

NEW ISSUE

RATINGS: S&P: "AA" (Insured)

"A-" (Underlying)

(See "MISCELLANEOUS—Ratings" herein)

FULL BOOK-ENTRY

*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" herein.*

\$2,930,000\*

**REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019  
Evidencing the Direct, Fractional Undivided Interests of the  
Owners Thereof in Base Rental Payments to be Made by the  
HEMET UNIFIED SCHOOL DISTRICT  
(Riverside County, California)**

**Dated: Date of Delivery**

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

The Hemet Unified School District Refunding Certificates of Participation, Series 2019 (the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2019 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee, the Hemet Unified School District School Facilities Corporation (the "Corporation") and the Hemet Unified School District (the "District") to (i) prepay the currently outstanding Hemet Unified School District Series 2007 Certificates of Participation (2007 School Facilities Project), (ii) acquire a municipal bond insurance policy and a debt service reserve insurance policy for the Certificates, and (iii) pay certain costs related to the execution and delivery of the Certificates, all as further described in the sections "THE PREPAYMENT PLAN" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

Pursuant to a Ground Lease, dated as of November 1, 2019, the District will lease certain property owned by the District and more particularly described herein (the "Property"), to the Corporation, and will lease the Property back from the Corporation pursuant to a Lease Agreement, dated as of November 1, 2019 (the "Lease Agreement"), by and between the Corporation and the District. The Certificates evidence direct, fractional undivided interests of the owners thereof in the Base Rental Payments (which include principal components and interest components) to be made by the District as lessee under the Lease Agreement. The District will covenant 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 represented by the Certificates is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2020. The Certificates will be delivered as fully registered certificates, without coupons, and when delivered will be registered in the name of The Depository Trust Company ("DTC"), New York, New York, or its nominee. DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only, in authorized denominations, as described in this Official Statement. See APPENDIX G—"BOOK-ENTRY ONLY SYSTEM."

**The Certificates are subject to prepayment prior to their stated maturity as described herein. See "THE CERTIFICATES—Prepayment."**

The scheduled payment of principal and interest evidenced by the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the execution and delivery of the Certificates by Assured Guaranty Municipal Corp. (the "Insurer"). See "MUNICIPAL BOND INSURANCE" herein.



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 OBLIGATION OF THE DISTRICT TO MAKE BASE RENTAL PAYMENTS IS SUBJECT TO THE DISTRICT'S BENEFICIAL USE AND POSSESSION OF THE PROPERTY.

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the Certificates or the Lease Agreement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein.

*The Certificates will be offered when, as and if delivered and received by the Underwriter, subject to the approval as to legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Special Counsel. Certain matters will be passed on for the District and the Corporation by their counsel, Orbach Huff Suarez & Henderson LLP, Los Angeles, California, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel. Certain matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP, Irvine, California. It is anticipated that the Certificates in definitive form will be available for delivery through the facilities of DTC on or about November 6, 2019.*



Dated: October \_\_, 2019

\* Preliminary, subject to change.

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

**MATURITY SCHEDULE**

**\$2,930,000\***

**REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

**Evidencing the Direct, Fractional Undivided Interests of the  
Owners Thereof in Base Rental Payments to be Made by the**

**HEMET UNIFIED SCHOOL DISTRICT**

**(Riverside County, California)**

**(BASE CUSIP<sup>†</sup> NO.: 423551)**

<i>Maturity (October 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP<sup>†</sup> No.</i>
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					

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

*\* Preliminary, subject to change.*

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

This Official Statement is not to be construed as a contract with the Underwriter of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The 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.”

The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date hereof. This Official Statement is being submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

All information for investors regarding the District and the Certificates is contained in this Official Statement. While the District maintains an internet website for various purposes, none of the information on this website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Certificates or any other Certificates or obligations of the District.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions “THE DISTRICT” and “DISTRICT FINANCIAL MATTERS” herein.

The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the District has agreed to provide certain on-going financial and operating data for a limited period of time, it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change. See “CONTINUING DISCLOSURE” and Appendix E — “FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein.

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 “MUNICIPAL BOND INSURANCE” and Appendix F—“Specimen Municipal Bond Insurance Policy.”

**WITH RESPECT TO THIS OFFERING, THE UNDERWRITER MAY ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES DESCRIBED HEREIN TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED IN THIS OFFICIAL STATEMENT AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

**THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

**HEMET UNIFIED SCHOOL DISTRICT  
(RIVERSIDE COUNTY, CALIFORNIA)**

**Governing Board**

Megan Haley, *President*  
Rob Davis, *Vice President*  
Stacey Bailey, *Member*  
Gene Hikel, *Member*  
Vic Scavarda, *Member*  
Patrick Searl, *Member*  
Horacio Valenzuela, *Member*

**District Administrators**

Dr. Christi Barrett, *Superintendent*  
Darrin Watters, *Deputy Superintendent, Business Services*

**PROFESSIONAL SERVICES**

**Special Counsel**

Orrick, Herrington & Sutcliffe LLP  
Irvine, California

**Disclosure Counsel**

Stradling Yocca Carlson & Rauth, A Professional Corporation  
Newport Beach, California

**Counsel to District and Corporation**

Orbach Huff Suarez & Henderson LLP  
Los Angeles, California

**Municipal Advisor**

Fieldman, Rolapp & Associates, Inc.  
Irvine, California

**Trustee and Escrow Bank**

U.S. Bank National Association  
Los Angeles, California

**Verification Agent**

Causey Demgen & Moore P.C.  
Denver, Colorado

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**\$2,930,000\***  
**REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**  
**Evidencing the Direct, Fractional Undivided Interests of the**  
**Owners Thereof in Base Rental Payments to be Made by the**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**

**INTRODUCTION**

This Official Statement, which includes the cover page, inside cover and Appendices hereto, provides certain information concerning the sale and delivery of the Hemet Unified School District Refunding Certificates of Participation, Series 2019 in the aggregate principal amount of \$2,930,000\* (the “Certificates”). The Certificates will evidence direct, fractional undivided interests of the registered owners thereof (the “Owners”) in the Base Rental Payments (as hereinafter defined) to be made by the Hemet Unified 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 Hemet Unified School District School Facilities 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.

This introduction is not a summary of the 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. Capitalized terms not defined herein shall have the meanings set forth in Appendix A hereto.

**The District**

The District was established on July 1, 1966, as a result of the unification of the Alamos and Cottonwood Districts, the Hemet Valley Union School District, and the Hemet Union High School District. The District covers approximately 647 square miles in the western part of Riverside County. The City of Hemet and unincorporated communities of Idyllwild, Anza, Aguanga, and Winchester are situated within the District’s boundaries. Hemet is located in the State of California (the “State”), approximately forty-five miles west of Palm Springs, seventy-five miles north of San Diego, sixty-five miles east of Los Angeles, and thirty-five miles southeast of Riverside. The District’s total population is approximately 177,000.

