 16 of the Insurance Law of the State of New York or any successor provision thereto and such proceeding is not terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding.

(b) To the extent that the Insurer makes payment of any interest or principal evidenced by a Certificate, it shall become the Owner of such portion of such Certificate and the right to receive payment of such interest or principal and shall be fully subrogated to all of the Owner’s rights thereunder in accordance with the terms of the Insurance Policy to the extent of such payment, including the Owner’s rights to payment thereof (which subrogation rights shall include the rights of any such Owner in connection with any Insolvency Proceeding). To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer’s rights as subrogee on the Registration Books upon receipt of proof from the Insurer as to payment of such interest to the Owner of the Certificate evidencing such interest, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer’s rights as subrogee on the Registration Books upon surrender of the Certificate evidencing such principal by the Owner thereof to the Trustee.

(c) In the event that the interest or principal evidenced by a Certificate shall be paid by the Insurer pursuant to the terms of the Insurance Policy, (i) such Certificate shall continue to be Outstanding under the Trust Agreement, (ii) the pledge of the amounts on deposit in the funds and accounts established under the Trust Agreement and all covenants, agreements and other obligations of the District under the Trust Agreement and under the Lease Agreement shall continue to exist, (iii) the Insurer shall be fully subrogated to all of the rights of such Owner in accordance with the terms and conditions of paragraph (b) above and the Insurance Policy, and (iv) neither the Trust Agreement nor the Lease Agreement shall be discharged unless and until all amounts due to the Insurer have been paid in full.

(d) If an event of default (within the meaning of the provisions of the Lease Agreement described under the heading "DEFAULTS AND REMEDIES") shall have occurred and be continuing, the Insurer may, regardless of whether a claim has been made under the Insurance Policy, at any time and at its sole option, pay to the Owners all or any portion of the interest or principal evidenced by the Certificates (at a price equal to 100% of the principal evidenced by the Certificates so purchased) prior to the stated Principal Payment Dates thereof; provided, however, that such payment by the Insurer shall not accelerate the District's obligation to make Rental Payments under the Lease Agreement. The Trustee shall accept such payments on behalf of the Owners and the Insurer's obligations under the Insurance Policy shall be discharged to the extent of such payments.

(e) The Insurer shall be notified (i) by the District at least 30 days (or such lesser time as agreed by the Insurer) in advance of the execution of any amendment of or supplement to the Trust Agreement and of any amendment to the Lease Agreement or the Ground Lease in the event consent of the Owners is not required for such amendment or supplement, (ii) by the Trustee within five Insurance Business Days of the Trustee's having knowledge of the occurrence of any event of default (within the meaning of the provisions of the Lease Agreement described under the heading "DEFAULTS AND REMEDIES"), and (iii) by the Trustee of any prepayment of Certificates (including the principal evidenced by, and the CUSIP numbers of, such Certificates to be prepaid) at the same time that the Owners of the Certificates to be prepaid are notified. In addition, all notices, reports, certificates and opinions (i) to be delivered to or by the Trustee or to the Owners or available at the request of the Owners pursuant to the Trust Agreement, or (ii) to be delivered by the District pursuant to the Lease Agreement or the Assignment Agreement shall also be delivered to the Insurer.

(f) The Trustee shall also notify the Insurer (i) immediately, upon the withdrawal of amounts on deposit in the Reserve Fund, other than amounts comprising investment earnings thereon which may be withdrawn in accordance with the terms of the Trust Agreement, upon a claim being made under any Reserve Facility or upon the determination that a deficiency in the Reserve Fund exists as a result of fluctuations in the market value of investments held therein, and (ii) immediately upon the resignation or removal of the Trustee or the appointment of a successor Trustee.

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

(h) Subject to and conditioned upon payment of any interest or principal evidenced by the Certificates by or on behalf of the Insurer, each Owner, by its purchase of Certificates, assigns to the Insurer, but only to the extent of all payments made by the Insurer, all rights to the payment of interest or principal evidenced by the Certificates, including, without limitation, any amounts due to the Owners in respect of securities law violations arising from the offer and sale of the Certificates, which are then due for payment. The Insurer may exercise any option, vote, right, power or the like with respect to Certificates to the extent it has made a payment of principal evidenced by Certificates pursuant to the Insurance Policy. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to

the Insurer in respect of such payments. The Trustee shall take such action and deliver such instruments as may be reasonably requested or required by the Insurer to effectuate the purpose or provisions of this paragraph.

(i) The Insurer shall have the right to advance any payment required to be made by the District in order to prevent an event of default under the Trust Agreement and the Trustee shall be required to accept such advance. The District shall, upon demand, reimburse the Insurer for any such advance.

(j) The rights granted under the Trust Agreement, the Lease Agreement or the Ground Lease to the Insurer to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit of or on behalf of the Owners, nor does such action evidence any position of the Insurer, positive or negative, as to whether Owner consent is required in addition to consent of the Insurer.

(k) The District agrees, to the extent permitted by law, to pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement, (ii) the pursuit of any remedies under the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement, or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement, or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement.

(l) The Insurer shall be entitled to pay principal or interest evidenced by the Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined in the Insurance Policy) thereof in accordance with the Trust Agreement, whether or not the Insurer has received a Notice (as defined in the Insurance Policy) of Nonpayment or a claim upon the Insurance Policy.

(m) The Trustee shall promptly notify the Insurer of either of the following as to which it has actual knowledge: (i) the commencement of any proceeding by or against the District or the Corporation commenced under the United States Bankruptcy Code or any successor statute or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding"), and (ii) the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer (a "Preference Claim") of any payment of interest or principal evidenced by the Certificates. Each Owner, by its purchase of Certificates, and the Trustee agrees that the Insurer may at any time during the continuation of an Insolvency Proceeding direct all matters relating to such Insolvency Proceeding, including, without limitation, (i) all matters relating to any Insolvency Proceeding or Preference Claim, (ii) the direction of any appeal of any order relating to any Insolvency Proceeding or Preference Claim, (iii) the posting of any surety, supersedes or performance bond pending any such appeal, and (iv) to accept or reject any plan of adjustment. In addition, the Trustee (solely with respect to the Certificates) and each Owner delegate and assign to the Insurer to the fullest extent permitted by law, the rights of the Trustee and each Owner in the conduct of any Insolvency Proceeding, including, without limitation, any rights of any party to an adversary proceeding action with respect to any court order issued in connection with any such Insolvency Proceedings.



(n) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Trust Agreement would adversely affect the security for the Certificates or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

(o) Any reorganization or liquidation plan with respect to the District must be acceptable to the Insurer. In the event of any such reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

(p) The District will permit the Insurer to discuss the affairs, finances and accounts of the District or any information the Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the District and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the District on any Business Day upon reasonable prior notice.

(q) The obligations set forth in paragraphs (k) and (m) above shall survive discharge or termination of the Trust Agreement and the Lease Agreement.

Deposits to Policy Payments Account; Payments Under the Insurance Policy. (a) So long as the Insurance Policy shall be in full force and effect, the District and the Trustee agree to comply with the provisions of the Trust Agreement described under the heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Deposits to Policy Payments Account; Payments Under the Insurance Policy.”

(b) If, on the third Insurance Business Day prior to a Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date there is not on deposit with the Trustee, after making all transfers and deposits required under the Trust Agreement, moneys sufficient to pay the interest or principal evidenced by the Certificates due on such Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date, the Trustee shall give notice to the Insurer and to the Insurer’s Fiscal Agent (if any) by telephone or teletype of the amount of such deficiency by 12:00 noon, New York City time, on such Insurance Business Day. If, on the second Insurance Business Day prior to such Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date, there continues to be a deficiency in the amount available to pay the interest or principal evidenced by the Certificates due on such Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay the interest evidenced by the Certificates and the amount required to pay principal evidenced by the Certificates, confirmed in writing to the Insurer and the Insurer’s Fiscal Agent (if any) by 12:00 noon, New York City time, on such second Insurance Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(c) The Trustee shall designate any portion of principal evidenced by Certificates paid by the Insurer, whether by virtue of Mandatory Sinking Account Payment, the stated Principal Payment Date or the Insurer’s election to pay said amounts prior to the stated Principal Payment Date pursuant to paragraph (e) of the Trust Agreement described under the heading “INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Insurer To Be Deemed Owner; Rights of the Insurer; Payments by the Insurer; Notices,” on its books as a reduction in the principal evidenced by Certificates registered to the then current Owners, whether DTC or its nominee or otherwise, and shall issue a replacement Certificate to the Insurer, registered in the name of Assured Guaranty Municipal Corp., evidencing principal in an amount equal to the principal so paid (without regard to Authorized Denominations); provided that the Trustee’s failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of

principal or interest evidenced by any Certificate payable by the District or the subrogation rights of the Insurer.

(d) The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of the interest and principal evidenced by any Certificate. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners known as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners in the same manner as payments of interest and principal evidenced by the Certificates are to be made with respect to the Certificates under the provisions of the Trust Agreement. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to make payments of interest and principal with other funds available to make such payments.

If, as a result of the District's non-payment, when due, of all or a portion of a Base Rental Payment (other than a non-payment caused by an abatement of Rental Payments pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), the Insurer has paid interest or principal evidenced by the Certificates pursuant to the Insurance Policy, (i) the first of Base Rental Payments thereafter received from the District under the Lease Agreement that are not required to be paid to the Reserve Insurer pursuant to paragraph (f) of the Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund," and (ii) the interest payable with respect to such delinquent Base Rental Payments, calculated at the Insurer Rate as provided in the Lease Agreement described under the heading "RENTAL PAYMENTS – Payment Provisions," shall be paid to the Insurer, as the Owner of the Certificates (or portions thereof) evidencing such delinquent Base Rental Payment in repayment of such payment by the Insurer until such payment is paid in full. If, as a result of the District's non-payment of all or a portion of a Base Rental Payment (which non-payment is caused by an abatement of Rental Payments pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), the Insurer has paid interest or principal evidenced by the Certificates pursuant to the Insurance Policy, the Insurer, as the Owner of the Certificates (or portions thereof) representing such abated Base Rental Payment, shall be entitled to receive, during the extension of the term of the Lease Agreement provided for in the Lease Agreement described under the heading "LEASE OF PROPERTY; TERM – Term; Occupancy," any amounts paid in respect of such abated and unpaid Base Rental Payment pursuant to paragraph (c) of the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Base Rental Payments" and "RENTAL PAYMENTS – Payment Provisions" of the Lease Agreement that are not required to be paid to the Reserve Insurer pursuant to paragraph (f) of the Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Reserve Fund." Any such payment by the District pursuant to the provisions of the Trust Agreement described under this heading "INSURANCE POLICY AND RESERVE POLICY PROVISIONS – Deposits to Policy Payments Account; Payments Under the Insurance Policy," shall be applied first to the interest component of such delinquent Base Rental Payment due the Insurer and second to the principal components of such delinquent Base Rental Payment due the Insurer.

(e) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date shall promptly be remitted to the Insurer.

Reporting Requirements. (a) The District shall provide to the Insurer (i) within 180 days after the end of each fiscal year of the District, a Written Certificate of the District certifying that the District is not aware of any event of default or of any default under the Trust Agreement or under the Lease Agreement, (ii) within 180 days after the end of each fiscal year of the District, audited financial statements for such fiscal year, (iii) within 30 days after the approval thereof, each annual budget of the District, and, (iv) from time to time, such other information, data or reports as the Insurer may reasonably request.

(b) The Trustee shall provide the Insurer with notice of any default under the Trust Agreement or under the Lease Agreement within five Business Days of obtaining knowledge thereof. The District shall provide the Insurer with notice of any default under the Trust Agreement or under the Lease Agreement within five Business Days of obtaining knowledge thereof.

(c) The District shall provide the Insurer with prior notice of the advance refunding or prepayment of any of the Certificates, including the principal amount, maturities and CUSIP numbers thereof.

(d) The District shall provide the Insurer with notice of the resignation or removal of the Trustee or the Depository, and the appointment of, and acceptance of duties by, any successor thereto.

(e) Each of the District and the Trustee agrees that it will, if it has actual knowledge thereof, promptly notify the Insurer of (i) the commencement of any Insolvency Proceeding by or against the District, and (ii) the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal or interest evidenced by the Certificate.

(f) The Trustee shall, at the time any report, notice or correspondence is delivered to Owners of the Certificates pursuant to the provisions of the Trust Agreement, deliver a copy of such report, notice or correspondence to the Insurer.

(g) The District shall provide the Insurer with all information furnished pursuant to the Continuing Disclosure Certificate simultaneously with the furnishing of such information.

(h) The Trustee shall notify the Insurer of any failure of the District to provide notices, certificates and other information under the Trust Agreement or the Lease Agreement.

Reserve Policy Provisions. As long as the Reserve Policy shall be in full force and effect, the Trustee agrees to comply with the following provisions:

(a) If, on the fifth Insurance Business Day prior to a Principal Payment Date, Mandatory Sinking Account Payment Date or Interest Payment Date moneys on deposit in the Base Rental Payment Fund, the Interest Fund and/or the Principal Fund, as applicable, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Policy, are insufficient to pay the amount of principal and interest coming due, the Trustee shall give notice to the Reserve Insurer by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day.

(b) The District agrees, to the extent permitted by law, to pay or reimburse the Reserve Insurer any and all charges, fees, costs and expenses which the Reserve Insurer may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with any actions taken to facilitate payments under the Reserve Policy or the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Trust Agreement or the Lease Agreement. For purposes of the foregoing, costs and expenses shall include a reasonable allocation of

compensation with the actions described in the preceding sentence. The District agrees that failure to pay such costs and expenses on a timely basis will result in the accrual of interest on the unpaid amount at the Insurer Rate, compounded semi-annually, from the date that payment is first due to the Reserve Insurer until the date the Reserve Insurer is paid in full. The obligations set forth in this paragraph shall survive discharge or termination of the Trust Agreement and the Lease Agreement.

## **Miscellaneous**

Benefits of Trust Agreement. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Trustee, the Corporation, the District, the Insurer, the Reserve Insurer and the Owners any claim, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term required in the Trust Agreement to be observed or performed by or on behalf of the District or the Corporation shall be for the sole and exclusive benefit of the Trustee, the Corporation, the District, the Insurer, the Reserve Insurer and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Trustee, the Corporation or the District, or any officer thereof, is named or referred to in the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Trustee, the Corporation or the District, or such officer, and all agreements, conditions, covenants and terms required by the Trust Agreement to be observed or performed by or on behalf of the Trustee, the Corporation or the District, or any officer thereof, shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the Registration Books.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer or employee of the District shall be individually or personally liable for the payment of any moneys, including without limitation, the interest or principal evidenced by the Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or by the Trust Agreement.

Acquisition of Certificates by District. All Certificates acquired by the District, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Written Certificate of the District and every Written Certificate of the Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person making or giving such certificate has read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based, (c) a statement that, in the opinion of the signer, the signer has made or caused to be made such examination or investigation as is necessary to enable the signer to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with, and (d) a statement as to whether, in the opinion of the signer, such agreement, condition, covenant or term has been complied with.

Any Written Certificate of the District and any Written Certificate of the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which each person's certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information which is in the possession of the District or the Corporation upon a representation by an officer or officers of the District or the Corporation, as the case may be, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which such counsel's opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Funds and Accounts. Any fund or account required to be established and maintained in the Trust Agreement by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners.

The Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; provided, however, that the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Third-Party Beneficiary. The Insurer is a third-party beneficiary of the Trust Agreement.