The District currently operates preschool centers at 11 school locations, 12 elementary schools (transitional kindergarten through fifth grade), 3 elementary/middle schools (transitional kindergarten through eighth grade), 4 middle schools (sixth through eighth grade), 4 comprehensive high schools (ninth through twelfth grade), 1 continuation high school (eleventh through twelfth grade), a science-based charter middle/high school (sixth through twelfth grade), an adult education center, independent study programs, a home school program, and a self-paced on-line instruction program offer a wide variety of learning opportunities for students of all ages. The charter school operated by the District, the Western Center Academy, and its financial activities are presented in the District’s audited financial statements in the Charter School Special Revenue Fund. There are also three additional charter schools operating within the District’s boundaries (the Baypoint Preparatory Academy, Imagine Schools and several campuses of the Springs Charter School) which are independent charter schools not approved by the District. The District is governed by a seven member Governing Board and is divided into three trustee areas. The Governing Board members are elected to staggered four-year terms. For more information regarding the District see the information under the caption “THE DISTRICT” and “DISTRICT FINANCIAL MATTERS” herein.

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\* Preliminary, subject to change.

## **Purpose of the Certificates**

The proceeds received from the sale of the Certificates will be used to (i) prepay the currently outstanding Hemet Unified School District Series 2007 Certificates of Participation (2007 School Facilities Project) (the "Prior Certificates"), (ii) acquire a municipal bond insurance policy and a debt service reserve insurance policy for the Certificates, and (iii) pay certain costs related to the execution and delivery of the Certificates. See "THE PREPAYMENT PLAN" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

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

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2019 (the "Trust Agreement"), by and among U.S. Bank 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" herein.

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 District will covenant 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.

The District intends to apply Tax Increment (as defined below) it receives in each fiscal year toward the Rental Payments, and will covenant in the Lease Agreement that it will, to the extent available and subject to the application of the provisions of any pledge, covenant to appropriate or similar commitment to a prior application thereof, to the extent permitted by law, annually take such action as may be necessary to budget, appropriate and apply Tax Increment it receives in each fiscal year or otherwise legally available to pay the Rental Payments due under the Lease Agreement in such fiscal year.

"Tax Increment" means the tax increment revenues received by the successor to the Hemet Redevelopment Agency (the "RDA") pursuant to former Section 33670(b) of the California Health and Safety Code and as allocated and required to be deposited by the RDA for the benefit of the District pursuant to agreements and arrangements previously entered into by and among the District, the RDA and the City of Hemet, existing as of the date of the Lease Agreement, and as provided by law.

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.**

### **Description of the Certificates**

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see “THE CERTIFICATES” and APPENDIX A—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein. The summaries and descriptions in this Official Statement of the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement and other agreements relating to the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in such documents.

**Prepayment.** The Certificates are subject to optional and extraordinary prepayment prior to maturity. See “THE CERTIFICATES—Prepayment” herein.

**Registration, Transfers and Exchanges.** 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 G—“BOOK-ENTRY ONLY SYSTEM.”

**Payments.** Interest evidenced by the Certificates is payable semiannually on April 1 and October 1 of each year, commencing on April 1, 2020. See “THE CERTIFICATES—General.”

### **Municipal Bond Insurance**

The scheduled payment of principal and interest evidenced by the Certificates when due will be guaranteed under an insurance policy (the “Policy”) to be issued concurrently with the execution and delivery of the Certificates by Assured Guaranty Municipal Corp. (the “Insurer” or “AGM”). See “MUNICIPAL BOND INSURANCE” and APPENDIX F—“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.” herein

The Reserve Requirement for the Certificates will initially be satisfied by a debt service reserve insurance policy to be provided by the Insurer. See “SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES—Reserve Fund” and APPENDIX A—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein

## **Continuing Disclosure**

The District will agree in the Continuing Disclosure Certificate for the benefit of Certificate Owners and Beneficial Owners to make available certain financial information and operating data relating to the District on an annual basis and to provide notices of the occurrence of certain enumerated events in compliance with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission. The specific nature of the information to be made available and of the event notices to be provided is summarized below under the caption “CONTINUING DISCLOSURE” and APPENDIX E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein. For information concerning the District’s compliance with its continuing disclosure undertakings over the past five years, see “CONTINUING DISCLOSURE” herein.

## **Professionals Involved in the Offering**

U.S. Bank National Association, will act as Trustee with respect to the Certificates. The Certificates will be delivered subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Special Counsel to the District, and the satisfaction of certain other conditions. Special Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Stradling Yocca Carlson & Rauth, a Professional Corporation will act as the District’s Disclosure Counsel with respect to the Certificates. Orbach Huff Suarez & Henderson LLP, Los Angeles, California, will act as counsel to the District and the Corporation with respect to certain matters. Fieldman, Rolapp & Associates, Inc. will act as Municipal Advisor to the District and Kutak Rock LLP, Irvine, California, will act as counsel to the Underwriter. The District’s financial statements for the fiscal year ended June 30, 2018 are included as Appendix D hereto. The financial report for the fiscal year ended June 30, 2018 has been audited by Vavrinek, Trine, Day & Co., LLP. Causey Demgen & Moore P.C., Denver, Colorado, will act as Verification Agent.

## **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.

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

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

Copies of the Lease Agreement, the Ground Lease, the Trust Agreement, the Assignment Agreement and the Continuing Disclosure Certificate are available, upon request, and upon payment to the District of a charge for copying, mailing and handling, from the District at 1791 W. Acacia Avenue, Hemet, California 92545.

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

## **THE PREPAYMENT PLAN**

On the Delivery Date, a portion of the proceeds of the Certificates will be transferred to U.S. Bank National Association, as escrow bank (the “Escrow Bank”) for the Prior Certificates. The proceeds so transferred to the Escrow Bank will be used to purchase Federal Securities (as defined in the Trust Agreement, dated as of October 1, 2004, as supplemented and amended by that First Supplemental Trust Agreement, dated as of November 1, 2007, each by and between U.S. Bank National Association (the “Prior Trustee”) and the District (collectively, the “Prior Trust Agreement”), to enable the Escrow Bank to prepay the principal and interest evidenced by the Prior Certificates on December 6, 2019 (the “Prepayment Date”) at a prepayment price equal to the principal component of the outstanding lease payments to be prepaid, plus accrued and unpaid interest to the Prepayment Date, without premium.

Causey, Demgen & Moore, P.C., independent certified public accountants, acting as verification agent, will certify, in writing, that the amounts so transferred to the Escrow Bank, along with the interest earnings thereon will be sufficient to prepay the Prior Certificates on the Prepayment Date at the required prepayment price plus accrued and unpaid interest to the Prepayment Date, without premium.

## **THE PROPERTY**

### **General**

Pursuant to the Ground Lease, the District is leasing the Property to the Corporation and is leasing the Property back from the Corporation pursuant to the Lease Agreement. The Property consists of the Cottonwood School (the “School), located within the District at 44260 Sage Road, Aguangua, California, and the real property on which the School is located. The School first opened in 1897, and the current School facility opened in April 1989. The School services approximately 250 students in grades K-8. The Property contains 10 classrooms, an office complex, a multi-purpose room and a full kitchen, as well as several relocatable classrooms. The insured value of the School is greater than the principal amount of the Certificates. See “RISK FACTORS—Abatement” and “—Absence of Earthquake and Flood Insurance.”

### **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 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 April 1 and October 1 of each year, commencing April 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 March 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 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 G—“BOOK-ENTRY ONLY SYSTEM.”

### Prepayment\*

**Optional Prepayment.** The Certificates maturing on or before October 1, 2029 are not subject to optional prepayment prior to their respective stated Principal Payment Dates. The Certificates maturing on or after October 1, 2030, are subject to optional prepayment prior to their respective stated Principal Payment Dates, on any date on or after October 1, 2029, 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

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\* Preliminary, subject to change.

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 October 1, 20\_\_ are subject to prepayment prior to such stated Principal Payment Date, in part, from Mandatory Sinking Account Payments, on October 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:

<b>Prepayment Date (October 1)</b>	<b>Principal To Be Prepaid</b>
	\$

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† Stated Principal Payment Date

If some but not all of the principal evidenced by the Certificates with a stated Principal Payment Date of October 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 October 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.

### **Prepayment Procedures**

***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**

The Certificates will be executed and delivered as one fully registered certificate without coupons for each maturity of each series and, when issued, will be registered in the name of Cede & Co., as nominee DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry



form only, in the principal amount of \$5,000 and integral multiples thereof for each maturity. Beneficial Owners will not receive certificates representing their interest in the Certificates purchased. Principal and interest will be paid to DTC, which will, in turn, remit such principal and interest to its participants for subsequent dispersal to the Beneficial Owners of the Certificates in accordance with DTC’s procedures. See APPENDIX G—“BOOK-ENTRY ONLY SYSTEM” herein.

**CERTIFICATE PAYMENT SCHEDULE**

Base Rental Payments are required to be made by the District under the Lease Agreement on or before each Base Rental Deposit Date, which is 15 days prior to each Interest Payment Date (assuming no early prepayment by the District) for the use and possession of the Property for the period commencing as of the Closing Date and terminating as provided in the Lease Agreement. The aggregate annual amounts of Base Rental Payments, comprised of the interest component and principal component payable to the Owners, are set forth below. The following table summarizes the annual Certificate payments to be made from the Base Rental Payments of the District assuming no extraordinary or early prepayments.

**ANNUAL CERTIFICATE PAYMENT SCHEDULE**

<i>Certificate Year (October 1)</i>	<i>Principal Component</i>	<i>Interest Component</i>	<i>Total Annual Certificate Payments</i>
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
<b>Total</b>			

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

**General**

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.

### **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.

## **Tax Increment Revenues**

The District intends to apply Tax Increment it receives in each fiscal year toward the Rental Payments, and will covenant in the Lease Agreement that it will, to the extent available and subject to the application of the provisions of any pledge, covenant to appropriate or similar commitment to a prior application thereof, to the extent permitted by law, annually take such action as may be necessary to budget, appropriate and apply Tax Increment it receives in each fiscal year or otherwise legally available to pay the Rental Payments due under the Lease Agreement in such fiscal year.

## **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 October 1 in each year and extending to the next succeeding September 30, both dates inclusive, except that the first Certificate Year shall begin on the Delivery Date and end on September 30, 2020. 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 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.”

## **MUNICIPAL BOND INSURANCE**

*The information under this caption has been prepared by the Insurer for inclusion in this Official Statement. Neither the District nor the Underwriter has reviewed this information and neither the District nor the Underwriter makes any representation with respect to the accuracy or completeness thereof. The following information is not complete and reference is made to Appendix F for a specimen of the Policy.*

### **Bond Insurance Policy**

Concurrently with the issuance of the Certificates, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Certificates (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest with respect to the Certificates when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

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

### **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 of AGM and its subsidiaries (as described below) were approximately \$1,853 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries") and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries 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:

- 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);
- 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
- 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 “MUNICIPAL BOND 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 “MUNICIPAL BOND INSURANCE”

## ESTIMATED SOURCES AND USES OF PROCEEDS

The estimated sources and uses of proceeds to be received from the sale of the Certificates and funds available under the Prior Trust Agreement are as follows:

### *Sources*

Certificate Par Amount  
[Plus /Less] [Net] Original Issue [Premium/Discount]  
Funds Available Under Prior Trust Agreement  
Total

### *2019 Certificates*

### *Uses*

Escrow Fund  
Costs of Issuance<sup>(1)</sup>  
Total

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<sup>(1)</sup> Includes Underwriter's discount, legal fees, municipal advisor fees, Trustee fees, title insurance premiums, printing, municipal bond insurance premium, municipal bond debt service reserve insurance policy premium and rating agency fees and expenses, and other miscellaneous delivery costs.

## RISK FACTORS

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

No representation is made as to the future financial condition of the District. Payment of the Base Rental Payments is an obligation of the District payable from legally available funds and the ability of the District to make Base Rental Payments may be adversely affected by its financial condition as of any particular time. See "STATE OF CALIFORNIA FISCAL ISSUES," "THE DISTRICT" and "DISTRICT FINANCIAL MATTERS."

### **General Considerations-Security for the Certificates**

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 will covenant in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for such rental payments. The District is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Base Rental Payments. 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.



## **Constitutional and Statutory Limitations on Appropriations**

There are limitations on the ability of the District to increase revenues. The ability of the District to increase the *ad valorem* property tax is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. In 1986, California voters approved an initiative statute to limit the imposition of new or higher taxes by local agencies, including the District. On November 5, 1996, voters approved Proposition 218 – the “Right to Vote on Taxes Act,” which further affects the ability of local agencies to levy and collect existing and future taxes, assessments, fees and charges. On November 3, 2010, California voters approved Proposition 26, which generally expands the definition of “taxes” that are subject to voter approval requirements imposed by Proposition 218. Additionally, Article XIII B of the State Constitution places certain limits on the appropriations the District is permitted to make. See “STATE CONSTITUTIONAL LIMITATIONS ON DISTRICT SOURCES AND EXPENDITURES” herein.

### **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 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.

### **No Cash Reserve**

Initially, the Reserve Requirement will be satisfied by the Reserve Policy. In the event that the Insurer was to experience financial difficulties, there would be no cash available for transfer from the Reserve Fund. The obligations of the Insurer under the Reserve Policy are unsecured contractual obligations and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies. See “RISK FACTORS—Municipal Bond Insurance.”

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

Much of California is seismically active, with numerous faults that could be earthquake sources. The District has no earthquake insurance on the Property and is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property. Seismic activity could cause significant damage to the Property and the value of the Property could be adversely affected and an abatement of Base Rental Payments could occur due to a seismic event. The District is not able to predict whether or to what extent these results might occur.

The Property is not located in a 100-year flood plain or a dam inundation zone. The District has no flood insurance on the Property and is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, flood insurance on the Property.

### **Other Limitations on Liability**

Although the District will covenant to budget and appropriate annually to provide for Rental Payments, the District has not pledged its full faith and credit to such payment. In the event that the District's revenue sources are less than its total obligations in any year, the District could choose to pay other District expenditures before paying any or all of the annual Base Rental Payments.

Except as expressly provided in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the 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.

### **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. Any such suit for money damages would be subject to limitations on legal remedies against school districts in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

### **Limited Recourse on Default; Insurer Right to Control Remedies**

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 re-let the Property. In the event such re-letting 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 re-let 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 re-letting 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 re-letting will not adversely affect the exclusion of any interest component of Base Rental Payments evidenced by the Certificates from federal or state income taxation.