Governing Law. The Trust Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX B**

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

[THIS PAGE INTENTIONALLY LEFT BLANK]



**EL DORADO UNION HIGH SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

June 30, 2018

EL DORADO UNION HIGH SCHOOL DISTRICT

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2018  
(Continued)

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION.....	15
STATEMENT OF ACTIVITIES.....	16
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET - GOVERNMENTAL FUNDS.....	17
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET - TO THE STATEMENT OF NET POSITION.....	18
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS.....	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENT OF ACTIVITIES.....	20
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUND.....	22
NOTES TO FINANCIAL STATEMENTS.....	23
REQUIRED SUPPLEMENTARY INFORMATION:	
GENERAL FUND BUDGETARY COMPARISON SCHEDULE.....	51
CAFETERIA FUND - BUDGETARY COMPARISON SCHEDULE.....	52
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY.....	53
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.....	54
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS.....	56
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION.....	58

EL DORADO UNION HIGH SCHOOL DISTRICT

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2018

CONTENTS

SUPPLEMENTARY INFORMATION:	
COMBINING BALANCE SHEET - ALL NON-MAJOR FUNDS.....	59
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - ALL NON-MAJOR FUNDS.....	60
ORGANIZATION.....	61
SCHEDULE OF AVERAGE DAILY ATTENDANCE.....	62
SCHEDULE OF INSTRUCTIONAL TIME.....	63
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS.....	64
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS.....	66
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS - UNAUDITED.....	67
SCHEDULE OF CHARTER SCHOOLS.....	68
NOTES TO SUPPLEMENTARY INFORMATION.....	69
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS.....	71
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	74
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE.....	76
FINDINGS AND RECOMMENDATIONS:	
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS.....	78
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS.....	82

## INDEPENDENT AUDITOR'S REPORT

Board of Education  
El Dorado Union High School District  
Placerville, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of El Dorado Union High School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise El Dorado Union High School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

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

---

(Continued)

## ***Emphasis of Matter***

s discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting for Financial Reporting for Postemployment Benefits Other than Pensions". This resulted in a restatement of the beginning net position of (\$2,876,428). Note disclosures and required supplementary information requirements about OPEB are also discussed. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 14 and other Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule, Cafeteria Fund Budgetary Comparison Schedule, Schedule of Changes in the District's Net Other Postemployment Benefits (OPEB) Liability, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of the District's Contributions on pages 51 to 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise El Dorado Union High School District's basic financial statements. The accompanying Schedule of Expenditure of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

---

(Continued)

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of El Dorado Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering El Dorado Union High School District's internal control over financial reporting and compliance.

**Crowe LLP**  
Crowe LLP

Sacramento, California  
December 13, 2018

# EL DORADO UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

The discussion and analysis of El Dorado Union High School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements and the District's financial statements, as listed in the table of contents.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999.

### **FINANCIAL HIGHLIGHTS**

- General Fund expenditures and other uses exceed revenues and other sources by \$2,887,980 ending the year with a fund balance of \$7.1 million and available reserves of \$4.4 million.
- The total of the District's fixed assets, land, site, buildings and equipment, valued on an acquisition cost basis was \$189 million. After depreciation, the June 30, 2018 book value for fixed assets totaled \$116 million.
- In complying with GASB 68, the District recognized its portion of the unfunded STRS and PERS pension liabilities for the first time in 2014-2015. These liabilities are based on the most recent actuarial valuations. The District's portion of the unfunded STRS and PERS pension liability increased \$5.1 million in 2017-2018 and is reported in the Statement of Net Position.
- With the implementation of GASB 75, the District recognized the entire unfunded net OPEB liability in the current year. This liability is based on the most recent actuarial valuation. The District's unfunded net OPEB liability restated the beginning net position by a reduction of \$2.8 million. The current year activity was an additional decrease of the net OPEB liability of \$0.31 million and is reported in the Statement of Net Position.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

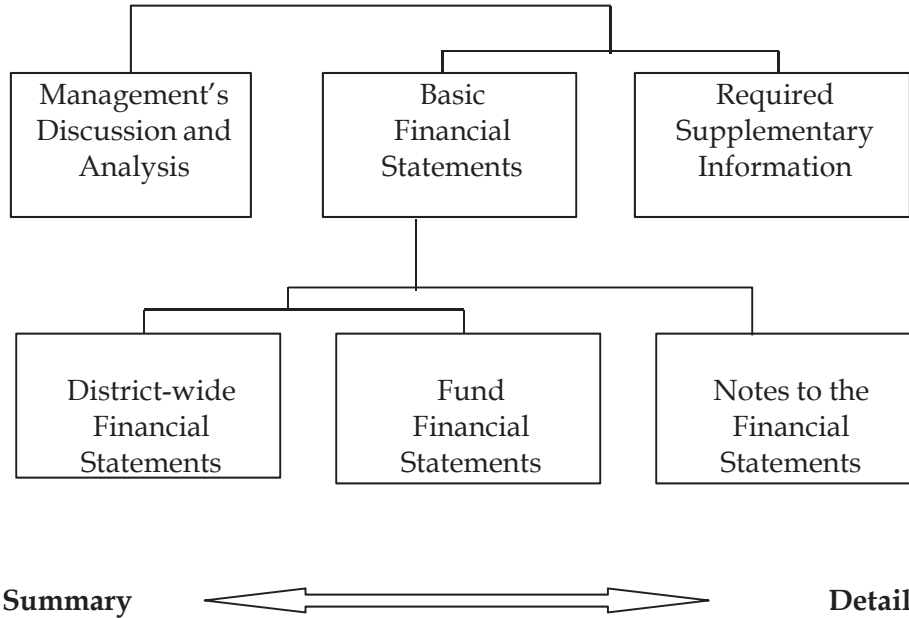
This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand the El Dorado Union High School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Components of the Financial Section**



The first two statements are *district-wide financial statements*, the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in one column. A comparison of the District's general fund budget is included.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.



EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Reporting the School District as a Whole**

*Statement of Net Position and the Statement of Activities*

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2017-2018?"

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- ◆ Increases or decreases in the net position of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- ◆ Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

◆ **Governmental Funds**

All of the District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, Cafeteria Fund, Capital Facilities Fund, Special Reserve for Capital Outlay Projects Fund, El Dorado Schools Financing Authority CFD No. 1 Fund and the Bond Interest and Redemption Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

◆ **Fiduciary Funds**

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

*The District as a Whole*

The District's net position was a deficit \$6.8 million at June 30, 2018. This amount includes an unrestricted deficit of \$65.0 million. Net investment in capital assets, account for \$48.1 million of the total net position. A comparative analysis of government-wide data is presented in Table 1.

**Table 1  
Comparative Statement of Net Position**

	Governmental Activities	
	2018	2017
<b>ASSETS</b>		
Cash	\$ 18,745,055	\$ 17,850,463
Receivables	1,253,210	1,842,179
Prepaid Expenses	462,445	638,483
Stores inventory	7,266	17,473
Capital assets	116,425,907	118,260,283
Total assets	136,893,883	138,608,881
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows on pensions	21,453,683	13,835,582
Deferred payments on debt refunding	523,864	557,661
Total deferred outflows of resources	21,977,547	14,393,243
<b>LIABILITIES</b>		
Accounts payable	1,628,311	1,823,446
Unearned revenue	83,703	59,051,
Long-term liabilities	156,621,509	149,647,433
Total liabilities	158,333,523	151,532,930
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows on pensions	7,316,000	2,808,000
<b>NET POSITION</b>		
Net investment in capital assets	48,077,479	45,560,059
Restricted	10,182,445	10,020,499
Unrestricted (deficit)	(65,038,017)	(56,919,364)
Total net position	\$ (6,778,093)	\$ (1,338,806)

EL DORADO UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)**

The District's net position decreased \$2.6 million this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 70% of total expenses. The administrative activities of the District accounted for 6% of total costs. The remaining 24% was spent in the areas of plant services and other expenses, interest on long-term debt, other outgo and unallocated depreciation expense. (See Figure 2).

**Table 2  
Comparative Statement of Change in Net Position**

	Governmental Activities	
	2018	2017
<b>REVENUES</b>		
Program revenues	\$ 15,713,685	\$ 13,585,332
General revenues		
Taxes levied for general purposes	32,228,536	30,327,807
Taxes levied for debt service	3,941,555	4,046,035
Taxes levied for other specific purposes	1,954,198	1,914,910
Federal and State aid not restricted to specific purposes	28,919,685	29,838,619
Interest and investment earnings	72,385	51,300
Interagency revenues	64,519	53,331
Miscellaneous	974,418	1,555,229
Total revenues	<u>83,868,981</u>	<u>81,372,663</u>
<b>EXPENSES</b>		
Instruction	42,135,420	41,370,841
Instruction related services	8,178,435	8,128,672
Pupil support services	10,534,271	10,982,537
General administration	4,787,082	4,571,138
Plant services	9,021,113	8,824,985
Other	11,775,519	11,962,501
Total expenses	<u>86,431,840</u>	<u>85,840,674</u>
Total expenses	<u>\$ (2,562,859)</u>	<u>\$ (4,468,011)</u>

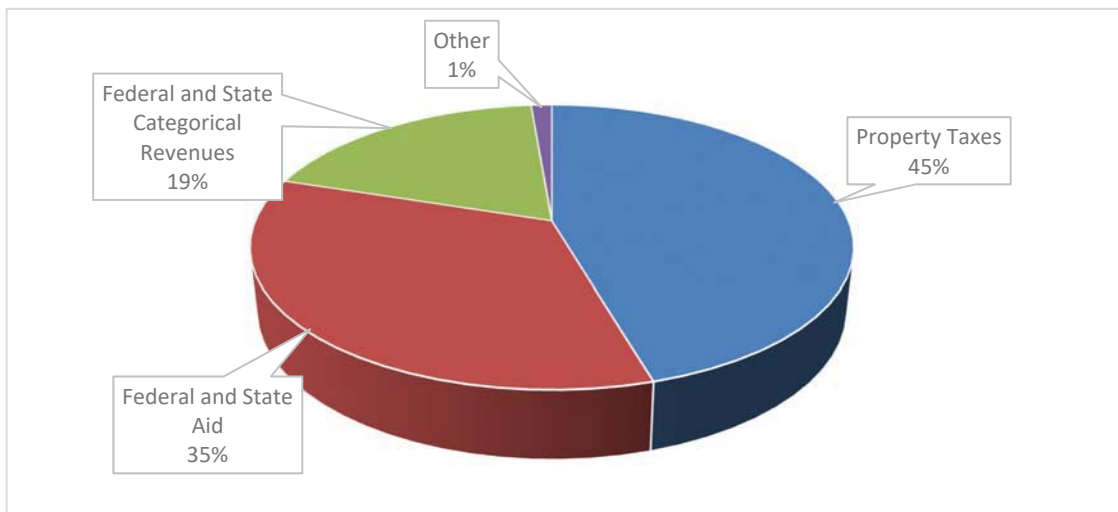
EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)**

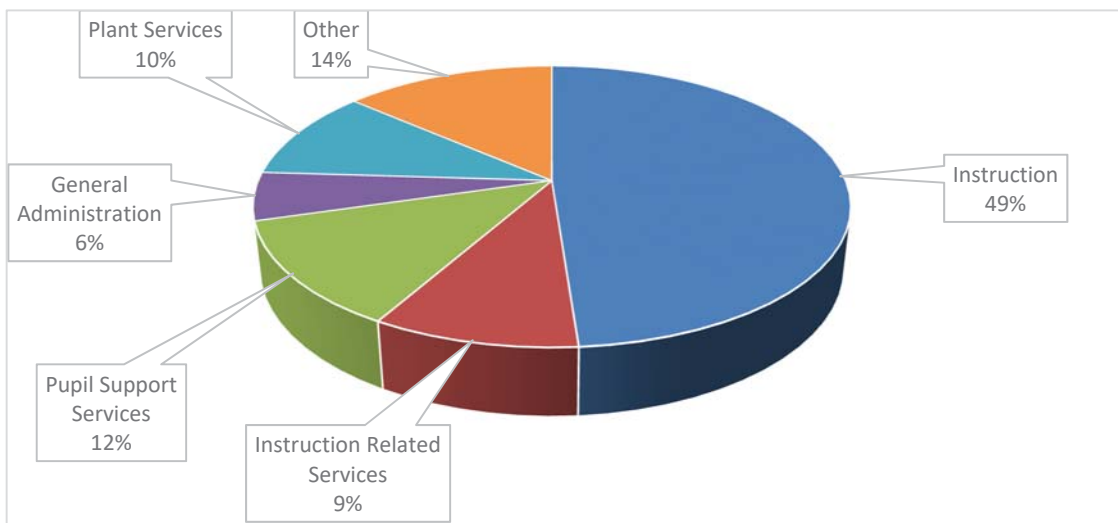
**Governmental Activities**

As reported in the Statement of Activities, the revenues of all of the District's governmental activities this year was \$83.9 million. The amount that our local taxpayers financed for these activities through property taxes was \$38.1 million. Federal and State aid not restricted to specific purposes totaled \$28.9 million. State and Federal Categorical revenue totaled \$15.7 million. Other miscellaneous revenues and interest totaled \$1.1 million (See Figure 1).

**Sources of Revenue for the 2017-2018 Fiscal Year**  
**Figure 1**



**Expenses for the 2017-2018 Fiscal Year**  
**Figure 2**



EL DORADO UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**FINANCIAL ANALYSIS OF THE FUND STATEMENTS**

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$19.7 million, an increase of \$0.25 million from the previous fiscal year. The General Fund balance decreased \$2.9 million.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget on a regular basis. The significant budget adjustments fell into the following categories:

- Budget revisions to the adopted budget required after approval of the State budget.
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The final revised budget for the General Fund reflected a net decrease to the ending balance of \$2.9 million.

The District ended the year with \$7.1 million in the General Fund ending balance, of which \$2.3 million is reserved for economic uncertainties and \$2.1 million is undesignated. The remaining balance is made up of restricted and assigned fund balances. The State recommends an ending reserve for economic uncertainties of 3 percent of total expenditures and other outgo. The District's ending reserve for economic uncertainties for 2017-2018 was 5.7 percent.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of the 2017-2018 fiscal year, the District had invested \$189.2 million in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. The capital assets net of depreciation were \$116.4 million at June 30, 2018, which is a decrease of \$1.8 million from the previous year.

EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

**Capital Assets (Concluded)**

**Table 3  
Comparative Schedule of Capital Assets  
(net of depreciation)  
June 30, 2018 and 2017**

	2018	2017	Difference Increase (Decrease)
Land	\$ 3,518,854	\$ 3,518,854	\$ -
Site Improvements	9,825,632	10,723,637	(898,005)
Buildings	98,425,892	98,392,088	33,804
Machinery and Equipment	3,966,531	3,204,301	762,230
Work in Process	688,998	2,421,402	(1,732,404)
Totals	\$ 116,425,907	\$ 118,260,282	\$ (1,834,375)

Current year additions include the completion of various projects at various sites and purchases of various equipment items. Work in Process was completed on multiple projects and was capitalized.

**Long-Term Debt**

At June 30, 2018, the District had \$156.6 million in long-term debt outstanding.

**Table 4  
Comparative Schedule of Outstanding Debt  
June 30, 2018 and 2017**

	2018	2017, restated
General Obligation Bonds	\$ 61,901,010,	\$ 64,179,904
Accreted interest	6,580,888	5,698,648
Unamortized premiums	3,162,490	3,360,146
Certificates of Participation	6,461,379	6,902,147
Capitalized lease obligation	964,795	-
Other postemployment benefits	2,836,736	2,867,817
Compensated absences	758,211	706,199
Net pension liability	73,956,000	68,809,000
Totals	\$ 156,621,509	\$ 152,523,861

EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

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

**Long-Term Debt (Concluded)**

The District's share of the STRS and PERS unfunded liability increased \$5.1 million in 2017-2018. Additionally, with the implementation of GASB 75, the District's beginning net OPEB liability was restated by an increase of \$2.9 million to a balance of \$2.9.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

State funding for schools is governed largely by Proposition 98, passed by voters in 1988 and modified in 1990. Economic indicators such as energy prices, interest rates and unemployment rate remain positive although there are signs that the economy is slowing. California has enjoyed steady General Fund growth since 2008-09. The current economic expansion is currently in its 113<sup>st</sup> month (as of November 2018) the second longest in history. However, unlike previous expansions, growth in the Gross Domestic Product (GDP) has not exceeded 3% in any month during this time. The condition of the state budget depends on many volatile and unpredictable economic conditions including fluctuations in the stock market.

On November 8<sup>th</sup>, 2016 the voters of California approved Proposition 55 which extended taxes upon the top wage earners in California. While this brings additional revenue into the state's coffers, it does mean that state remains reliant on a volatile source of revenue contingent upon the good fortunes of the top 1% income earners. Overall, the state appears to have adequate reserves to cover a mild recession, when it occurs, without having to cut funding to schools although the legislature and the Governor would have the final say on any cuts to state funding.

For El Dorado Union High School District, the focus in FY 2017-18 was the continued comprehensive process to reach out to various stakeholders to review and evaluate progress on the local control and accountability plan (LCAP). The LCAP is now the most important consideration in the allocation of resources. As such, it is the blueprint that enables the Board and staff to achieve its goal of improving student achievement.



EL DORADO UNION HIGH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

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

The District, much like all districts in California, is facing severe pressure from rising pension costs. For EDUHSD, this resulted in an annual increased cost of over \$760,000. The District completed the year with a decrease in fund balance of \$2,888,000 as a result of its operations and an ending Fund Balance of \$7,145,000. The structural deficit appears to have been negated although the district still needs to take proactive measures to reduce expenses. One such measure is the upcoming implementation of solar energy at each of the four comprehensive school sites. This could generate significant savings on an ongoing basis. Additionally the district is also in the planning stages of enacting an energy savings program to further realize savings. There is some positive news in the short term on the enrollment front as the latest demographic report projects an increase in enrollment of 152 students over the next three years.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, 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 additional financial information, please contact Marti Zizek, Director of Fiscal Services, El Dorado Union High School District at [mzizek@eduhsd.net](mailto:mzizek@eduhsd.net).

## **BASIC FINANCIAL STATEMENTS**

EL DORADO UNION HIGH SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2018

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 18,745,055
Receivables	1,253,210
Prepaid expenses	462,445
Stores inventory	7,266
Non-depreciable capital assets (Note 4)	4,207,852
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>112,218,055</u>
Total assets	<u>136,893,883</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources - refunding debt	523,864
Deferred outflows of resources - pensions (Notes 7 and 8)	<u>21,453,683</u>
Total deferred outflows of resources	<u>21,977,547</u>
<b>LIABILITIES</b>	
Accounts payable	1,628,311
Unearned revenue	83,703
Long-term liabilities (Note 5):	
Due within one year	2,604,897
Due after one year	<u>154,016,612</u>
Total liabilities	<u>158,333,523</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources - pensions (Notes 7 and 8)	<u>7,316,000</u>
<b>NET POSITION</b>	
Net investment in capital assets	48,077,479
Restricted:	
Legally restricted programs	1,731,463
Capital projects	4,732,544
Debt service	3,718,438
Unrestricted	<u>(65,038,017)</u>
Total net position	<u>\$ (6,778,093)</u>

See accompanying notes to financial statements.

EL DORADO UNION HIGH SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction	\$ 42,135,420	\$ 157,499	\$ 6,361,542	\$ 2,117,150	\$ (33,499,229)
Instruction-related services:					
Supervision of instruction	1,978,709	3,617	414,468	-	(1,560,624)
Instructional library, media and technology	815,158	199	34,634	-	(780,325)
School site administration	5,384,568	-	274,656	-	(5,109,912)
Pupil services:					
Home-to-school transportation	2,206,184	187	4,470	-	(2,201,527)
Food services	1,725,939	980,644	617,208	-	(128,087)
All other pupil services	6,602,148	86	721,171	-	(5,880,891)
General administration:					
Data processing	753,954	-	-	-	(753,954)
All other general administration	4,033,128	67,772	273,613	-	(3,691,743)
Plant services	9,021,113	73,776	505,461	-	(8,441,876)
Ancillary services	1,299,654	23,263	72,157	-	(1,204,234)
Community services	31,583	-	-	-	(31,583)
Other outgo	1,495,151	1,459,153	1,550,959	-	1,514,961
Depreciation (unallocated) (Note 4)	5,665,049	-	-	-	(5,665,049)
Interest on long-term liabilities	3,284,082	-	-	-	(3,284,082)
	<u>\$ 86,431,840</u>	<u>\$ 2,766,196</u>	<u>\$ 10,830,339</u>	<u>\$ 2,117,150</u>	<u>(70,718,155)</u>
Total governmental activities					
	<u>\$ 86,431,840</u>	<u>\$ 2,766,196</u>	<u>\$ 10,830,339</u>	<u>\$ 2,117,150</u>	<u>(70,718,155)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					32,228,536
Taxes levied for debt service					3,941,555
Taxes levied for other specific purposes					1,954,198
Federal and state aid not restricted to specific purposes					28,919,685
Interest and investment earnings					72,385
Interagency revenues					64,519
Miscellaneous					974,418
					<u>68,155,296</u>
Total general revenues					<u>68,155,296</u>
Change in net position					<u>(2,562,859)</u>
Net position, July 1, 2017					(1,338,806)
Cumulative affect of the implementation of GASB 75					<u>(2,876,428)</u>
Net position, July 1, 2017, as restated					<u>(4,215,234)</u>
Net position, June 30, 2018					<u>\$ (6,778,093)</u>

See accompanying notes to financial statements.

EL DORADO UNION HIGH SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

	General Fund	Cafeteria Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	El Dorado Schools Financing Authority CFD No. 1 Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Govern- mental Funds
<b>ASSETS</b>								
Cash and investments:								
Cash in County Treasury	\$ 6,154,534	\$ 516,263	\$ 2,360,138	\$ 2,246,036	\$ 111,328	\$ 2,909,367	\$ 886	\$ 14,298,552
Cash in revolving fund	16,665	3,385	-	-	-	-	-	20,050
Cash with Fiscal Agent	-	-	-	-	3,617,382	-	809,071	4,426,453
Receivables	1,165,043	68,618	-	-	19,549	-	-	1,253,210
Prepaid expenditures	462,445	-	-	-	-	-	-	462,445
Stores inventory	7,266	-	-	-	-	-	-	7,266
Due from other funds	68,868	-	-	886	-	-	-	69,754
	<u>7,874,821</u>	<u>588,266</u>	<u>2,360,138</u>	<u>2,246,922</u>	<u>3,748,259</u>	<u>2,909,367</u>	<u>809,957</u>	<u>20,537,730</u>
Total assets	<u>\$ 7,874,821</u>	<u>\$ 588,266</u>	<u>\$ 2,360,138</u>	<u>\$ 2,246,922</u>	<u>\$ 3,748,259</u>	<u>\$ 2,909,367</u>	<u>\$ 809,957</u>	<u>\$ 20,537,730</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable	\$ 700,775	\$ 13,838	\$ 4,188	\$ 1,205	\$ -	\$ -	\$ -	\$ 720,006
Unearned revenue	29,214	54,489	-	-	-	-	-	83,703
Due to other funds	-	68,868	-	-	-	-	886	69,754
	<u>729,989</u>	<u>137,195</u>	<u>4,188</u>	<u>1,205</u>	<u>-</u>	<u>-</u>	<u>886</u>	<u>873,463</u>
Total liabilities	<u>729,989</u>	<u>137,195</u>	<u>4,188</u>	<u>1,205</u>	<u>-</u>	<u>-</u>	<u>886</u>	<u>873,463</u>
Fund balances:								
Nonspendable	486,376	3,385	-	-	-	-	-	489,761
Restricted	1,280,392	447,686	2,355,950	2,245,717	3,748,259	2,909,367	809,071	13,796,442
Assigned	1,015,539	-	-	-	-	-	-	1,015,539
Unassigned	4,362,525	-	-	-	-	-	-	4,362,525
	<u>7,144,832</u>	<u>451,071</u>	<u>2,355,950</u>	<u>2,245,717</u>	<u>3,748,259</u>	<u>2,909,367</u>	<u>809,071</u>	<u>19,664,267</u>
Total fund balances	<u>7,144,832</u>	<u>451,071</u>	<u>2,355,950</u>	<u>2,245,717</u>	<u>3,748,259</u>	<u>2,909,367</u>	<u>809,071</u>	<u>19,664,267</u>
Total liabilities and fund balances	<u>\$ 7,874,821</u>	<u>\$ 588,266</u>	<u>\$ 2,360,138</u>	<u>\$ 2,246,922</u>	<u>\$ 3,748,259</u>	<u>\$ 2,909,367</u>	<u>\$ 809,957</u>	<u>\$ 20,537,730</u>

See accompanying notes to financial statements.

EL DORADO UNION HIGH SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -  
TO THE STATEMENT OF NET POSITION  
June 30, 2018

Total fund balances - Governmental Funds \$ 19,664,267

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$189,243,765 and the accumulated depreciation is \$72,817,858 (Note 4). 116,425,907

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements, it is recognized in the period that it is incurred. (908,305)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2018 consisted of (Note 5):

General Obligation Bonds	\$ (61,901,010)	
Accreted interest	(6,580,888)	
Unamortized premiums	(3,162,490)	
Certificates of Participation	(6,461,379)	
Capitalized lease obligation	(964,795)	
Net OPEB liability (Note 9)	(2,836,736)	
Net pension liability (Notes 7 and 8)	(73,956,000)	
Compensated absences	<u>(758,211)</u>	
		(156,621,509)

Losses on the refunding of debt are recognized as expenditures in the period they are incurred. In the government-wide statements, they are categorized as deferred outflows and are amortized over the life of the related debt. 523,864

In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 7 and 8).

Deferred outflows of resources relating to pensions	\$ 21,453,683	
Deferred inflows of resources relating to pensions	<u>(7,316,000)</u>	
		<u>14,137,683</u>

Total net position - governmental activities \$ (6,778,093)

See accompanying notes to financial statements.

EL DORADO UNION HIGH SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

	General Fund	Cafeteria Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	El Dorado Schools Financing Authority CFD No. 1 Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Govern- mental Funds
Revenues:								
Local Control Funding Formula (LCFF):								
State apportionment	\$ 26,973,542	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,973,542
Local sources	<u>31,708,155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,708,155</u>
Total LCFF	<u>58,681,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,681,697</u>
Federal sources	1,866,363	593,069	-	-	-	-	-	2,459,432
Other state sources	6,368,782	45,104	-	-	-	-	2,117,150	8,531,036
Other local sources	<u>5,580,093</u>	<u>1,029,913</u>	<u>1,767,035</u>	<u>61,885</u>	<u>1,982,299</u>	<u>3,958,524</u>	<u>3,380</u>	<u>14,383,129</u>
Total revenues	<u>72,496,935</u>	<u>1,668,086</u>	<u>1,767,035</u>	<u>61,885</u>	<u>1,982,299</u>	<u>3,958,524</u>	<u>2,120,530</u>	<u>84,055,294</u>
Expenditures:								
Current:								
Certificated salaries	32,204,750	-	-	-	-	-	-	32,204,750
Classified salaries	11,876,006	723,747	33,289	-	-	-	-	12,633,042
Employee benefits	17,109,069	206,325	11,557	-	-	-	-	17,326,951
Books and supplies	3,002,926	586,294	314	207,484	-	-	-	3,797,018
Contract services and operating expenditures	8,238,383	126,269	86,958	53,137	57,060	-	-	8,561,807
Other outgo	1,495,151	-	-	-	-	-	-	1,495,151
Capital outlay	2,492,334	17,758	61,750	794,555	56,750	-	-	3,423,147
Debt service:								
Principal retirement	-	-	-	-	-	2,278,894	440,768	2,719,662
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,244,760</u>	<u>361,545</u>	<u>2,606,305</u>
Total expenditures	<u>76,418,619</u>	<u>1,660,393</u>	<u>193,868</u>	<u>1,055,176</u>	<u>113,810</u>	<u>4,523,654</u>	<u>802,313</u>	<u>84,767,833</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(3,921,684)</u>	<u>7,693</u>	<u>1,573,167</u>	<u>(993,291)</u>	<u>1,868,489</u>	<u>(565,130)</u>	<u>1,318,217</u>	<u>(712,539)</u>
Other financing sources (uses):								
Transfers in	68,909	-	-	2,118,036	-	-	802,313	2,989,258
Transfers out	-	(68,909)	(655,290)	-	(147,023)	-	(2,118,036)	(2,989,258)
Proceeds from capital leases	<u>964,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>964,795</u>
Total other financing sources (uses)	<u>1,033,704</u>	<u>(68,909)</u>	<u>(655,290)</u>	<u>2,118,036</u>	<u>(147,023)</u>	<u>-</u>	<u>(1,315,723)</u>	<u>964,795</u>
Change in fund balances	(2,887,980)	(61,216)	917,877	1,124,745	1,721,466	(565,130)	2,494	252,256
Fund balances, July 1, 2017	<u>10,032,812</u>	<u>512,287</u>	<u>1,438,073</u>	<u>1,120,972</u>	<u>2,026,793</u>	<u>3,474,497</u>	<u>806,577</u>	<u>19,412,011</u>
Fund balances, June 30, 2018	<u>\$ 7,144,832</u>	<u>\$ 451,071</u>	<u>\$ 2,355,950</u>	<u>\$ 2,245,717</u>	<u>\$ 3,748,259</u>	<u>\$ 2,909,367</u>	<u>\$ 809,071</u>	<u>\$ 19,664,267</u>

See accompanying notes to financial statements.

EL DORADO UNION HIGH SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
 TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2018

---

Net change in fund balances - Total Governmental Funds	\$	252,256
Amounts reported for governmental activities in the statement of activities are different because:		
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	\$	3,510,691
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).		(5,665,049)
Donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets at their fair value on the date of donation (Note 4).		319,983
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 5).		2,719,662
Issuance of long-term liabilities is an other financing source in governmental funds, but increase the long-term liabilities in the statement of net position (Note 5).		(964,795)
Accreted interest is not accrued in the governmental funds, but is recognized over the life of the debt in the government-wide financial statements (Note 5).		(882,240)
Unmatured interest on long-term liabilities is not recorded in the governmental funds until it becomes due, but increases the liabilities in the statement of net position.		40,605

---

(Continued)



EL DORADO UNION HIGH SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

---

In governmental funds, debt issued at a premium is recognized as an other financing source in the year of issuance. In the government-wide statements, debt issued at a premium is amortized as interest over the life of the debt (Note 5).	\$	197,656	
In government-wide statements, any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Deferred gain or loss from debt refunding, for the period is:		(33,798)	
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		(2,036,899)	
In the statement of activities, expenses related to the net OPEB liability and compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Notes 5 and 9)		<u>(20,931)</u>	<u>(2,815,115)</u>
Change in net position of governmental activities			<u>\$ (2,562,859)</u>

---

See accompanying notes to financial statements.

EL DORADO UNION HIGH SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUND  
June 30, 2018

---

	<u>Student Body</u>
<b>ASSETS</b>	
Cash and investments (Note 2):	
Cash on hand and in banks	<u>\$ 866,389</u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 866,389</u>

---

See accompanying notes to financial statements.

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

El Dorado Union High School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

Reporting Entity: The Board of Trustees is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

El Dorado Schools Financing Community Facilities District: The El Dorado Schools Financing Community Facilities District No. 1 (Agency) was formed by a Joint Powers Agreement among the Rescue Union School District, Buckeye Union School District and El Dorado Union High School District pursuant to the Mello-Roos Community Facilities Act of 1982. The Agency was formed for the purpose of administering special taxes for its member districts. The Agency has no employees or property and equipment, and its powers are limited to the implementation of the Mello-Roos financing plan contemplated in the Joint Powers Agreement.

The following are those aspects of the relationship between the District and the Agency, which satisfy GASB Codification Section 2100 criteria.