The enforceability of the rights and remedies of the Owners of the Certificates, and the obligations incurred by the District, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations,

of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, would subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of their rights with respect to the Certificates. In a bankruptcy case, a plan of adjustment for the District could be confirmed that would allow for enforcement of the Lease Agreement, but the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants and other terms or provisions of the Lease Agreement and the Certificates may be altered by the bankruptcy court. Such a plan could be confirmed even over the objections of the Trustee and the Owners, and without their consent. In addition, if the Lease Agreement is determined to constitute a “true lease” by the bankruptcy court (rather than a financing lease providing for the extension of credit), the District could choose not to perform under the Lease Agreement and the claim of the Owners could be substantially limited. An allowable claim could be substantially less than the amount of the Certificates outstanding, resulting in the Owners not receiving the full amount of the principal and interest due with respect to the Certificates.

So long as the Policy remains in effect and the Insurer is not in default of its obligations thereunder, the Insurer shall have the right to control all remedies for default under the Lease Agreement and the Trust Agreement and shall not be required to obtain the consent of the Owners with respect to the exercise of remedies.

Remedies available to the Owners of the Certificates may be limited by a variety of factors and may be inadequate to assure the timely payment of principal and interest due with respect to the Certificates or to preserve the tax-exempt status of the interest component of the Certificates.

Special Counsel has limited its opinion as to the enforceability of the Certificates and of the Trust Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditors’ rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Certificates are not subject to acceleration in the event of the breach of any covenant or duty under the Trust Agreement. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Certificate Owners.

### **Substitution 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.”

### **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 and future court decisions or legislation could result in the interest component of 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 special prepayment and would remain Outstanding until maturity or until prepaid at the option of the District.

### **Municipal Bond Insurance**

In the event of default of the payment of the scheduled principal of or interest with respect to the Certificates when all or some becomes due, the Trustee on behalf of any owner of Certificates shall have a claim under the Policy for such payments. The Insurer may direct and must consent to any remedies with respect to the Certificates and the Insurer's consent may be required in connection with amendments to any applicable documents relating to the Certificates. See Appendix A—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The long-term ratings on the Certificates are dependent in part on the financial strength of the Insurer and its claims paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and the ratings on the Certificates will not be subject to downgrade and such event could adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates. See "RATINGS" herein.

The obligations of the Insurer are unsecured contractual obligations and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to make the payments with respect to the Certificates and the claims paying ability of the Insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE" herein for further information regarding the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

### **CONTINUING DISCLOSURE**

Pursuant to the Continuing Disclosure Certificate (the "Continuing Disclosure Certificate"), the form of which is attached hereto as Appendix E, the District will agree, upon the occurrence of certain enumerated events, to report such event in a timely manner not more than ten (10) business days after the occurrence of such event to the Municipal Securities Rulemaking Board (the "MSRB") through its EMMA system. In addition, the District will agree in the Continuing Disclosure Certificate to provide certain annual financial and operating data to the MSRB not later than March 31 of each year commencing March 31, 2020. See APPENDIX E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

These covenants will be made in order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission. The Owners and Beneficial Owners of the Certificates are third party beneficiaries of the Continuing Disclosure Certificate. In the event the District fails to comply with any provision in the Continuing Disclosure Certificate, any Owner or Beneficial Owner may take all action necessary to cause the District to comply with the Continuing Disclosure Certificate. A default under the Continuing Disclosure Certificate shall not be an event of default under the Trust Agreement. In addition, no person or entity shall be entitled to recover any monetary damages under the Continuing Disclosure Certificate.

The District has entered into certain continuing disclosure undertakings with respect to prior financings. Within the last five years, the District failed to comply with these prior undertakings in the following respects: the annual report for fiscal year 2013-14 was filed 24 days late with respect to two series

of outstanding District obligations and was not linked on EMMA to certain of the District's obligations until May 8, 2015, the annual report for fiscal year 2014-15 was filed 17 days late with respect to one series of outstanding District obligations, the annual report for fiscal year 2016-17 was filed 14 days late with respect to one series of outstanding District obligations and the annual report for fiscal year 2017-18 was filed over six months late with respect to one series of outstanding District obligations, without notice of late filing.

In order to assist the District in complying with its continuing disclosure obligations, the District has engaged Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices as its dissemination agent.

## **THE CORPORATION**

The Hemet Unified School District School Facilities Corporation, a nonprofit public benefit corporation was incorporated on August 8, 1990 pursuant to the Nonprofit Public Benefit Corporation Law of the State (Title 1, Division 2, Part 2 of the California Corporation Code). The Corporation was established in order to facilitate and assist the District in financing and refinancing its capital projects and equipment needs.

## **THE DISTRICT**

### **Introduction**

The District was established on July 1, 1966, as a result of the unification of the Alamos and Cottonwood Districts, the Hemet Valley Union School District, and the Hemet Union High School District. The District covers approximately 647 square miles in the western part of Riverside County. The City of Hemet and unincorporated communities of Idyllwild, Anza, Aguanga, and Winchester are situated within the District's boundaries. Hemet is located approximately forty-five miles west of Palm Springs, seventy-five miles north of San Diego, sixty-five miles east of Los Angeles, and thirty-five miles southeast of Riverside. The District's total population is approximately 177,000.

The District currently has an enrollment of 21,600 students. The District currently operates preschool centers at 11 school locations, 12 elementary schools (transitional kindergarten through fifth grade), 3 elementary/middle schools (transitional kindergarten through eighth grade), 4 middle schools (sixth through eighth grade), 4 comprehensive high schools (ninth through twelfth grade), 1 continuation high school (eleventh through twelfth grade), a science-based charter middle/high school (sixth through twelfth grade), an adult education center, independent study programs, a home school program, and a self-paced on-line instruction program offer a wide variety of learning opportunities for students of all ages. The charter school operated by the District, the Western Center Academy, and its financial activities are presented in the District's audited financial statements in the Charter School Special Revenue Fund. There are also three additional charter schools operating within the District's boundaries (the Baypoint Preparatory Academy, Imagine Schools and several campuses of the Springs Charter School) which are independent charter schools not approved by the District.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial reports of the District may be obtained on the District's website or by contacting: Hemet Unified School District, 1791 West Acacia Avenue, Hemet, California, 92545 Attention: Deputy Superintendent, Business Services.

### **Governing Board**

The District is governed by a seven-member Governing Board, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between three and four available positions. The District is divided into three trustee areas. Each December the Board elects a

President and a Vice President to serve one-year terms. The Superintendent acts as the Clerk of the Governing Board. Current members of the Board, together with their office and the date their term expires, are listed in Table 1 below.

**Table 1**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Governing Board**

<i>Name</i>	<i>Trustee Area</i>	<i>Office</i>	<i>Current Term Expires</i>
Megan Haley	Area 2	President	December 2022
Rob Davis	Area 3	Vice President	December 2022
Stacey Bailey	Area 3	Board Member	December 2020
Gene Hikel	Area 3	Board Member	December 2020
Vic Scavarada	Area 1	Board Member	December 2022
Patrick Searl	Area 3	Board Member	December 2020
Horacio Valenzuela	Area 3	Board Member	December 2022

Source: Hemet Unified School District.

### **Superintendent and Administrative Personnel**

The Superintendent of the District, appointed by the Board, is responsible for management of the day to day operations and supervises the work of other District administrators. The names and backgrounds of the Superintendent and the Deputy Superintendent, Business Services are set forth below.