*Manifestations of Oversight*

The Agency is governed by an elected board consisting of one representative from each member district. Board members are elected by the participating districts' governing boards and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Oversight responsibility; the ability to conduct independent financial affairs, issue debt instruments, approve budgets, sign contracts, levy taxes, and otherwise influence operations and account for fiscal matters, is exercised by the Agency's Governing Board. Accordingly, the Agency is considered to be a separate legal entity from the school district, but the District's financial statements must include the Mello-Roos activity as a component unit. This information is presented in these financial statements as the El Dorado Schools Financing Authority CFD No. 1 Fund.

El Dorado Union High School District Financing Corporation: The El Dorado Union High School District Financing Corporation (Corporation) is a nonprofit, public benefits corporation, incorporated under the laws of the State of California and recorded by the Secretary of State in 1991. The Corporation was formed for the sole purpose of providing financial assistance to the district by financing the design, development, acquisition, construction, improvement and remodeling of facilities and equipment, together with site acquisition, development, landscaping, utilities, furnishings, improvements, parking and all appurtenant and related facilities. When the Corporation's Certificates of Participation have been paid with State reimbursements or other available District funds, title to all Corporation property will pass to the District for no additional consideration.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The following are those aspects of the relationship between the District and the Corporation, which satisfy GASB Codification Section 2100 criteria.

*Manifestations of Oversight*

The Corporation is governed by the elected Board of Trustees of the El Dorado Union High School District ex officio. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. The Corporation has no employees. The District's Superintendent and Associate Superintendent of Business Services function as agents of the Corporation. Neither individual receives additional compensation for work performed in this capacity. The District exercises significant influence over operations of the Corporation as it is anticipated that the District will always be the sole lessee of all facilities owned by the Corporation. All major financing arrangements, contracts and financial transactions of the Corporation must have the consent of the District.

*Accountability for Fiscal Matters*

It is anticipated that the District's lease payments will be the sole revenue source of the Corporation. Any deficit incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

*Scope of Public Service*

The Corporation was created for the sole purpose of financially assisting the District. The District has entered into a long-term agreement with the Corporation whereby the Corporation leases land from the District; and, the District occupies the facilities (a portion of the El Dorado Union High School District) under a lease-purchase agreement with the Corporation. The District's annual lease payments are factored to meet the Corporation's operating expenses and bond retirement costs.

Accordingly, the Corporation is considered to be a separate legal entity from the school district, but the District's financial statements must include the related financing activities as a component unit. This information is presented in these financial statements as the El Dorado Union High School District Financing Corporation Debt Service Fund.

Basis of Presentation - Financial Statements: The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position at the fund financial statement level.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

*Program revenues:* Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

*Allocation of indirect expenses:* The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense and interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting: The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

A - Major Funds

*General Fund:* The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. The activities of the Deferred Maintenance Fund been included in the General Fund for financial reporting purposes.

*Cafeteria Fund:* The Cafeteria Fund is a special revenue fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

*Capital Facilities Fund:* The Capital Facilities Fund is a capital projects fund used to account for resources used for the acquisition or construction of capital facilities by the District.

*Special Reserve Fund for Capital Outlay Projects:* The Special Reserve Fund for Capital Outlay Projects is a capital projects fund used to account for resources assigned to improvements and maintenance projects as determined by the Governing Board of the District.

*El Dorado Schools Financing Authority CFD No. 1 Fund:* The El Dorado Schools Financing Authority CFD No. 1 Fund is a capital projects fund used to account for resources used for the acquisition or construction of capital facilities by the District.

*Bond Interest and Redemption Fund:* The Bond Interest and Redemption Fund is a debt service fund used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B - Other Funds**

*County School Facilities Fund:* The County School Facilities Fund is a capital projects fund used primarily to account for new school facility construction, modernization projects, and facility hardship grants.

*El Dorado Union High School District Financing Corporation-Debt Service Fund:* The El Dorado Union High School District Financing Corporation Debt Service Fund is a debt service fund used to account for the financing of resources used for the acquisition or construction of capital facilities by the District.

*Agency Funds:* The Student Body Funds are used to account for revenues and expenditures of the various student body organizations. All cash activity, assets and liabilities of the various student bodies of the District are accounted for in Student Body Funds.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual: The governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting: By state law, the Board of Trustees must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Trustees complied with these requirements.

Receivables: Receivables are made up principally of amounts due from the State of California and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2018.

Stores Inventory: Inventories in the General and Cafeteria Funds are valued at average cost. Inventory recorded in the General and Cafeteria Funds consists mainly of school supplies and consumable supplies. Inventories are recorded as an expenditure at the time the individual inventory items are transferred from the warehouse to schools and offices.

Capital Assets: Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at acquisition value for the contributed asset. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 50 years depending on asset types.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the net pension liability reported in the Statement of Net Position.

Deferred Outflows/Inflows of Resources: In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the net pension liability reported which is in the Statement of Net Position.

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

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 14,895,871</u>	<u>\$ 6,557,812</u>	<u>\$ 21,453,683</u>
Deferred inflows of resources	<u>\$ 6,160,000</u>	<u>\$ 1,156,000</u>	<u>\$ 7,316,000</u>
Net pension liability	<u>\$ 52,447,000</u>	<u>\$ 21,509,000</u>	<u>\$ 73,956,000</u>
Pension expense	<u>\$ 7,668,321</u>	<u>\$ 3,725,424</u>	<u>\$ 11,393,745</u>

Compensated Absences: Compensated absences totaling \$758,211 are recorded as a liability of the District. The liability is for the earned but unused benefits.

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

Unearned Revenue: Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

---

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Position: Net position is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents the portion of net position restricted to specific program expenditures. The restriction for capital projects represents the portion of net position restricted for capital projects. The restriction for debt service represents the portion of net position available for the retirement of debt. It is the District's policy to use restricted net position first when allowable expenditures are incurred.
3. Unrestricted Net Position – All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

Fund Balance Classifications: Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, prepaid expenditures and stores inventory.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide statements.

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Trustees. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Trustees is required to remove any commitment from any fund balance. At June 30, 2018, the District had no committed fund balances.

---

(Continued)



EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Balance Classifications:

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Trustees has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Trustees can designate personnel with the authority to assign fund balances. The Chief Business Official of the District has been given authority to assign fund balances.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy: The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Trustees. At June 30, 2018, the District has established a minimum General Fund fund balance policy of 3% of General Fund total outgo.

Property Taxes: Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of El Dorado bills and collects taxes for the District. Tax revenues are recognized by the District when received.

Encumbrances: Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. All encumbrances are liquidated as of June 30.

Eliminations and Reclassifications: In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates: The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

New Accounting Pronouncement: In June 2015, the Government Accounting Standards Board (GASB) issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers about financial support for OPEB that is provided by other entities. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on the implementation of Statement No. 75, the District's July 1, 2017 net position was restated by (\$2,876,428) because of the recognition of the net OPEB liability.

**NOTE 2 - CASH AND INVESTMENTS**

Cash and investments at June 30, 2018 are reported at fair value and consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Pooled Fund:		
Cash in County Treasury	\$ 14,298,552	\$ -
Deposits:		
Cash on hand and in banks	-	866,389
Cash in revolving fund	20,050	-
Investments:		
Cash with Fiscal Agent	<u>4,426,453</u>	<u>-</u>
Total cash and investments	<u>\$ 18,745,055</u>	<u>\$ 866,389</u>

Pooled Funds: In accordance with Education Code Section 41001, the Office of Education maintains substantially all of its cash in the interest bearing El Dorado County Treasurer's Pooled Investment Fund. The Office of Education is considered to be an involuntary participant in an external investment pool. The fair value of the Office of Education's investment in the pool is reported in the financial statements at amounts based upon the Office of Education's prorata 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.

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2018, the carrying amount of the District's accounts was \$886,439 and the bank balance was \$794,645, of which, \$30,193 was uninsured.

Investments: The Cash with Fiscal Agent of \$4,426,453 in the El Dorado Schools Financing Authority CFD No. 1 and EDUHSD Financing Corporation Debt Service Funds represents debt proceeds that have been set aside for capital projects and the repayment of long-term liabilities. These amounts are held by a third party custodian in the District's name.

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the District had no significant interest rate risk related to cash and investments held.

Credit Risk: The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had no concentration of credit risk.

**NOTE 3 - INTERFUND TRANSACTIONS**

Interfund Activity: Transactions between funds of the District are recorded as transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

Interfund Receivables/Payables: Individual interfund receivable and payable balances at June 30, 2018 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 68,868	\$ -
Cafeteria Fund	-	68,868
Special Reserve for Capital Outlay Projects Fund	886	-
Non-Major Fund:		
County School Facilities Fund	-	886
Totals	\$ 69,754	\$ 69,754

Transfers: Transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Transfers for the 2017-2018 fiscal year were as follows:

Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Projects Fund for excess local portion of a closed modernization project.	\$ 2,118,036
Transfer from the Cafeteria Fund to the General Fund for transfer of indirect costs.	68,909
Transfer from the Capital Facilities Fund to the EDUHSD Financing Corporation Debt Service Fund for transfer of debt service payment activities.	655,290
Transfer from the El Dorado Schools Financing Authority CFD No. 1 Fund to the EDUHSD Financing Corporation Debt Service Fund for transfer of debt service payment activities.	147,023
	\$ 2,989,258

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 4 - CAPITAL ASSETS**

A schedule of changes in capital assets for the year ended June 30, 2018 is shown below:

	Balance July 1, <u>2017</u>	Transfers and <u>Additions</u>	Transfers and <u>Deductions</u>	Balance June 30, <u>2018</u>
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 3,518,854	\$ -	\$ -	\$ 3,518,854
Work-in-process	2,421,402	-	1,732,404	688,998
Depreciable:				
Buildings	147,936,838	4,209,723	-	152,146,561
Equipment	11,435,548	1,319,218	423,344	12,331,422
Site improvements	<u>20,523,793</u>	<u>34,137</u>	<u>-</u>	<u>20,557,930</u>
Totals, at cost	<u>185,836,435</u>	<u>5,563,078</u>	<u>2,155,748</u>	<u>189,243,765</u>
Less accumulated depreciation:				
Buildings	(49,544,750)	(4,175,919)	-	(53,720,669)
Equipment	(8,231,247)	(556,988)	(423,344)	(8,364,891)
Site improvements	<u>(9,800,156)</u>	<u>(932,142)</u>	<u>-</u>	<u>(10,732,298)</u>
Total accumulated depreciation	<u>(67,576,153)</u>	<u>(5,665,049)</u>	<u>(423,344)</u>	<u>(72,817,858)</u>
Capital assets, net	<u>\$ 118,260,282</u>	<u>\$ (101,971)</u>	<u>\$ 1,732,404</u>	<u>\$ 116,425,907</u>

Depreciation expense was charged to governmental activities as follows:

Depreciation - unallocated	<u>\$ 5,665,049</u>
----------------------------	---------------------

**NOTE 5 - LONG-TERM LIABILITIES**

General Obligation Bonds: The District has three outstanding bond issuances from prior years. These outstanding obligations are comprised of current interest and capital appreciation bonds, bear interest between 2.00 and 8.00 percent and are scheduled to mature at various times through August 1, 2042.

The District has defeased various General Obligation Bonds issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the advanced refunding met the requirements of an in-substance debt defeasance and was, therefore, removed as liability from the District's government-wide financial statements. As of June 30, 2018, all refunded issuances have been fully repaid.

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 5 - LONG-TERM LIABILITIES (Continued)**

	Interest Rate %	Maturity Date Ending August 1	Amount of Original Issue	Outstanding July 1, 2017	Issued (Redeemed) Current Year	Outstanding June 30, 2018
Series 2010	2.00%- 4.50%	2035	\$ 17,300,000	\$ 16,165,000	\$ (515,000)	\$ 15,650,000
Series 2012	2.00%- 5.45%	2042	14,999,904	14,819,904	(123,894)	14,696,010
Series 2016 (refunding)	2.00%- 5.00%	2034	<u>33,195,000</u>	<u>33,195,000</u>	<u>(1,640,000)</u>	<u>31,555,000</u>
			<u>\$ 65,494,904</u>	<u>\$ 64,179,904</u>	<u>\$ (2,278,894)</u>	<u>\$ 61,901,010</u>

The annual requirements to amortize the general obligation bonds payable, outstanding as of June 30, 2018 are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,648,589	\$ 2,164,018	\$ 3,812,607
2020	1,725,118	2,113,415	3,838,533
2021	1,877,491	2,060,092	3,937,583
2022	2,061,766	1,977,817	4,039,583
2023	2,298,815	1,887,818	4,186,633
2024-2028	10,105,821	8,169,060	18,274,881
2029-2033	15,565,156	5,851,677	21,416,833
2034-2038	16,263,449	10,381,626	26,645,075
2039-2043	<u>10,354,805</u>	<u>19,556,445</u>	<u>29,911,250</u>
	<u>\$ 61,901,010</u>	<u>\$ 54,161,968</u>	<u>\$ 116,062,978</u>

Certificates of Participation (COP): The District has one outstanding certificates of participation from prior years. This outstanding certificate is comprised of current interest and capital appreciation certificates, bears interest between 3.75 and 7.625 percent and is scheduled to mature at various times through August 1, 2039.

The District has defeased various certificates of participation by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the advance refunding met the requirements of an in-substance debt defeasance and therefore the unearned debt was removed as a liability from the District's government-wide financial statements. As of June 30, 2018, all refunded issuances have been fully repaid.

	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2017	Issued (Redeemed) Current Year	Outstanding June 30, 2018
Series 2009	3.75%- 7.625%	2039	<u>\$ 9,004,154</u>	<u>\$ 6,902,147</u>	<u>\$ (440,768)</u>	<u>\$ 6,461,379</u>

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 5 - LONG-TERM LIABILITIES** (Continued)

The outstanding certificates of participation at June 30, 2018 are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 405,497	\$ 396,815	\$ 802,312
2020	374,880	427,433	802,313
2021	344,896	457,416	802,312
2022	315,790	486,522	802,312
2023-2027	1,248,852	2,762,711	4,011,563
2028-2032	808,112	3,203,452	4,011,564
2033-2037	748,352	3,260,736	4,009,088
2038-2040	<u>2,215,000</u>	<u>195,931</u>	<u>2,410,931</u>
	<u>\$ 6,461,379</u>	<u>\$ 11,191,016</u>	<u>\$ 17,652,395</u>

Capital Leases: In November 2017, the District entered into a capital lease agreement with Santander Bank for the purchase of six buses. The lease is for \$964,795 to be repaid in 120 monthly installments that represent principal and interest. The following is a summary of future payments on the capital lease:

Year Ending <u>June 30,</u>	<u>Lease Payments</u>
2019	\$ 116,009
2020	116,009
2021	116,009
2022	116,009
2023	116,009
2024-2028	<u>580,045</u>
Total payments	1,160,090
Less amount representing interest	<u>(195,295)</u>
Net present value of minimum payments	<u>\$ 964,795</u>

The capitalized value of the buses under lease was a cost of \$964,795 with an accumulated depreciation of \$36,152 as of June 30, 2018.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 5 - LONG-TERM LIABILITIES** (Continued)

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2018 is shown below:

	Balance July 1, 2017, <u>as Restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2018</u>	Amounts Due Within <u>One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 64,179,904	\$ -	\$ 2,278,894	\$ 61,901,010	\$ 1,648,589
Accreted interest	5,698,648	1,117,578	235,338	6,580,888	270,914
Unamortized premiums	3,360,146	-	197,656	3,162,490	197,656
Certificates of Participation	6,902,147	-	440,768	6,461,379	405,497
Capitalized lease obligation	-	964,795	-	964,795	82,241
Net OPEB liability (Note 9)	2,867,817	-	31,081	2,836,736	-
Net pension liability (Notes 7 and 8)	68,809,000	5,147,000	-	73,956,000	-
Compensated absences	<u>706,199</u>	<u>52,012</u>	<u>-</u>	<u>758,211</u>	<u>-</u>
Total	<u>\$ 152,523,861</u>	<u>\$ 7,281,385</u>	<u>\$ 3,183,737</u>	<u>\$ 156,621,509</u>	<u>\$ 2,604,897</u>

The compensated absences, net pension liability and net OPEB liability will be paid from the General Fund. Payments on the General Obligation Bonds will be made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation will be made from the El Dorado Union High School District Financing Corporation Debt Service Fund and the Capital Facilities Fund.

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 6 - FUND BALANCES**

Fund balances, by category, at June 30, 2018 consisted of the following:

	General Fund	Cafeteria Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	El Dorado Schools Financing Authority CFD No.1 Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
<b>Nonspendable:</b>								
Revolving cash fund	\$ 16,665	\$ 3,385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,050
Prepaid expenditures	462,445	-	-	-	-	-	-	462,445
Stores inventory	7,266	-	-	-	-	-	-	7,266
Subtotal non-spendable	<u>486,376</u>	<u>3,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>489,761</u>
<b>Restricted:</b>								
Legally restricted programs	1,280,392	447,686	-	-	-	-	-	1,728,078
Capital projects	-	-	2,355,950	2,245,717	3,748,259	-	-	8,349,926
Debt service	-	-	-	-	-	2,909,367	809,071	3,718,438
Subtotal restricted	<u>1,280,392</u>	<u>447,686</u>	<u>2,355,950</u>	<u>2,245,717</u>	<u>3,748,259</u>	<u>2,909,367</u>	<u>809,071</u>	<u>13,796,442</u>
<b>Assigned:</b>								
Certificated column increase	75,000	-	-	-	-	-	-	75,000
Medi-Cal Administrative	-	-	-	-	-	-	-	-
Activities funds	378,009	-	-	-	-	-	-	378,009
Site/department carryover	562,530	-	-	-	-	-	-	562,530
Subtotal assigned	<u>1,015,539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,015,539</u>
<b>Unassigned:</b>								
Reserve for economic uncertainty	2,261,600	-	-	-	-	-	-	2,261,600
Undesignated	2,100,925	-	-	-	-	-	-	2,100,925
Subtotal unassigned	<u>4,362,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,362,525</u>
Total fund balances	<u>\$ 7,144,832</u>	<u>\$ 451,071</u>	<u>\$ 2,355,950</u>	<u>\$ 2,245,717</u>	<u>\$ 3,748,259</u>	<u>\$ 2,909,367</u>	<u>\$ 809,071</u>	<u>\$ 19,664,267</u>

(Continued)



## NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

### *General Information about the State Teachers' Retirement Plan*

Plan Description: Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plan may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit (DB) Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

#### *CalSTRS 2% at 60*

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a full time basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

#### *CalSTRS 2% at 62*

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

*Members* - Under CalSTRS 2% at 60, the member contribution rate was 10.25 percent of applicable member earnings for fiscal year 2017-18. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 percent of applicable member earnings for fiscal year 2017-18.

In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2017, valuation adopted by the board in May 2018, the increase in normal cost was greater than 1 percent. Therefore, contribution rates for CalSTRS 2% as 62 members will increase by 1 percent effective July 1, 2018.

*Employers* – 14.43 percent of applicable member earnings.

Pursuant to AB 1469, employer contributions will increase from a prior rate of 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the CalSTRS board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The CalSTRS board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

The CalSTRS employer contribution rate increases effective for fiscal year 2017-18 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2021 to June 30, 2046	8.25%	*	*
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

\* The Teachers' Retirement Board (the "board") cannot adjust the employer rate by more than 1 percent in a fiscal year, and the increase to the contribution rate above the 8.25 percent base contribution rate cannot exceed 12 percent for a maximum of 20.25 percent.

The District contributed \$4,460,871 to the plan for the fiscal year ended June 30, 2018.

*State* - 9.328 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046. The CalSTRS state contribution rates effective for fiscal year 2017-18 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 5.311 percent on July 1, 2018, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding(1)</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2018	2.017%	5.311%(2)	2.50%	9.828%
July 01, 2019 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 1, 2046 and thereafter	2.017%	(4)	2.50%	4.517%(3)

(1) This rate does not include the \$72 million reduction in accordance with Education Code Section 22954.

(2) In May 2018, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2018.

(3) The CalSTRS board has limited authority to adjust state contribution rates annually through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent.

(4) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation.

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District’s proportionate share of the net pension liability	\$ 52,447,000
State’s proportionate share of the net pension liability associated with the District	<u>31,027,000</u>
Total	<u><u>\$ 83,474,000</u></u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2017, the District’s proportion was 0.057 percent, which was a decrease of 0.004 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$7,668,321 and revenue of \$3,083,165 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 194,000	\$ 915,000
Changes of assumptions	9,716,000	-
Net differences between projected and actual earnings on investments	-	1,397,000
Changes in proportion and differences between District contributions and proportionate share of contributions	525,000	3,848,000
Contributions made subsequent to measurement date	<u>4,460,871</u>	<u>-</u>
Total	<u><u>\$ 14,895,871</u></u>	<u><u>\$ 6,160,000</u></u>

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

---

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)**

\$4,460,871 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>		
2019	\$	(267,700)
2020	\$	1,773,300
2021	\$	1,021,300
2022	\$	(346,700)
2023	\$	869,300
2024	\$	1,225,500

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

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.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

During the 2016-17 measurement period, CalSTRS completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the NPL of the STRP changed, including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the NPL. The changes to the assumptions as a result of the experience study follow:

<u>Assumption</u>	<u>Measurement Period</u>	
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>
Consumer price inflation	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

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 as an input to the process. The actuarial investment rate of return assumption was adopted by the CalSTRS board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	6.30%
Fixed Income	12	0.30
Real Estate	13	5.20
Private Equity	13	9.30
Absolute Return / Risk Mitigating Strategies	9	2.90
Inflation Sensitive	4	3.80
Cash / Liquidity	2	(1.00)

\* 20-year geometric average

**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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. 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 occur midyear. Based on those 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 the total pension liability.

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

District’s proportionate share of the net pension liability	<u>\$ 77,008,000</u>	<u>\$ 52,447,000</u>	<u>\$ 32,513,000</u>
---	----------------------	----------------------	----------------------

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B**

*General Information about the Public Employer’s Retirement Fund B*

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer’s Retirement Fund B (PERF B) is administered by the California Public Employees’ Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at obtained at:

<https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>

Benefits Provided: The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when districts first join PERF B, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2018 were as follows:

*Members* - The member contribution rate was 6.50 or 7.50 percent of applicable member earnings for fiscal year 2017-18.

---

(Continued)



EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

*Employers* - The employer contribution rate was 15.531 percent of applicable member earnings.

The District contributed \$1,812,812 to the plan for the fiscal year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$21,509,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2017, the District’s proportion was 0.090 percent, which was a decrease of 0.007 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$3,725,424. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 771,000	\$ -
Changes of assumptions	3,142,000	253,000
Net differences between projected and actual earnings on investments	745,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	87,000	903,000
Contributions made subsequent to measurement date	<u>1,812,812</u>	<u>-</u>
Total	<u>\$ 6,557,812</u>	<u>\$ 1,156,000</u>

\$1,812,812 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2019	\$ 996,500
2020	\$ 1,797,500
2021	\$ 1,202,500
2022	\$ (407,500)

(Continued)



EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

During the 2016-17 measurement period, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return Years 1 - 10 (1)</u>	<u>Expected Real Rate of Return Years 11+ (2)</u>
Global Equity	47%	4.90%	5.38%
Fixed Income	19	0.80	2.27
Inflation Assets	6	0.60	1.39
Private Equity	12	6.60	6.63
Real Estate	11	2.80	5.21
Infrastructure & Forestland	3	3.90	5.36
Liquidity	2	(0.40)	(0.90)

\* 10-year geometric average  
 (1) An expected inflation rate of 2.50% used for this period  
 (2) An expected inflation rate of 3.00% used for this period

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

---

**NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)**

Discount Rate: The discount rate used to measure the total pension liability was 7.15. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

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.

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 cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. 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 equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District’s proportionate share of the net pension liability	<u>\$ 31,647,000</u>	<u>\$ 21,509,000</u>	<u>\$ 13,099,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

---

(Continued)

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description: In addition to the pension benefits described in Notes 7 and 8, the District provides healthcare benefits to eligible employees who retire from the District, as part of a single-employer defined benefit postemployment health care plan (Plan). The Plan is administered by the District and allows employees who retired after having achieved retirement eligibility requirements to continue receiving medical insurance coverage. The District's Board of Education has the authority to establish the requirements for paying for the Plan's benefits as they come due.

The District participates in the California School Boards Association (CSBA) GASB 45 Solutions Program to pre-fund OPEB liabilities. The CSBA GASB 45 Solutions Program is an agent multiple-employer plan consisting of an aggregation of single-employer plans. Public Agency Retirement Services (PARS) was appointed as administrator for the CSBA GASB 45 Solutions Program, and U.S. Bank was appointed as trustee. The CSBA GASB 45 Solutions Program serves as a qualified irrevocable trust for the accumulation of assets of member districts, to ensure that funds are dedicated to service the needs of employees and retirees. The District's contributions to the irrevocable trust established by the CSBA GASB 45 Solutions Program is included in the Public Agencies Post-Employment Benefits Trust financial statements. Copies of the Public Agencies Post-Employment Benefits Trust independent financial statements may be obtained from the Public Agency Retirement Services – 4350 Von Karman Ave – Newport Beach, CA 92660.

Benefits Provided: The District offers limited post-employment retiree benefits to each of the three classes of employees. The major provisions of the plans are as follows:

*Represented Certificated Staff* who have at least 10 years with the district and have reached age 55 are eligible to receive the same benefit cap the district provides to current employees for health insurance for a period of 5 years or to age 65 whichever is first. Additionally they may work 18 days a year for a payment of \$4,000. This article will remain active for employees hired on or before June 30, 2012, and will not be in effect for any employees hired beyond this date.

*Represented Classified Staff* who have at least 15 years with the district and have reached age 50 are eligible to receive the same benefit cap the district provides to current employees for health insurance for a period of 5 years or until they reach Medicare eligibility, whichever is first. This article will remain active for employees hired on or before June 30, 2012, and will not be in effect for any employees hired beyond this date.

*Management Staff* members who had at least 10 years with the district and had reached age 50 and who retire after October 1, 2005, will be eligible for one-time payments ranging from \$10,000 to \$30,000 depending on their length of their service. There will be no continued annual payments to them or guaranteed days of work. This article will remain active for employees hired on or before July 1, 2010, and will not be in effect for any employee hired beyond this date.

Expenditures for post-retirement healthcare benefits are recognized as the premiums are paid. Benefits are provided by the District on a pay-as-you-go basis. The District's Board of Education has the authority to change benefits. The Plan benefits through an agent multiple-employer OPEB plan that is administered by the Public Agency Retirement Services ("PARS")."

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

---

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)** (Continued)

Employees Covered by Benefit Terms: The following is a table of plan participants at June 30, 2018;

	<u>Number of Participants</u>
Inactive Plan members, covered spouses, or beneficiaries currently receiving benefits	37
Inactive employees/dependents entitled to but not yet receiving benefits	-
Active employees	<u>256</u>
	<u><u>293</u></u>

Contributions: Eligible employees are not permitted to make contributions to the Plan. The Plan administrator shall, on behalf of the employer, make all contributions to the Trustee. All contributions shall be paid to the Trustee for investment and reinvestment pursuant to the terms of the trust agreement. The District does not have contractually required contributions rates, but contributes in an amount sufficient to fully fund the Net OPEB obligation over a period not to exceed 30 years. Contributions to the Trust from the District were \$477,483 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

OPEB Plan Investments: The plan discount rate of 6.0% was determined using the long-term expected rate of return on plan investments based upon the PARS Balanced Investment Policy asset allocation.

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

Valuation date	June 30, 2018
Measurement date	June 30, 2018
Actuarial cost methods	Entry age actuarial cost method
Inflation rate	2.75%
Investment rate of return	6.00%
Discount rate	6.00%
Health care cost trend rate	4.00%
Payroll increase	2.75%
Mortality	For certificated employees the 2009 CalSTRS mortality tables were used. For classified employees the 2009 CalPERS active mortality for miscellaneous employees were used.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Total Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, July 1, 2017	\$ 5,073,331	\$ 2,205,514	\$ 2,867,817
Changes for the year:			
Service cost	266,657	-	266,657
Interest	300,910	-	300,910
Employer contributions	-	477,483	(477,483)
Net investment income	-	127,038	(127,038)
Administrative expense	-	(5,873)	5,873
Benefit payments	<u>(375,638)</u>	<u>(375,638)</u>	<u>-</u>
Net change	<u>191,929</u>	<u>223,010</u>	<u>(31,081)</u>
Balance, June 30, 2018	<u>\$ 5,265,260</u>	<u>\$ 2,428,524</u>	<u>\$ 2,836,736</u>

Fiduciary Net Position as a % of the Total OPEB Liability, at June 30, 2018: 46.1%

Sensitivity of the Net OPEB Liability to Assumptions: The following presents the Net OPEB liability calculated using the discount rate of 6.0 percent. The schedule also shows what the Net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (5.0 percent) and 1 percent higher (7.0):

	Discount Rate 1% Lower (5.0%)	Valuation Discount Rate (6.0%)	Discount Rate 1% Higher (7.0%)
Net OPEB liability	<u>\$ 3,158,891</u>	<u>\$ 2,836,736</u>	<u>\$ 2,529,369</u>

The following table presents the Net OPEB liability calculated using the health care cost trend rate of 6.0 percent. The schedule also shows what the Net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percent lower (5.0 percent) and 1 percent higher (7.0 percent):

	Health Care Trend Rate 1% Lower (3.0%)	Valuation Health Care Trend Rate (4.0%)	Health Care Trend Rate 1% Higher (5.0%)
Net OPEB liability	<u>\$ 2,568,767</u>	<u>\$ 2,836,736</u>	<u>\$ 3,073,690</u>

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

---

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

*OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2018, the District recognized OPEB expense of \$446,402. At June 30, 2018, there were no deferred outflows of resources and deferred inflows of resources related to OPEB as this was the initial year of measurement under GASB 75.

**NOTE 10 - JOINT POWERS AGREEMENT**

Schools Insurance Authority: The District is a member with other school districts of a Joint Powers Authority, Schools Insurance Authority (SIA), for the operation of a common risk management and insurance program for property and liability and workers' compensation coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage in the prior year.

The following is a summary of financial information for SIA at June 30, 2018:

Total assets	\$ 156,099,265
Total deferred outflows of resources	\$ 2,183,259
Total liabilities	\$ 78,395,474
Total deferred inflows of resources	\$ 438,183
Total net position	\$ 79,448,867
Total revenues	\$ 64,932,531
Total expenses	\$ 59,366,494
Change in net position	\$ 5,566,037

The relationship between the District and the Joint Powers Authority is such that the Joint Powers Authority is not component unit of the District for financial reporting purposes.