### **Employee Relations**

In the fall of 1974, the State Legislature enacted a public school employee collective bargaining law known as the Rodda Act, which became effective in stages in 1976. The law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

The teachers of the District (certificated personnel) are represented by the Hemet Teachers' Association (the "HTA"). The District and the HTA are operating under a labor contract that expired on June 30, 2019. The parties will continue to operate under the terms of the expired contract until a new contract is agreed upon.

As of June 30, 2019, the District employed 1,313 certificated employees with a total estimated payroll of \$172,987,201, including STRS on-behalf payments made by the District. Table 2 below sets forth the number of certificated employees employed by the District for each of the last five fiscal years.

**Table 2**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Certificated Employees**

<i>Fiscal Year</i>	<i>Total Number of Employees</i>
2014-15	1,177
2015-16	1,210
2016-17	1,282
2017-18	1,291
2018-19	1,313

Source: Hemet Unified School District.

The California School Employees Association (the “CSEA”) has been selected as the exclusive bargaining agent for non-teaching (classified) personnel. The District and CSEA are currently operating under a contract that expired on June 30, 2019. The parties will continue to operate under the terms of the expired contract until a new contract is agreed upon.

As of June 30, 2019, the District employed 1,590 classified employees with a total estimated payroll of \$85,897,190. Table 3 below sets forth the number of classified employees for each of the last five fiscal years.

**Table 3**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Classified Employees**

<i>Fiscal Year</i>	<i>Total Number of Employees</i>
2014-15	1,296
2015-16	1,453
2016-17	1,490
2017-18	1,483
2018-19	1,590

Source: Hemet Unified School District.

### **Retirement System**

*This section contains certain information relating to the Public Employees’ Retirement System (“PERS”) and the State Teachers’ Retirement System (“STRS”). The information is primarily derived from information produced by PERS and STRS, their independent accountants and their actuaries. Neither the District nor the Underwriter has independently verified the information provided by PERS and STRS and each makes no representations nor expresses any opinion as to the accuracy of the information provided by PERS and STRS.*

*The comprehensive annual financial reports of PERS and STRS are available on their websites at [www.calpers.ca.gov](http://www.calpers.ca.gov) and [www.calstrs.ca.gov](http://www.calstrs.ca.gov), respectively. The PERS and STRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. Neither the District nor the Underwriter can guarantee the accuracy of such information. Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.*

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

Prior to fiscal year 2014-15, unlike typical defined benefit programs, neither the employee, employer or State contribution rate to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS

projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, in 2014, the State passed legislation described below to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by statute to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed A.B. 1469 (“A.B. 1469”) in to law as a part of the 2014-15 State Budget. A.B. 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the “2014 Liability”), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing on July 1, 2014, the employee contribution rates have increased over a three year phase in period in accordance with the schedule set forth in Table 4 below:

**Table 4**  
**MEMBER CONTRIBUTION RATES**  
**STRS (Defined Benefit Program)**

<i>Effective Date</i>	<i>STRS Members Hired Prior to January 1, 2013</i>	<i>STRS Members Hired After January 1, 2013</i>
July 1, 2014	8.15%	8.150%
July 1, 2015	9.20	8.560
July 1, 2016	10.25	9.205

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Source: A.B. 1469.

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

Pursuant to A.B. 1469, K-14 school districts’ contribution rate will increase over a seven year phase in period in accordance with the schedule set forth in Table 5 below:

**Table 5**  
**K-14 SCHOOL DISTRICT CONTRIBUTION RATES**  
**STRS (Defined Benefit Program)**

<i>Effective Date</i>	<i>K-14 school districts<sup>(1)</sup></i>
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	17.10
July 1, 2020	18.40

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<sup>(1)</sup> Percentage of eligible salary expenditures to be contributed.  
Source: A.B. 1469.

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter the STRS Teachers’ Retirement Board (the “STRS Board”), is required to increase or decrease the



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

On June 27, 2019, the Governor signed SB 90 ("SB 90") into law as a part of the 2019-20 Budget (as hereinafter defined). Pursuant to SB 90, the State Legislature appropriated \$2.246 billion to be transferred to the State Teachers' Retirement Fund for the STRS Defined Benefit Program to pay in advance, on behalf of employers, part of the contributions required for fiscal years 2019-20 and 2020-21, resulting in K-14 school districts having to contribute 1.03% less in fiscal year 2019-20 and 0.70% less in fiscal year 2020-21. The remainder of the payment not committed for the reduction in employer contribution rates described above, is required to be allocated to reduce the employer's share of the unfunded actuarial obligation determined by the STRS Board upon recommendation from its actuary. See "STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget."

The District's contribution to STRS from its General Fund was \$13,901,736 in fiscal year 2016-17 and \$17,016,552 in fiscal year 2017-18. The District's contribution to STRS in fiscal year 2018-19 was \$19,278,382 and the District has budgeted for a General Fund contribution to STRS in fiscal year 2019-20 of \$20,660,654, excluding STRS on-behalf payments made by the District. See Note 14 to the District's Fiscal Year 2017-18 Audited Financial Statements attached hereto as Appendix D.

The State also contributes to STRS annually with a contribution equal to 7.328% of teacher payroll for fiscal year 2018-19 and a projected contribution of 7.828% for fiscal year 2019-20. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990.

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

**PERS.** Classified employees working four or more hours per day are members of PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement Fund ("PERF"). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2013 included 1,580 public agencies and schools (representing more than 2,500 entities). PERS acts as the common investment and administrative agent for the member agencies. The State and school districts (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for school districts throughout the State (the "Schools Pool").

Contributions by employers to the PERS Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently

required to contribute to PERS at an actuarially determined rate, which was 11.847% of eligible salary expenditures for fiscal year 2015-16 and is 13.888% of eligible salary expenditures for fiscal year 2016-17. Participants enrolled in PERS 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 is 6% of their respective salaries for fiscal year 2014-15. See “—California Public Employees’ Pension Reform Act of 2013” herein.

SB 90 appropriates \$144 million for fiscal year 2019-20 and \$100 million for fiscal year 2020-21 to be transferred to the Public Employees’ Retirement Fund, to pay in advance, on behalf of K-14 school district employers, part of the contributions required for K-14 school district employers for such fiscal years. In addition, SB 90 appropriates \$660 million to be applied toward certain unfunded liabilities for K-14 school district employers. See “STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget.”

The District’s contribution to PERS from its General Fund was \$7,508,610 in fiscal year 2016-17 and \$10,101,165 in fiscal year 2017-18. The District’s contribution to PERS in fiscal year 2018-19 was \$7,505,902 and the District has budgeted for a General Fund contribution to PERS in fiscal year 2019-20 of \$9,208,394. See Note 14 to the District’s Fiscal Year 2017-18 Audited Financial Statements attached hereto as Appendix D.