**NOTE 11 - CONTINGENCIES**

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

EL DORADO UNION HIGH SCHOOL DISTRICT  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2018

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Local Control Funding Formula:				
State apportionment	\$ 29,019,566	\$ 26,973,542	\$ 26,973,542	\$ -
Local sources	<u>29,571,578</u>	<u>31,708,155</u>	<u>31,708,155</u>	<u>-</u>
Total LCFF	<u>58,591,144</u>	<u>58,681,697</u>	<u>58,681,697</u>	<u>-</u>
Federal sources	2,053,853	1,866,363	1,866,363	-
Other state sources	5,663,987	6,368,782	6,368,782	-
Other local sources	<u>4,573,769</u>	<u>5,580,093</u>	<u>5,580,093</u>	<u>-</u>
Total revenues	<u>70,882,753</u>	<u>72,496,935</u>	<u>72,496,935</u>	<u>-</u>
Expenditures:				
Current:				
Certificated salaries	31,756,615	32,204,750	32,204,750	-
Classified salaries	11,683,341	11,876,006	11,876,006	-
Employee benefits	17,045,966	17,109,069	17,109,069	-
Books and supplies	4,322,809	3,002,926	3,002,926	-
Contract services and operating expenditures	7,248,092	8,238,383	8,238,383	-
Other outgo	1,597,114	1,495,151	1,495,151	-
Capital outlay	<u>927,670</u>	<u>1,527,539</u>	<u>2,492,334</u>	<u>(964,795)</u>
Total expenditures	<u>74,581,607</u>	<u>75,453,824</u>	<u>76,418,619</u>	<u>(964,795)</u>
Deficiency of revenues under expenditures	<u>(3,698,854)</u>	<u>(2,956,889)</u>	<u>(3,921,684)</u>	<u>(964,795)</u>
Other financing sources:				
Transfers in	69,189	68,909	68,909	-
Proceeds from capital lease	<u>-</u>	<u>-</u>	<u>964,795</u>	<u>964,795</u>
Total other financing sources	<u>69,189</u>	<u>68,909</u>	<u>1,033,704</u>	<u>964,795</u>
Change in fund balance	(3,629,665)	(2,887,980)	(2,887,980)	-
Fund balance, July 1, 2017	<u>10,032,812</u>	<u>10,032,812</u>	<u>10,032,812</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 6,403,147</u>	<u>\$ 7,144,832</u>	<u>\$ 7,144,832</u>	<u>\$ -</u>

See accompanying note to required supplementary information.



EL DORADO UNION HIGH SCHOOL DISTRICT  
CAFETERIA FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2018

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
Federal sources	555,000	593,069	593,069	-
Other state sources	41,500	45,104	45,104	-
Other local sources	<u>983,750</u>	<u>1,029,913</u>	<u>1,029,913</u>	<u>-</u>
Total revenues	<u>1,580,250</u>	<u>1,668,086</u>	<u>1,668,086</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Classified salaries	749,501	723,747	723,747	-
Employee benefits	201,818	206,325	206,325	-
Books and supplies	577,600	586,294	586,294	-
Contract services and operating expenditures	127,745	126,269	126,269	-
Capital outlay	<u>-</u>	<u>17,758</u>	<u>17,758</u>	<u>-</u>
Total expenditures	<u>1,656,664</u>	<u>1,660,393</u>	<u>1,660,393</u>	<u>-</u>
Deficiency of revenues under expenditures	<u>(76,414)</u>	<u>7,693</u>	<u>7,693</u>	<u>-</u>
<b>Other financing uses:</b>				
Transfers out	<u>(69,189)</u>	<u>(68,909)</u>	<u>(68,909)</u>	<u>-</u>
Change in fund balance	(145,603)	(61,216)	(61,216)	-
Fund balance, July 1, 2017	<u>512,287</u>	<u>512,287</u>	<u>512,287</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 366,684</u>	<u>\$ 451,071</u>	<u>\$ 451,071</u>	<u>\$ -</u>

See accompanying note to required supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN THE DISTRICT'S NET OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 LIABILITY  
 For the Year Ended June 30, 2018

Last 10 Fiscal Years

	<u>2018</u>
<b>TOTAL OPEB LIABILITY</b>	
Service cost	\$ 266,657
Interest on total OPEB liability	300,910
Changes of assumptions	-
Benefit payments	<u>(375,638)</u>
Net change in total OPEB liability	191,929
Total OPEB liability - beginning of year (a)	<u>5,073,331</u>
Total OPEB liability - end of year (b)	<u>\$ 5,265,260</u>
<b>PLAN FIDUCIARY NET POSITION</b>	
Contributions - employer	\$ 477,483
Net investment income	127,038
Administrative expenses	(5,873)
Benefit payments	<u>(375,638)</u>
Change in plan fiduciary net position	223,010
Fiduciary trust net position - beginning of year (c)	<u>2,205,514</u>
Fiduciary trust net position - end of year (d)	<u>\$ 2,428,524</u>
Net OPEB liability - ending (b) - (d)	<u>\$ 2,836,736</u>
Plan fiduciary net position as a percentage of the total OPEB liability	46.1%
Covered employee payroll	\$29,255,902
Net OPEB liability as a percentage of covered employee payroll	9.70%

*This is a 10 year schedule, however the information in this schedule is not required to be presented retrospectively. The amounts presented for each fiscal year were determined as of the year end that occurred one year prior. All years prior to 2018 are not available.*

See accompanying note to required supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
 SHARE OF THE NET PENSION LIABILITY  
 For the Year Ended June 30, 2018

---

State Teachers' Retirement Plan  
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.062%	0.063%	0.061%	0.057%
District's proportionate share of the net pension liability	\$ 36,231,000	\$ 42,453,000	\$ 49,682,000	\$ 52,447,000
State's proportionate share of the net pension liability associated with the District	<u>24,437,000</u>	<u>22,439,000</u>	<u>28,286,000</u>	<u>31,027,000</u>
Total net pension liability	<u>\$ 60,668,000</u>	<u>\$ 64,892,000</u>	<u>\$ 77,968,000</u>	<u>\$ 83,474,000</u>
District's covered payroll	\$ 29,489,000	\$ 29,250,000	\$ 30,613,000	\$ 30,057,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	122.86%	145.14%	162.29%	174.49%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
 SHARE OF THE NET PENSION LIABILITY  
 For the Year Ended June 30, 2018

---

Public Employer's Retirement Fund B  
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.096%	0.098%	0.097%	0.090%
District's proportionate share of the net pension liability	\$ 10,841,575	\$ 14,418,596	\$ 19,127,000	\$ 21,509,000
District's covered payroll	\$ 10,024,000	\$ 10,733,000	\$ 11,619,000	\$ 11,488,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	108.16%	134.34%	164.62%	187.12%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%	71.87%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

---

See accompanying note to required supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
 For the Year Ended June 30, 2018

---

State Teachers' Retirement Plan  
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 2,597,444	\$ 3,284,778	\$ 3,781,171	\$ 4,460,871
Contributions in relation to the contractually required contribution	<u>(2,597,444)</u>	<u>(3,284,778)</u>	<u>(3,781,171)</u>	<u>(4,460,871)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 29,250,000	\$ 30,613,000	\$ 30,057,000	\$ 30,914,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%	14.43%

All years prior to 2015 are not available.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
 For the Year Ended June 30, 2018

---

Public Employer's Retirement Fund B  
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 1,263,245	\$ 1,376,449	\$ 1,595,683	\$ 1,812,812
Contributions in relation to the contractually required contribution	<u>(1,263,245)</u>	<u>(1,376,449)</u>	<u>(1,595,683)</u>	<u>(1,812,812)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 10,733,000	\$ 11,619,000	\$ 11,488,000	\$ 11,672,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%	15.53%

All years prior to 2015 are not available.

---

See accompanying note to required supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
 June 30, 2018

---

**NOTE 1 - PURPOSE OF SCHEDULES**

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund and Cafeteria Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B - Schedule of Changes in the District's Net Other Postemployment Benefits (OPEB) Liability

The Schedule of Changes in the District's Net OPEB Liability presents multi-year information which illustrates the changes in the net OPEB liability for each year presented.

C - Schedule of the District's Proportionate Share of the Net Pension Liability

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

D - Schedule of the District's Contributions

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

E - Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50, 7.65, 7.65 and 7.15 percent in the June 30, 2013, 2014, 2015 and 2016 actuarial reports, respectively.

The following are the assumptions for State Teachers' Retirement Plan:

<u>Assumption</u>	<u>Measurement Period</u>		
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>	As of June 30, <u>2015</u>
Consumer price inflation	2.75%	3.00%	3.00%
Investment rate of return	7.10%	7.60%	7.60%
Wage growth	3.50%	3.75%	3.75%

**SUPPLEMENTARY INFORMATION**



EL DORADO UNION HIGH SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 ALL NON-MAJOR FUNDS  
 June 30, 2018

---

	County School Facilities Fund	EDUHSD Financing Corporation Debt Service Fund	Total
<b>ASSETS</b>			
Cash and investments:			
Cash in County Treasury	\$ 886	\$ -	\$ 886
Cash with Fiscal Agent	<u>-</u>	<u>809,071</u>	<u>809,071</u>
Total assets	<u>\$ 886</u>	<u>\$ 809,071</u>	<u>\$ 809,957</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other funds	<u>\$ 886</u>	<u>\$ -</u>	<u>\$ 886</u>
Fund balances:			
Restricted	<u>-</u>	<u>809,071</u>	<u>809,071</u>
Total liabilities and fund balances	<u>\$ 886</u>	<u>\$ 809,071</u>	<u>\$ 809,957</u>

EL DORADO UNION HIGH SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES  
 ALL NON-MAJOR FUNDS  
 For the Year Ended June 30, 2018

	County School Facilities Fund	EDUHS Financing Corporation Debt Service Fund	Total
Revenues:			
Other state sources	\$ 2,117,150	\$ -	\$ 2,117,150
Other local sources	<u>886</u>	<u>2,494</u>	<u>3,380</u>
Total revenues	<u>2,118,036</u>	<u>2,494</u>	<u>2,120,530</u>
Expenditures:			
Debt service:			
Principal retirement	-	440,768	440,768
Interest	<u>-</u>	<u>361,545</u>	<u>361,545</u>
Total expenditures	<u>-</u>	<u>802,313</u>	<u>802,313</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,118,036</u>	<u>(799,819)</u>	<u>1,318,217</u>
Other financing sources (uses):			
Transfers in	-	802,313	802,313
Transfers out	<u>(2,118,036)</u>	<u>-</u>	<u>(2,118,036)</u>
Total other financing sources (uses)	<u>(2,118,036)</u>	<u>802,313</u>	<u>(1,315,723)</u>
Net change in fund balances	-	2,494	2,494
Fund balances, July 1, 2017	<u>-</u>	<u>806,577</u>	<u>806,577</u>
Fund balances, June 30, 2018	<u>\$ -</u>	<u>\$ 809,071</u>	<u>\$ 809,071</u>

EL DORADO UNION HIGH SCHOOL DISTRICT  
ORGANIZATION  
June 30, 2018

---

El Dorado Union High School District, is located in El Dorado County, California and operated four comprehensive high schools, two continuation schools, and one charter school. The District also offers Independent Study and Regional Occupation Programs.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Lori M. Veerkamp	President	December 2020
David Del Rio	Clerk	December 2020
Kevin Brown	Member	December 2018
Timothy M. Cary	Member	December 2018
Todd R. White	Member	December 2018

ADMINISTRATION

Steve Wehr  
Superintendent  
Executive Secretary to the Board

Christopher Moore  
Assistant Superintendent, Educational Services

Tony Deville  
Assistant Superintendent, Human Resources

Steve Volmer  
Assistant Superintendent, Student Services

Pam Batlett  
Director, Special Education

Marti Zizek  
Director, Fiscal Services

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE  
 For the Year Ended June 30, 2018

	<u>Second Period Report</u>	<u>Revised Second Period Report</u>	<u>Annual Report</u>
<u>District:</u>			
Certificate Number:	3A98438B	D20A05DE	93F31725
Regular ADA:			
Ninth through Twelfth	6,187	6,197	6,163
Special Education	23	22	24
Continuation School	<u>94</u>	<u>91</u>	<u>94</u>
District ADA total	<u><u>6,304</u></u>	<u><u>6,310</u></u>	<u><u>6,281</u></u>
<u>Charter School - Nonclassroom-Based</u>			
Certificate Number:		B5BC459E	4C8B1A01
El Dorado Union High School District Virtual Academy at Shenandoah			
Ninth through Twelfth		<u><u>85</u></u>	<u><u>86</u></u>

See accompanying notes to supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
For the Year Ended June 30, 2018

---

<u>Grade Level</u>	<u>Statutory Minutes Require- ment</u>	<u>2017-2018 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 9	64,800	65,038	180	In Compliance
Grade 10	64,800	65,038	180	In Compliance
Grade 11	64,800	65,038	180	In Compliance
Grade 12	64,800	65,038	180	In Compliance

---

See accompanying notes to supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 For the Year Ended June 30, 2018

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
84.365	ESEA: Title III, Limited English Proficiency Student Program	14346	\$ 9,666
84.365	ESEA: Title III, Immigrant Education Program	15146	<u>1,263</u>
	Subtotal English Language Acquisition		<u>10,929</u>
<u>U.S. Department of Education - Passed through El Dorado County Office of Education</u>			
	Special Education Cluster:		
84.027	Special Ed: IDEA Basic and Local Assistance Entitlement, Part B, Sec 611	13379	618,106
84.027A	Special Ed: IDEA Mental Health Services, Part B, Sec 611	14468	<u>247,404</u>
	Subtotal Special Education Cluster		<u>865,510</u>
84.010	ESEA: Title I, Part A, Basic Grants Low-Income and Neglected	14329	570,148
84.330B	ESEA: Title I, Part G, Advance Placement Test Fee Reimbursement	14831	2,062
84.367	ESEA: Title II, Part A, Improving Teacher Quality Local Grants	14341	105,311
84.196	ESEA: Subtitle B of Title VII of the McKinney-Vento Homeless Assistance Act	14332	2,755
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131	14894	<u>107,234</u>
	Total U.S. Department of Education		<u>1,663,949</u>
<u>U.S. Department of Agriculture - Passed through El Dorado County Office of Education</u>			
	Forest Service Schools and Roads Cluster:		
10.665	Forest Reserve Funds	10044	135,150

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 For the Year Ended June 30, 2018

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
	Child Nutrition Cluster:		
10.555	Child Nutrition: School Programs	13523/13524	\$ 423,549
10.553	School Breakfast Basic	13525	61,707
10.553	School Breakfast Needy	13526	<u>107,813</u>
	Subtotal Child Nutrition Cluster		<u>593,069</u>
	U.S. Department of Agriculture		<u>728,219</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Health Care Services</u>			
	Medicaid Cluster:		
93.778	Medi-Cal Billing Option - Medicaid Cluster	10013	<u>120,791</u>
	Total Federal Awards		<u>\$ 2,512,959</u>

See accompanying notes to supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018

---

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

---

See accompanying notes to supplementary information.



EL DORADO UNION HIGH SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
For the Year Ended June 30, 2018  
(UNAUDITED)

<u>General Fund</u>	(Budget) <u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues and other financing sources	\$ <u>75,612,713</u>	\$ <u>73,530,639</u>	\$ <u>70,972,617</u>	\$ <u>71,052,117</u>
Expenditures	76,442,119	76,418,619	73,366,710	69,306,495
Other uses and transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>410,000</u>
Total outgo	<u>76,442,119</u>	<u>76,418,619</u>	<u>73,366,710</u>	<u>69,716,495</u>
Change in fund balance	<u>\$ (829,406)</u>	<u>\$ (2,887,980)</u>	<u>\$ (2,394,093)</u>	<u>\$ 1,335,622</u>
Ending fund balance	<u>\$ 6,315,426</u>	<u>\$ 7,144,832</u>	<u>\$ 10,032,812</u>	<u>\$ 12,426,905</u>
Available reserves	<u>\$ 5,485,152</u>	<u>\$ 4,362,525</u>	<u>\$ 6,554,669</u>	<u>\$ 8,218,791</u>
Designated for economic uncertainties	<u>\$ 2,290,700</u>	<u>\$ 2,261,600</u>	<u>\$ 2,193,300</u>	<u>\$ 2,082,500</u>
Undesignated fund balance	<u>\$ 3,194,452</u>	<u>\$ 2,100,925</u>	<u>\$ 4,361,369</u>	<u>\$ 6,136,291</u>
Available reserves as percentages of total outgo	<u>7.2%</u>	<u>5.7%</u>	<u>8.9%</u>	<u>11.8%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 154,016,612</u>	<u>\$ 156,621,509</u>	<u>\$ 149,647,433</u>	<u>\$ 138,003,850</u>
Average daily attendance at P-2,	<u>6,320</u>	<u>6,310</u>	<u>6,352</u>	<u>6,346</u>

The General Fund fund balance has decreased by \$3,946,451 over the past three years. The fiscal year 2018-2019 budget projects an decrease of \$829,406. For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2018, the District met this requirement.

The District has incurred an operating deficit in two of the past three years, and anticipates an operating deficit in fiscal year 2018-2019 .

Total long-term liabilities have increased by \$18,617,659 over the past two years.

Average daily attendance has decreased by 36 over the past two years. An increase of 10 ADA is projected for the 2018-2019 fiscal year.

See accompanying notes to supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
For the Year Ended June 30, 2018

---

Charter Schools Chartered by District

0366 - El Dorado Union High School District Virtual  
Academy at Shenandoah

Included in District  
Financial Statements, or  
Separate Report

Included in the General Fund

---

See accompanying notes to supplementary information.

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
June 30, 2018

---

**NOTE 1 - PURPOSE OF SCHEDULES**

A - Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B - Schedule of Instructional Time

This schedule presents information on the amount of instructional time and number of days offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46208. The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day, and has not reached its local control funding formula target.

C - Schedule of Expenditure of Federal Awards

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

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 2,459,432
Add: Medi-Cal Billing Funds spent from prior year funds	93.778	<u>53,527</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 2,512,959</u>

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
June 30, 2018

---

**NOTE 1 - PURPOSE OF SCHEDULES**

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2018-2019 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

**NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM**

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2018, the District did not adopt this program.

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Education  
El Dorado Union High School District  
Placerville, California

**Report on Compliance with State Laws and Regulations**

We have audited El Dorado Union High School District's compliance with the types of compliance requirements described in the State of California's *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2018.

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General requirements	No, see below
After school	No, see below
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	No, see below
Attendance, for charter schools	Yes
Mode of Instruction, for charter schools	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	Yes
Annual Instructional Minutes - Classroom-Based, for charter schools	No, see below
Charter School Facility Grant Program	No, see below

(Continued)

We did not perform testing for Kindergarten Continuance because the District is only services grades 9 - 12.

We did not perform any procedures related to the Early Retirement Incentive Program because the District did not offer this program in the current year.

We did not perform procedures related to Juvenile Court Schools because the District does not offer Juvenile Court Schools.

We did not perform procedures related to Middle or Early College High Schools because the District does not offer Middle or Early College High Schools.

We did not perform procedures related to K-3 Grade Span Adjustment because the District did not expend funds related to the K-3 Grade Span Adjustment.

We did not perform procedures related to Apprenticeship: Related and Supplemental Instruction because the District does not offer Apprenticeship: Related and Supplemental Instruction.

We did not perform procedures related to the After School Education and Safety Program, as the District does not operate an After School Education and Safety Program.

We did not perform procedures related to the Independent Study-Course Based Program, as the District does not operate an Independent Study-Course Based Program.

We did not perform procedures for the Classroom-based charter school sections because the District did not claim any Classroom-based charter school ADA.

We did not perform procedures related to Charter School Facility Grant Program because the District did not expend funds related to the Charter School Facility Grant Program.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on El Dorado Union High School District's compliance with state laws and regulations, as listed above of 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 State of California's *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on El Dorado Union High School District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about El Dorado Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of El Dorado Union High School District's compliance.

### ***Opinion on Compliance with State Laws and Regulations***

In our opinion, El Dorado Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2018.

---

(Continued)

## Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the State of California's *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

**Crowe LLP**  
Crowe LLP

Sacramento, California  
December 13, 2018

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 Education  
El Dorado Union High School District  
Placerville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of El Dorado Union High School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise El Dorado Union High School District's basic financial statements, and have issued our report thereon dated December 13, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered El Dorado Union High School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of El Dorado Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of El Dorado Union High School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 El Dorado Union High School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

---

(Continued)



## Purpose of this Report

The purpose of this 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Crowe LLP**  
Crowe LLP

Sacramento, California  
December 13, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE

Board of Education  
El Dorado Union High School District  
Placerville, California

**Report on Compliance for Each Major Federal Program**

We have audited El Dorado Union High School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on El Dorado Union High School District's major federal programs for the year ended June 30, 2018. El Dorado Union High School District's major federal program is 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 El Dorado Union High School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 El Dorado Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of El Dorado Union High School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, El Dorado Union High School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

---

(Continued)

## **Report on Internal Control Over Compliance**

Management of El Dorado Union High School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered El Dorado Union High School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of El Dorado Union High School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

**Crowe LLP**  
Crowe LLP

Sacramento, California  
December 13, 2018

## **FINDINGS AND RECOMMENDATIONS**

EL DORADO UNION HIGH SCHOOL DISTRICT  
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2018

---

SECTION I - SUMMARY OF AUDITOR'S RESULTS

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified not considered  
to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ Yes   X   No

**FEDERAL AWARDS**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified not considered  
to be material weakness(es)? \_\_\_\_\_ Yes   X   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 2 CFR 200.516(a)? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A	Special Education Cluster

Dollar threshold used to distinguish between Type A  
and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**STATE AWARDS**

Type of auditor's report issued on compliance for  
state programs: Unmodified

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

---

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

---

SECTION III- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

---

(Continued)

EL DORADO UNION HIGH SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

---

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



**STATUS OF PRIOR YEAR  
FINDINGS AND RECOMMENDATIONS**

EL DORADO UNION HIGH SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2018

---

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
No matters were reported.		

**APPENDIX C**

**FORM OF SPECIAL COUNSEL OPINION**

*Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, proposes to render its final approving opinion in substantially the following form:*

[Date of Delivery]

El Dorado Union High School District  
Placerville, California

El Dorado Union High School District  
Refunding Certificates of Participation, Series 2019  
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the El Dorado Union High School District (the “District”) in connection with the execution and delivery of the El Dorado Union High School District Refunding Certificates of Participation, Series 2019 (the “Certificates”), evidencing principal in the aggregate amount of \$\_\_\_\_\_, executed and delivered on the date hereof, pursuant to the Trust Agreement, dated as of October 1, 2019 (the “Trust Agreement”), by and among Zions Bancorporation, National Association, as trustee (the “Trustee”), the El Dorado Union High School District Financing Corporation (the “Corporation”) and the District. In such connection, we have reviewed the Trust Agreement, the Lease Agreement, dated as of October 1, 2019 (the “Lease Agreement”), by and between the District and the Corporation, the Ground Lease, dated as of October 1, 2019 (the “Ground Lease”), by and between the District and the Corporation, the Assignment Agreement, dated as of October 1, 2019 (the “Assignment Agreement”), by and between the Corporation and the Trustee, the Tax Certificate of the District, dated the date hereof (the “Tax Certificate”), opinions of counsel to the District, the Corporation and the Trustee, certificates of the District, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Lease Agreement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District and the Corporation. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the

opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the portion of Base Rental Payments designated as and constituting interest evidenced by the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts and nonprofit public benefit corporations in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated \_\_\_\_\_, 2019, or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Trust Agreement, the Lease Agreement and the Ground Lease have been duly executed and delivered by, and constitute valid and binding obligations of, the District.
2. The Lease Agreement, the Ground Lease and the Assignment Agreement have been duly executed and delivered by, and constitute the valid and binding obligations of, the Corporation.
3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.
4. The portion of each Base Rental Payment designated as and constituting interest paid by the District under the Lease Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest evidenced by the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of the Certificates, or the amount, accrual or receipt of the portion of each Base Rental Payment constituting interest.

Faithfully yours,

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is executed and delivered by the El Dorado Union High School District (the “District”) in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of the El Dorado Union High School District Refunding Certificates of Participation, Series 2019 (the “Certificates”). The Certificates are being executed and delivered pursuant to the Trust Agreement, dated as of October 1, 2019 (the “Trust Agreement”), by and among Zions Bancorporation, National Association, as trustee (the “Trustee”), El Dorado Union High School District Financing Corporation and the District. The District covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

**“Beneficial Owner”** shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

**“Dissemination Agent”** shall mean Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

**“Financial Obligation”** shall mean, for purposes of the Listed Events set out in Section 5(a)(10) and Section (5)(b)(8), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

**“Holder”** shall mean the person in whose name any Certificate shall be registered.

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

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

“**Official Statement**” shall mean the Official Statement, dated \_\_\_\_\_, 2019, relating to the Certificates.

“**Participating Underwriter**” shall mean the original underwriter(s) of the Certificates required to comply with the Rule in connection with execution and delivery of the Certificates.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. Provision of Annual Reports.**

(a) The District shall, or shall cause the Dissemination Agent to, not later than 290 days after the end of the District’s fiscal year (which shall be April 15 of each year, so long as the District’s fiscal year ends June 30), commencing with the report for the 2018-19 fiscal year (which is due not later than April 15, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Certificates by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

**SECTION 4. Content of Annual Reports.** The District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

- (1) The District’s Average Daily Attendance and aggregate LCFF Revenues;
- (2) The District’s contributions to the State Public Employees’ Retirement System and the State Teachers’ Retirement System for the last completed fiscal year;

- (3) The District's adopted budget for the current fiscal year, together with any amendments thereto;
- (4) Information regarding total assessed valuation of taxable properties within the District and the District's total property tax levy, in each case for the current fiscal year, if and to the extent provided to the District by the county in which the District is located (the "County");
- (5) Outstanding borrowings and long-term obligations, including:
  - (i) general obligation bonds, certificates of participation, and capital leases;
  - (ii) a description of any obligations of the type referred to in (i) above that have been issued, entered into or incurred since the beginning of the District's current fiscal year; and
  - (iii) a description of any obligations of the type referred to in (i) above that the District reasonably expected to be issued, entered into or incurred within the 60 day period following the date of filing of the Annual Report;

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

**SECTION 5. Reporting of Significant Events.**

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates in a timely manner not later than ten business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes;
- (9) Bankruptcy, insolvency, receivership or similar event of the District; or
- (10) 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.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) 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, in a timely manner not later than ten business days after the occurrence of the event:

- (1) Unless described in Section 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;
- (2) Modifications to rights of holders of the Certificates;
- (3) Optional, unscheduled or contingent Certificate calls;
- (4) Release, substitution, or sale of property securing repayment of the Certificates;
- (5) Non-payment related defaults;
- (6) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (7) Appointment of a successor or additional trustee or the change of name of a trustee;  
or
- (8) Incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Certificate holders.

(c) Upon the occurrence of a Listed Event described in Section 5(a) of this Disclosure Certificate, or upon the occurrence of a Listed Event described in Section 5(b) of this Disclosure Certificate which the District determines would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(b)(3) 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.



(d) The District intends to comply with the Listed Events described in Section 5(a)(10) and Section 5(b)(8), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

**SECTION 6. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**SECTION 7. Termination of Reporting Obligation.** The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final principal payment date of the Certificates, the District shall give notice of such termination in a filing with the MSRB.

**SECTION 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices.

**SECTION 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District with respect to the Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery 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 or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

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

**SECTION 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**SECTION 11. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of El Dorado or in U.S. District Court in or nearest to the County of El Dorado. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**SECTION 12. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2019

**EL DORADO UNION HIGH SCHOOL  
DISTRICT**

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

ACCEPTED AND AGREED TO:

**FIELDMAN, ROLAPP & ASSOCIATES, INC.  
DOING BUSINESS AS APPLIED BEST PRACTICES,  
as Dissemination Agent**

By: \_\_\_\_\_  
Authorized Signatory

**CONTINUING DISCLOSURE EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: El Dorado Union High School District  
Name of Issue: El Dorado Union High School District  
Refunding Certificates of Participation, Series 2019  
Date of Delivery: \_\_\_\_\_, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by Section 4 of the Continuing Disclosure Certificate of the District, dated the Date of Delivery. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**EL DORADO UNION HIGH SCHOOL  
DISTRICT**

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **APPENDIX E**

### **EL DORADO COUNTY INVESTMENT POLICY AND DESCRIPTION OF INVESTMENT POOL**

*The following information has been furnished by the Office of the Treasurer-Tax Collector (the “County Treasurer”), County of El Dorado. It describes (i) the policies applicable to investment of District funds, including bond proceeds and tax levies, and funds of other agencies held by the County Treasurer and (ii) the composition, carrying amount, market value and other information relating to the investment pool. Further information may be obtained directly from the Treasurer-Tax Collector, 360 Fair Lane, Placerville, California, 95667, (530) 621-5800. Neither the District, the Underwriter, nor the Municipal Advisor has reviewed or confirmed the following information.*

[THIS PAGE INTENTIONALLY LEFT BLANK]

**EL DORADO COUNTY  
POOLED INVESTMENTS  
STATEMENT OF INVESTMENT POLICY**

The County of El Dorado is a Charter County which invests its funds in accordance with the California Government Code (GC) §27000 et seq. and §53635 et seq.

In accordance with GC §27000.5 the criteria of selecting investments and the order of priority are:

1. Safety of principal
2. Liquidity
3. Public Trust
4. Yield

Government bills, notes, and government agency paper guaranteed by the full faith and credit of the United States Government are considered to be the highest quality investments available.

For the uninsured portion of any investment, banks and savings and loans are required to pledge either blocks of Federal securities as collateral at 110% of the County's investment, or banks and savings and loans are required to pledge blocks of real estate mortgages as collateral at 150% of the investment.

While the County recognizes that all investments carry a certain degree of risk, the Treasury attempts to minimize the risks relative to safety of principal.

The County attempts to schedule its maturities to meet anticipated cash needs.

All participants in the investment process shall seek to act responsibly as custodians of the public trust.

To maximize yields, El Dorado County utilizes computerized cash management reporting systems and compares offerings from more than one source. All measures of return on investment shall be based upon the overall portfolio performance, with individual investment (or investment type) performance being of secondary regard. Proper diversification should support this rationale.

**Reporting**

On no less than a quarterly basis, the Treasury shall submit to the Board of Supervisors, , and the Chief Administrative Officer a report of investments pursuant to GC §53646(b).

## Investments

Permissible investments for a local agency that are addressed in GC, §53601, §53635 et seq., §53637, §53638, §53651, §53652, and §53653.

The County investment pool operates within State and self-imposed constraints. The County ensures all minimum credit requirements listed in California Government Code 53601 are adhered to annually. The Treasury does not buy stocks or deal in futures or options. The Treasury does not invest in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Proceeds from Tax Revenue Anticipation Notes or Grant Anticipation Notes shall not be invested for a term exceeding the term of the note. No investment may exceed five years to maturity nor have an underlying investment in excess of five years without express permission of the Board of Supervisors. FDIC insured instruments and all instruments backed by the full faith and credit of the United States Government are permitted investments.

<u>Permitted Investments</u>	<u>Maximum Percentage/Portfolio</u>	<u>Term</u>
a) US Treasury Notes, Bonds, Bills	Unlimited %	Maximum 5 year term
b) Bankers Acceptances term	40%, no more than 5% with any one bank*	Maximum 180 day
c) Domestic Commercial Paper term	20% maximum, no more than 5% with any single issuing corporation*	Maximum 31 day
d) Negotiable Certificates of Deposit	30%, no more than 5% with any one bank*	Maximum 5 year term
e) Certificates of Deposit, Non-negotiable	Unlimited %	Maximum 5 year term
f) Repurchase Agreement	Unlimited %, no more than 5% with any one company*	Maximum 1 year term
g) Agencies	Unlimited %, no more than 5% with any one agency*	Maximum 3 year term
h) Demand Deposit Savings Accounts	Unlimited %	Maximum 5 year term
i) State Warrants	Unlimited %	Maximum 1 year term
j) Local Agency Investment Fund **	Unlimited %	N/A
k) Medium-Term notes of U.S. Corporations & Depository Institutions	30%	Maximum 3 year term



l) Commercial Paper under FDIC Temporary Liquidity Guarantee Program	40%	Maximum 270 day term
m) Fully Collateralized Bank Deposits	Unlimited %*	N/A
n) Deposits placed with Private Sector Entity (Deposit Placement Services)	30%, individual deposit no more than can be federally insured	Maximum 5 year term

\*Per issuer limitations applies at time of purchase of an investment.