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

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. Table 6 below summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS (Schools Pool). Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

**Table 6**  
**FUNDED STATUS**  
**STRS (Defined Benefit Program) and PERS**  
**(Dollar Amounts in Millions)<sup>(1)</sup>**  
**Fiscal Years 2011-12 through 2017-18**

<i>STRS</i>					
<i>Fiscal Year</i>	<i>Accrued Liability</i>	<i>Value of Trust Assets (MVA)<sup>(2)</sup></i>	<i>Unfunded Liability (MVA)<sup>(3)</sup></i>	<i>Value of Trust Assets (AVA)<sup>(4)</sup></i>	<i>Unfunded Liability (AVA)<sup>(4)(5)</sup></i>
2011-12	\$215,189	\$143,118	\$80,354	\$144,232	\$70,957
2012-13	222,281	157,176	74,374	148,614	73,667
2013-14	231,213	179,749	61,807	158,495	72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261

<i>PERS (Schools Pool)</i>					
<i>Fiscal Year</i>	<i>Accrued Liability</i>	<i>Value of Trust Assets (MVA)<sup>(2)</sup></i>	<i>Unfunded Liability (MVA)<sup>(3)</sup></i>	<i>Value of Trust Assets (AVA)<sup>(4)</sup></i>	<i>Unfunded Liability (AVA)<sup>(4)</sup></i>
2011-12	\$59,439	\$44,854	\$14,585	\$53,791	\$5,648
2012-13	61,487	49,482	12,005	56,250	5,237
2013-14	65,600	56,838	8,761	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2014-15	73,325	56,814	16,511	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2015-16	77,544	55,785	21,759	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2016-17	84,416	60,865	23,551	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2017-18 <sup>(7)</sup>	92,071	64,846	27,225	-- <sup>(6)</sup>	-- <sup>(6)</sup>

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

<sup>(2)</sup> Reflects market value of assets.

<sup>(3)</sup> Unfunded Liability (MVA) is equal to the Accrued Liability column minus the Value of Trust Assets (MVA) column minus the amount deposited in the Supplemental Benefits Maintenance Account reserve, which is not available to provide benefits under the STRS Defined Benefit Program.

<sup>(4)</sup> Based on actuarial value of assets.

<sup>(5)</sup> Unfunded Liability (AVA) is equal to the Accrued Liability column minus the Value of Trust Assets (AVA) column.

<sup>(6)</sup> Figures not provided. Effective with the June 30, 2014 valuation, PERS no longer uses an actuarial value of assets.

<sup>(7)</sup> On April 16, 2019, the PERS Board (defined below) approved the K-14 school district contribution rate for fiscal year 2019-20 and released certain actuarial information to be incorporated into the June 30, 2018 actuarial valuation to be released in summer 2019.

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

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2010, through June 30, 2015), on February 1, 2017, the STRS Board adopted a new set of actuarial assumptions that reflect member's increasing life expectancies and current economic trends. These new assumptions were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2016 (the "2016 STRS Actuarial Valuation"). The new actuarial assumptions include, but are not limited to: (i) adopting a generational mortality methodology to reflect past improvements in life expectancies and provide a more dynamic assessment of future life spans, (ii) decreasing the investment rate of return (net of investment and administrative expenses) to 7.25% for the 2016 STRS Actuarial Valuation and 7.00% for the June 30, 2017 actuarial evaluation (the "2017 STRS Actuarial Valuation"), and (iii) decreasing the projected wage growth to 3.50% and the projected inflation rate to 2.75%. The 2017 STRS Actuarial Valuation continues using the Entry Age Normal Actuarial Cost Method.

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

According to the 2018 STRS Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with a projected ending funded ratio in fiscal year ending June 30, 2046 of 99.9%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990, for which AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption.

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

On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “PERS Discount Rate”) from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% for the June 30, 2017 actuarial valuation, 7.25% for the June 30, 2018 actuarial valuation and 7.00% for the June 30, 2019 actuarial valuation. The new discount rate went into effect July 1, 2017 for the State and July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Reform Act (defined below) will also see their contribution rates rise. According to PERS, the three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans.

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

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

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

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

On April 16, 2019, the PERS Board established the employer contribution rates for 2019-20 and released certain information from the Schools Pool Actuarial Valuation as of June 30, 2018, ahead of its summer of 2019 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with the expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the projected contribution rate for 2020-21 is projected to be 23.6%, with annual increases thereafter, resulting in a projected 26.5% employer contribution rate for fiscal year 2025-26.

**California Public Employees' Pension Reform Act of 2013.** On September 12, 2012, the Governor signed into law the California Public Employee's Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

**GASB Statement Nos. 67, 68 and 71.** On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards ("Statements") with respect to pension accounting and financial

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

The District's net pension liability at June 30, 2018 calculated pursuant to GASB No. 68 was estimated to be \$282,808,016, an increase of approximately \$51.5 million from the prior fiscal year. Of this total, \$88,518,139 was attributable to STRS and \$94,289,877 to PERS. See Note 14 to the District's Audited Financial Statements for Fiscal Year 2017-18 attached as Appendix D hereto.

### **Other Postemployment Benefits**

The District provides post-employment benefits through two programs. The first program is a Postemployment Benefit Plan (the "District OPEB Plan") consisting of medical, dental and vision insurance benefits to eligible retirees for a maximum of 10 years or until they reach age 65, whichever comes first. All employees who retire on or after attaining age 50 with 15 or more years of service with the District and all employees who retire on or after the age of 55 with 10 or more years of service with the District are eligible to receive \$3,300 annually for health and welfare benefits. The retirees may enroll their spouses and dependent children in the program, but are required to contribute any premium in excess of the District's contribution. As of June 30, 2018 there were 95 retirees and beneficiaries currently receiving benefits and 2,521 employees eligible for benefits upon their retirement from the District.

The District also participates in the Medicare Premium Payment program (the "MPP Program"), a cost-sharing multiple-employer postemployment benefit plan administered by STRS. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of STRS who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The MPP Program is closed to new entrants. In accordance with State law, the District funds its share of the MPP Program from a portion of the employer contribution to STRS. District payments to the MPP Program are funded on a pay-as-you-go basis. As a result of the implementation of GASB Statement 75, as described below, commencing with fiscal year 2017-18, the District presents the liability for the MPP Program in its audited financial statements and reported a liability of \$1,552,626 for its proportionate share of the net liability for the MPP Program, measured as of June 30, 2018. See Note 10 to the District's Audited Financial Statements for Fiscal Year 2017-18 attached as Appendix D hereto.

Beginning with its fiscal year ending June 30, 2009, the District was required to comply with GASB Statement 45 relating to the District OPEB Plan, which required the District to recognize the expenses and related liabilities and assets for any post-employment benefits provided by the District in its government-wide financial statements of net assets and activities. The District was required to conduct a report on its unfunded actuarial liability every two years with respect to its post-employment benefits.

As calculated in accordance with the parameters former GASB Statement 45, the District’s annual required contribution (the “ARC”) for the District OPEB Plan was \$1,318,083 for fiscal year 2015-16 and \$1,915,908 for fiscal year 2016-17. The District contributed \$413,285, or approximately 31%, of its ARC in fiscal year 2015-16 and \$437,622, or approximately 23% of its ARC in fiscal year 2016-17, net of interest and adjustments. The ARC represented a level of funding that, if paid on an ongoing basis, was projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years.

In June 2015, GASB issued Statement 75, which replaced the requirements under the GASB Statement 45. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or “OPEB”). Statement 75 also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. Statement 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.

More specifically, Statement 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability), less the amount of the OPEB plan’s fiduciary net position. Statement 75 requires the recognition of the total OPEB liability in the Statement of Net Position.

The District’s most recent actuarial valuation report for the District OPEB Plan reflects the application of GASB Statement 75. Based on such actuarial valuation report, the actuarial liability for the District OPEB Plan was \$33,184,121 as of June 30, 2019. This amount represented the present value of all benefits projected to be paid by the District for current and future retirees. As of the June 30, 2019 measurement date set forth in the actuarial valuation report dated July 12, 2019, the District did not have a funded plan and had an unfunded actuarial accrued liability of \$33,184,121 based on certain assumptions, which amount constitutes the portion of the actuarial liability arising from the past service of the District’s current and future retirees.

The District recognizes the post-employment health care benefits on a pay-as-you-go basis. The most recent actuarial valuation report for the District OPEB Plan did not provide an actuarially determined contribution for the District OPEB Plan (i.e. a contribution amount that is projected to fully fund the District OPEB Plan over a period of amortization). The District contributed \$1,060,211 to the District OPEB Plan in fiscal year 2018-19. The changes in net District OPEB Plan liability as of June 30, 2019, are shown in the following table:

<b><i>Total District OPEB Plan Liability</i></b>	<b><i>June 30, 2019</i></b>
Service Cost	\$ 2,958,458
Interest on Total OPEB Liability	1,088,299
Assumption Changes	52,436
Benefits Payments	<u>(1,060,211)</u>
<b>Net Change in OPEB Liability</b>	<b>3,038,982</b>
<b>Total OPEB Liability, Beginning</b>	<b><u>30,145,139</u></b>
<b>Total OPEB Liability, Ending</b>	<b><u>\$33,184,121</u></b>

Source: Hemet Unified School District.

At June 30, 2018, the District reported a liability of \$1,552,626 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that

date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 was 0.3691 percent. See Note 10 to the District's June 30, 2018 Financial Statements set forth in Appendix D hereto for more information with respect to the District OPEB Plan and MPP Program.

### **Insurance**

The District's risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, vision, dental, disability and worker's compensation programs are administered by the District and through third-party administration as required. The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees, and natural disasters. The District is a member of Southern California Regional Liability Excess Fund Joint Powers Authority for property with coverage up to \$250,250,000 subject to a Member Retained Limits of \$5,000 per occurrence. The District also maintains coverage as a member of Southern California Regional Liability Excess Fund Joint Powers Authority for general liability claims with coverage up to \$25 million per occurrence and \$50 million aggregate, all subject to a \$25,000 Member Retained Limit per occurrence. The District self-insures workers' compensation coverage up to \$1,000,000 per occurrence with excess coverage up to \$10,000,000.

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

### **Assessed Valuation**

The assessed valuation of property within the District for fiscal year 2019-20 is \$11,390,313,469. Table 7 below describes the District's land use by type in fiscal year 2019-20, which reflects that 80.61% of the total assessed valuation is for residential property and 19.39% for nonresidential property.



**Table 7**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**2019-20 ASSESSED VALUATION AND PARCELS BY LAND USE**

	<i>2019-20 Assessed Valuation <sup>(1)</sup></i>	<i>% of Total</i>	<i>No. of Parcels</i>	<i>% of Total</i>
<b>Non-Residential:</b>				
Agricultural	\$ 262,382,154	2.30%	1,124	1.81%
Commercial/Industrial	1,622,255,813	14.24	1,773	2.85
Vacant Commercial/Industrial	189,626,565	1.66	660	1.06
Vacant Unclassified	120,188,098	1.06	2,830	4.55
Miscellaneous	<u>13,978,712</u>	<u>0.12</u>	<u>76</u>	<u>0.12</u>
Subtotal Non-Residential	\$ 2,208,431,342	19.39%	6,463	10.40%
<b>Residential:</b>				
Single Family Residence	\$ 7,044,509,150	61.85%	32,785	52.74%
Condominium/Townhouse	68,750,356	0.60	686	1.10
Mobile Homes/Lots	1,067,234,907	9.37	13,516	21.74
2-3 Residential Units	227,092,622	1.99	928	1.49
4+ Residential Units/Apartments	372,433,594	3.27	526	0.85
Vacant Residential	<u>401,861,498</u>	<u>3.53</u>	<u>7,254</u>	<u>11.67</u>
Subtotal Residential	\$ 9,181,882,127	80.61%	55,695	89.60%
<b>Total</b>	<b>\$ 11,390,313,469</b>	<b>100.00%</b>	<b>62,158</b>	<b>100.00%</b>

<sup>(1)</sup> Local Secured and Utility Assessed Valuations; excluding tax-exempt property.  
Source: California Municipal Statistics, Inc.

Table 8 below shows the number of parcels of single-family homes with various assessed value ranges in fiscal year 2019-20 located in the District. There are 32,785 single family parcels within the District with an average assessed valuation in fiscal year 2019-20 of \$214,870 and a median assessed value of \$201,698.

**Table 8**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**2019-20 ASSESSED VALUATION PER PARCEL OF SINGLE-FAMILY HOMES**

	<i>No. of Parcels</i>	<i>2019-20 Assessed Valuation</i>	<i>Average Assessed Valuation</i>	<i>Median Assessed Valuation</i>
Single Family Residential	32,785	\$7,044,509,150	\$214,870	\$201,698

<i>2019-20 Assessed Valuation</i>	<i>No. of Parcels<sup>(1)</sup></i>	<i>% of Total</i>	<i>Cumulative % of Total</i>	<i>Total Valuation</i>	<i>% of Total</i>	<i>Cumulative % of Total</i>
\$0 - \$24,999	37	0.113%	0.113%	\$ 725,140	0.010%	0.010%
\$25,000 - \$49,999	454	1.385	1.498	18,677,104	0.265	0.275
\$50,000 - \$74,999	1,496	4.563	6.061	94,197,646	1.337	1.613
\$75,000 - \$99,999	2,125	6.482	12.542	186,292,791	2.645	4.257
\$100,000 - \$124,999	2,568	7.833	20.375	291,577,567	4.139	8.396
\$125,000 - \$149,999	2,993	9.129	29.504	411,715,959	5.844	14.241
\$150,000 - \$174,999	3,337	10.178	39.683	541,767,377	7.691	21.931
\$175,000 - \$199,999	3,198	9.754	49.437	599,232,208	8.506	30.438
\$200,000 - \$224,999	2,915	8.891	58.329	618,835,337	8.785	39.222
\$225,000 - \$249,999	2,950	8.998	67.327	701,221,472	9.954	49.176
\$250,000 - \$274,999	2,671	8.147	75.474	700,631,043	9.946	59.122
\$275,000 - \$299,999	2,313	7.055	82.529	664,587,624	9.434	68.556
\$300,000 - \$324,999	1,793	5.469	87.998	559,123,711	7.937	76.493
\$325,000 - \$349,999	1,139	3.474	91.472	383,575,277	5.445	81.938
\$350,000 - \$374,999	753	2.297	93.768	271,544,513	3.855	85.793
\$375,000 - \$399,999	425	1.296	95.065	164,304,285	2.332	88.126
\$400,000 - \$424,999	383	1.168	96.233	157,660,489	2.238	90.364
\$425,000 - \$449,999	273	0.833	97.066	119,145,258	1.691	92.055
\$450,000 - \$474,999	197	0.601	97.667	90,886,952	1.290	93.345
\$475,000 - \$499,999	151	0.461	98.127	73,503,639	1.043	94.388
\$500,000 and greater	<u>614</u>	<u>1.873</u>	100.000	<u>395,303,758</u>	<u>5.612</u>	100.000
Total	32,785	100.000%		\$ 7,044,509,150	100.000%	