\*\* LAIF operates under GC §16429.1 and §16430, with investment policies and regulations that may differ from El Dorado County's.

Certificates of deposit, savings accounts, repurchase agreements, and bankers acceptances are insured or secured with collateral. Only domestic Commercial Paper with the highest letter and numerical ratings is purchased. The County recognizes that all investments carry a certain degree of risk.

### **Safekeeping**

All securities purchased shall be held in safekeeping by a third party custodian pursuant to an agreement between the custodian and the County Treasury pursuant to GC §53608. "Delivery versus payment" shall be used for securities transactions, and no security will be held by the broker/dealer from whom purchased.

### **Criteria for Broker Selection**

In accordance with GC §27133(c) any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board to the local treasurer, any member of the governing board of the local agency, or a candidate for those offices, shall not sell to (or purchase from) the County Treasury securities or other instruments.

### **Criteria for Considering Agency Request to Withdraw from Pool**

Pursuant to GC §27136, depositors who seek to withdraw funds for investing or depositing those funds outside the County Treasury pool shall first submit the request

for withdrawal to the County Treasurer in writing.

The County Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the El Dorado County Auditor-Controller at a one-dollar net asset value.

Any requests to withdraw funds for purposes other than cash flow, such as external investing, shall be subject to the consent of the County Treasurer. In accordance with GC §27136 et seq. and §27133(h) et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund.

Assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the Pooled Investment Fund will be based on the following criteria:

- 1) Size of withdrawal
- 2) Size of remaining balance of:
  - a) Pool
  - b) Agency
- 3) Current market conditions
- 4) Duration of withdrawal
- 5) Effect on predicted cash flows
- 6) A determination if there will be sufficient balances remaining to cover costs
- 7) Adequate information has been supplied to the County Treasurer in order to make a proper finding that other pool participants will not be adversely affected

Note: To accommodate agencies with their own boards and with a desire for flexibility, withdrawals for the purpose of investing outside the County Pool will be permitted if an agency's balance of funds outside the County Treasury Pool does not exceed a total of \$115,000.00 at any time during the year. These small balances will be considered as not affecting the other pool participants. This total "not to exceed" is the total for the agency, not a total by fund. The balance remaining in the Treasury must not be in a negative (deficit) position or all funds must be immediately returned to the Treasury, and the privilege to withdraw any amount will be revoked and not reinstated for a period of six months. Any agency withdrawing funds must comply with all government code sections related to withdrawal of funds, investment of funds, and bonding, as applicable.

For outside investors who utilize GC §53684, where the County Treasurer does not serve as the agency's treasurer, any withdrawal request must be made in writing 30 days in advance per GC §53684(d).

In no event shall funds be withdrawn that, in the judgement of the County Treasurer, will adversely affect the interest of the other participants in the pool.

## **Criteria for Non-Statutory Agency Request to Participate in Pool**

All entities qualifying under GC §27133(g) may deposit funds for investment purposes providing the following has been accomplished:

- The agency's administrative body has requested in writing the privilege, has agreed to all terms, conditions, rules, and regulations of existing participants as prescribed by the County Treasurer, and has delivered to the County Treasury a resolution identifying the authorized officer(s) acting on behalf of the agency.

### **Apportioning Treasury Cost**

As authorized under GC § 27013, the actual administrative cost of investing, depositing, cash handling, and other management costs associated with the accounting of funds, the deposit of funds, the reconciling of accounts, the interest apportionment, and the investment of funds for the pool will be apportioned among the depositors on the basis of each entity's average daily cash balance. For ease of accounting, all costs are offset against the interest earned before the interest is apportioned.

### **Apportioning Investment Losses**

Given the inherent risk of any investment, in the event of a loss, it will be recorded by apportioning the amount among the depositors on the basis of each funds investment earnings in the twelve month period immediately prior to and including the month of recognition. If a subsequent recovery occurs, either partial or complete, the recovery will be distributed among the depositors in the same proportion as the original loss was apportioned.



**Daily Reports  
Portfolio Management  
Portfolio Summary  
September 23, 2019**

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 360 Equiv.
State of CA Local Agncy Invest Fund	45,000,000.00	45,000,000.00	45,000,000.00	10.61	1	1	2.309
Treasury Securities - Coupon	293,000,000.00	292,514,362.14	292,046,453.63	68.84	357	135	2.468
Certificates of Deposit - Bank	39,592,150.00	39,592,150.00	39,592,150.00	9.33	623	263	2.277
Money Market Account	47,600,200.00	47,600,200.00	47,600,200.00	11.22	1	1	2.305
<b>Investments</b>	<b>425,192,350.00</b>	<b>424,706,712.14</b>	<b>424,238,803.63</b>	<b>100.00%</b>	<b>304</b>	<b>117</b>	<b>2.415</b>

Total Earnings	September 23 Month Ending	Fiscal Year To Date
Current Year	664,220.89	2,706,282.80
Average Daily Balance	429,458,548.30	472,506,324.34
Effective Rate of Return	2.45%	2.46%

423,990,224.92 G/L 510  
424,238,803.63 Book

K. E. COLEMAN, TREASURER/TAX COLLECTOR

(248,578.71)

216,406.57 Amort  
32,172.14 O/S PI

0.00

(714,476.76) G/L 612  
714,476.76 Int Recvd

0.00

0.00 Adj Acc  
Int/Purch This  
month

0.00

**Daily Reports**  
**Portfolio Management**  
**Portfolio Details - Investments**  
**September 23, 2019**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>State of CA Local Agency Invest Fund</b>												
99-09-000	071-000000-1	STATE OF CALIFORNIA			45,000,000.00	45,000,000.00	45,000,000.00	2.341		2.341	1	
<b>Subtotal and Average</b>			<b>41,782,608.70</b>		<b>45,000,000.00</b>	<b>45,000,000.00</b>	<b>45,000,000.00</b>			<b>2.341</b>	<b>1</b>	
<b>Treasury Securities - Coupon</b>												
912828TR1	001-190930-1	US TREASURY		12/06/2018	15,000,000.00	14,988,150.00	14,995,941.69	1.000		2.675	6	09/30/2019
912828T59	001-191015-1	US TREASURY		11/26/2018	20,000,000.00	19,975,000.00	19,980,952.50	1.000		2.686	21	10/15/2019
912828F62	001-191031-1	US TREASURY		12/27/2018	15,000,000.00	14,985,750.00	14,983,317.90	1.500		2.617	37	10/31/2019
912828U32	001-191115-1	US TREASURY		11/15/2018	10,000,000.00	9,980,100.00	9,975,903.25	1.000		2.726	52	11/15/2019
912828UB4	001-191130-1	US TREASURY		12/27/2018	15,000,000.00	14,963,100.00	14,956,096.29	1.000		2.624	67	11/30/2019
912828G61	001-191130-2	US TREASURY		04/22/2019	10,000,000.00	9,986,700.00	9,982,316.30	1.500		2.477	67	11/30/2019
912828UF5	001-191231-1	US TREASURY		12/10/2018	12,000,000.00	11,966,760.00	11,949,897.18	1.125		2.713	98	12/31/2019
912828UF5	001-191231-2	US TREASURY		04/26/2019	10,000,000.00	9,972,300.00	9,965,408.51	1.125		2.436	98	12/31/2019
912828V31	001-200115-1	US TREASURY		11/28/2018	20,000,000.00	19,964,000.00	19,915,566.36	1.375		2.770	113	01/15/2020
912828V31	001-200115-2	US TREASURY		12/03/2018	10,000,000.00	9,982,000.00	9,958,023.13	1.375		2.762	113	01/15/2020
912828H52	001-200131-1	US TREASURY		12/03/2018	15,000,000.00	14,958,450.00	14,921,026.96	1.250		2.775	129	01/31/2020
912828H52	001-200131-2	US TREASURY		01/02/2019	5,000,000.00	4,986,150.00	4,976,723.11	1.250		2.595	129	01/31/2020
912828W22	001-200215-1	US TREASURY		01/31/2019	10,000,000.00	9,975,800.00	9,954,259.87	1.375		2.557	144	02/15/2020
912828J50	001-200229-1	US TREASURY		02/28/2019	20,000,000.00	19,947,600.00	19,901,519.81	1.375		2.537	158	02/29/2020
912828J50	001-200229-2	US TREASURY		04/15/2019	5,000,000.00	4,986,900.00	4,977,048.34	1.375		2.455	158	02/29/2020
912828W63	001-200315-1	US TREASURY		03/27/2019	16,000,000.00	15,978,080.00	15,944,410.31	1.625		2.372	173	03/15/2020
912828J84	001-200331-1	US TREASURY		04/09/2019	20,000,000.00	19,947,362.30	19,900,879.95	1.375		2.418	189	03/31/2020
9128284J6	001-200430-1	US TREASURY		04/05/2019	20,000,000.00	20,065,600.00	19,997,374.52	2.375		2.050	219	04/30/2020
912828XE5	001-200531-1	US TREASURY		04/05/2019	20,000,000.00	19,949,200.00	19,877,351.16	1.500		2.397	250	05/31/2020
912828XU9	001-200615-1	US TREASURY		07/16/2019	20,000,000.00	19,969,209.84	19,950,631.39	1.500		2.023	265	06/15/2020
9128282J8	001-200715-1	US TREASURY		07/01/2019	5,000,000.00	4,986,150.00	4,981,805.10	1.500		1.958	295	07/15/2020
<b>Subtotal and Average</b>			<b>300,472,781.17</b>		<b>293,000,000.00</b>	<b>292,514,362.14</b>	<b>292,046,453.63</b>			<b>2.502</b>	<b>135</b>	
<b>Certificates of Deposit - Bank</b>												
23605900-2	027-191206-1	FARMERS & MERCHANT BK LONG BCH		12/06/2018	5,000,000.00	5,000,000.00	5,000,000.00	2.618	A-1	2.618	73	12/06/2019
23605609-1	027-191218-1	FARMERS & MERCHANT BK LONG BCH		12/18/2018	3,000,000.00	3,000,000.00	3,000,000.00	2.560	A-1	2.560	85	12/18/2019
23605918-1	027-200611-1	FARMERS & MERCHANT BK LONG BCH		12/11/2018	1,693,000.00	1,693,000.00	1,693,000.00	2.590	A-1	2.590	261	06/11/2020
23605552	027-200618-1	FARMERS & MERCHANT BK LONG BCH		06/19/2015	4,000,000.00	4,000,000.00	4,000,000.00	1.500	A-1	1.500	269	06/19/2020
23605798-0	027-200626-0	FARMERS & MERCHANT BK LONG BCH		06/26/2019	3,000,000.00	3,000,000.00	3,000,000.00	1.900	A-1	1.900	276	06/26/2020
3467257424	028-191206-1	FIRST BANK		12/06/2018	7,000,000.00	7,000,000.00	7,000,000.00	2.550		2.550	73	12/06/2019
3689615766	028-200403-1	FIRST BANK		04/03/2019	5,000,000.00	5,000,000.00	5,000,000.00	2.200		2.200	192	04/03/2020
3257474344	028-200411-1	FIRST BANK		04/19/2019	5,000,000.00	5,000,000.00	5,000,000.00	2.200		2.200	208	04/19/2020

Data Updated: SET\_100: 09/23/2019 12:05

Run Date: 09/23/2019 - 12:06

Portfolio CNTY  
AC  
PM (PRF\_PM2) 7.3.0

**Daily Reports  
Portfolio Management  
Portfolio Details - Investments  
September 23, 2019**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>Certificates of Deposit - Bank</b>												
SYS019-240824-1	019-240824-1	RIVER CITY BANK		08/29/2019	1,400,000.00	1,400,000.00	1,400,000.00	1.850		1.850	1,794	08/22/2024
702010257	243-191022-1	Summit State Bank		10/22/2014	249,400.00	249,400.00	249,400.00	0.950		0.950	28	10/22/2019
992521773-1	079-210328-1	UMPQUA BANK		03/28/2019	4,000,000.00	4,000,000.00	4,000,000.00	2.500		2.500	551	03/28/2021
992522169-1	079-220206-1	UMPQUA BANK		02/06/2019	249,750.00	249,750.00	249,750.00	2.500		2.500	866	02/06/2022
<b>Subtotal and Average</b>			<b>39,602,958.43</b>		<b>39,592,150.00</b>	<b>39,592,150.00</b>	<b>39,592,150.00</b>			<b>2.277</b>	<b>263</b>	
<b>Money Market Account</b>												
35301666	021-000000-1	CITIZENS BUSINESS BANK		05/01/2011	106,700.00	106,700.00	106,700.00	0.300		0.300	1	
8003014936	025-000000-1	EAST WEST BANK		06/29/2011	28,600,000.00	28,600,000.00	28,600,000.00	2.340		2.340	1	
23701315	027-000000-1	FARMERS & MERCHANT BK LONG BCH		07/05/2011	90,000.00	90,000.00	90,000.00	0.200		0.200	1	
9425920805	028-000000-1	FIRST BANK		12/05/2014	1,100,000.00	1,100,000.00	1,100,000.00	2.000		2.000	1	
2505873	244-000000-1	Five Star Bank		11/02/2016	5,750,000.00	5,750,000.00	5,750,000.00	2.341		2.341	1	
0811105962-1	019-000000-1	RIVER CITY BANK		06/25/2015	11,703,500.00	11,703,500.00	11,703,500.00	2.430		2.430	1	
4861283598	079-000000-1	UMPQUA BANK		12/10/2015	250,000.00	250,000.00	250,000.00	0.650		0.650	1	
<b>Subtotal and Average</b>			<b>47,600,200.00</b>		<b>47,600,200.00</b>	<b>47,600,200.00</b>	<b>47,600,200.00</b>			<b>2.337</b>	<b>1</b>	
<b>Total and Average</b>			<b>429,458,548.30</b>		<b>425,192,350.00</b>	<b>424,706,712.14</b>	<b>424,238,803.63</b>			<b>2.445</b>	<b>117</b>	

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

*The following information has been provided by DTC for use in securities offering documents, and none of the District, the Corporation or the Underwriter takes any responsibility for the accuracy or completeness thereof.*

1. The Depository Trust Company (“DTC”), will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Certificate will be issued for each stated Principal Payment Date of the Certificates, each in the aggregate amount of the principal evidenced by Certificates with such stated Principal Payment Date, and will be deposited with DTC.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information on such website is not incorporated into this Official Statement by reference or otherwise.

3. 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, however, are 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.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be

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

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

6. Prepayment notices will be sent to DTC. If less than all of the Certificates with a particular stated Principal Payment Date are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Certificates to be prepaid.

7. 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 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 the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments of principal, premium, if any, interest and other 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 the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, interest and other payments evidenced by the Certificates 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, and disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the 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 are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.



11. 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.

THE DISTRICT, THE CORPORATION AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO PARTICIPANTS, OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL, INTEREST OR ANY PREMIUM EVIDENCED BY THE CERTIFICATES PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR ANY PREPAYMENT OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE DISTRICT, THE CORPORATION AND THE TRUSTEE ARE NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANTS TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE CERTIFICATES OR ANY ERROR OR DELAY RELATING THERETO.

THE FOREGOING DESCRIPTION OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE CERTIFICATES, PAYMENT OF PRINCIPAL, INTEREST AND OTHER PAYMENTS EVIDENCED BY THE CERTIFICATES TO PARTICIPANTS OR BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN SUCH CERTIFICATES AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE PARTICIPANTS AND THE BENEFICIAL OWNERS IS BASED ON INFORMATION PROVIDED BY DTC. ACCORDINGLY, THE DISTRICT TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX G**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100