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

**Table 9  
HEMET UNIFIED SCHOOL DISTRICT  
2019-20 LARGEST LOCAL SECURED TAXPAYERS**

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2019-20 Assessed Valuation</i>	<i>% of Total<sup>(1)</sup></i>
1. PHH Real Estate	Commercial	\$ 47,626,078	0.42%
2. Granite Village West LP	Shopping Center	44,223,556	0.39
3. Freedom Prop Hemet	Hotel	43,134,413	0.38
4. CBYW Hemet	Rest Home	37,948,590	0.33
5. Wal-Mart Real Estate Business Trust	Commercial	35,238,649	0.31
6. FFLP CC	Commercial	32,582,921	0.29
7. MCS Hemet Valley Center	Shopping Center	26,356,391	0.23
8. James J. Femino	Commercial	23,382,642	0.21
9. Jianna Properties Inc.	Shopping Center	22,651,901	0.20
10. Hensley Properties	Apartments	21,423,538	0.19
11. Amberwood Villa 17	Apartments	21,258,987	0.19
12. Essex JMS Acquisition	Apartments	19,586,731	0.17
13. Latham Management & Consulting Services	Commercial	18,209,670	0.16
14. Walgreen Co.	Commercial	18,090,051	0.16
15. Sic Leed Civic Plaza	Commercial	15,926,238	0.14
16. Golden Harbor Estate	Residential Properties	15,858,132	0.14
17. Bartoli Inv	Commercial	15,554,672	0.14
18. Winco Foods	Commercial	15,422,976	0.14
19. Robert G. Andre	Commercial	15,151,189	0.13
20. FPA6 Royal Gardens	Apartments	<u>15,050,000</u>	<u>0.13</u>
		\$ 504,677,325	4.43%

<sup>(1)</sup> 2019-20 Local Secured Assessed Valuation: \$11,390,313,469.  
Source: California Municipal Statistics, Inc.

## DISTRICT FINANCIAL MATTERS

### Accounting Practices

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

The District generally adopts the Government Accounting Standards Board Statements for its financial reporting. Changes to the GASB Statements can result in changes in accounting principles which impact the District's financial reporting and results. See Note 1 to the District's Audited Financial Statements for fiscal year 2017-18 attached as Appendix D hereto.

### District Budget

Upon receipt of an adopted budget, the County Superintendent will (a) 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, (b) determine if the adopted budget allows the district to meet its current obligations, (c) determine if the adopted budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, (d) determine whether the adopted budget includes the expenditures necessary to implement the local control and accountability plan or annual update thereto, and (e) determine whether the adopted budget includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties. On or

before September 15, the County Superintendent will approve, conditionally approve or disapprove the adopted budget for each school district.

If the County Superintendent determines that the adopted budget does not satisfy one or more of the requirements set forth in the preceding paragraph, the County Superintendent shall transmit recommendations regarding revisions to the adopted budget to the school district and the reasons therefor. The County Superintendent may assign a fiscal adviser to assist the school district to develop a budget in compliance with those revisions. In addition, the County Superintendent may appoint a committee to examine and comment on the review and recommendations, subject to the requirement that the committee report its findings to the County Superintendent no later than September 20.

If the adopted budget of a school district is conditionally approved or disapproved by the County Superintendent, on or before October 8, the governing board of the school district, in conjunction with the County Superintendent, shall review and respond to the recommendations of the County Superintendent at a regular meeting of the governing board of the school district. The response shall include any revisions to the adopted budget and other proposed actions to be taken, if any, as a result of those recommendations.

No later than October 22, the County Superintendent must notify the State Superintendent of Public Instruction (the "State Superintendent") of all school districts whose budget has been disapproved.

Upon receipt of a revised budget, the County Superintendent must determine whether the revised budget conforms to the standards and criteria applicable to final district budgets. If the revised budget is disapproved, the County Superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1, unless the governing board of the school district and the County Superintendent agree to waive the requirement that a budget review committee be formed and the department approves the waiver after determining that a budget review committee is not necessary.

If a budget review committee is appointed and recommends approval of the adopted budget, the County Superintendent shall accept the recommendation of the committee and approve the adopted budget.

If the budget review committee disapproves the adopted budget, the governing board of the school district, not later than five working days after the receipt of the report from the budget review committee, may submit a response to the Superintendent, including any revisions to the adopted budget and any other proposed actions to be taken as a result of the budget review committee's recommendations. Based upon these recommendations and any response thereto provided by the governing board of the school district, the Superintendent shall either approve or disapprove the revised budget. If the Superintendent disapproves the budget, he or she shall notify the governing board of the school district in writing of the reasons for that disapproval and, until the County Superintendent certifies the school district's First Interim Financial Report (as described below), the County Superintendent shall undertake the actions set forth in Section 42127.3.

Upon the grant of a waiver from the requirement to form a budget review committee, the County Superintendent immediately has the authority and responsibility provided in Section 42127.3. Upon approving a waiver of the budget review committee, the department shall ensure that a balanced budget is adopted for the school district by December 31. If no budget is adopted by December 31, the Superintendent may adopt a budget for the school district. The Superintendent shall report to the State Legislature and the Director of Finance by January 10 if any school district, including a school district that has received a waiver of the budget review committee process, does not have an adopted budget by December 31. This report shall include the reasons why a budget has not been adopted by the deadline, the steps being taken to finalize budget adoption, the date the adopted budget is anticipated, and whether the Superintendent has or will exercise his or her authority to adopt a budget for the school district.

Not later than November 8, the County Superintendent shall submit a report to the State Superintendent identifying all school district for which budgets have been disapproved or budget review committees waived.

Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

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

At a minimum, school districts file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15 covering financial operations from July 1 through October 31 and a Second Interim Financial Report by March 15 covering financial operations from November 1 through January 31. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report covering financial operations from February 1 through April 30 by June 1. If not required, a Third Interim Financial Report is not prepared. Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

Pursuant to State law, the District adopted its 2019-20 budget on June 16, 2019 (the "2019-20 Adopted Budget") which set forth revenues and expenditures such that appropriations during fiscal year 2019-20 were not projected to exceed the sum of revenues plus the July 1, 2019 beginning fund balance.

### **State Funding of Education**

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

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

The primary component of AB 97 is the implementation of the Local Control Funding Formula (“LCFF”), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations will be provided on the basis of target base funding grants per unit of ADA (a “Base Grant”) assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. Full implementation of the LCFF is expected to occur over a period of several fiscal years. Beginning in fiscal year 2013-14, an annual transition adjustment will be calculated for each school district, equal to such district’s proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district’s funding gap.

The initial Base Grants per unit of ADA for each grade span are as follows: (i) \$6,952 for grades K-3; (ii) \$7,056 for grades 4-6; (iii) \$7,266 for grades 7-8; and (iv) \$8,419 for grades 9-12. Beginning in fiscal year 2013-14, the Base Grants are to be adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs are subject to appropriation for such adjustment in the annual State budget. The LCFF was fully implemented in fiscal year 2018-19. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of the grade span adjustment in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this grade span adjustment goal in proportion to the growth in their funding over the implementation period. AB 97 also provides additional add-ons to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

School districts that serve students of limited English proficiency (“EL” students), students from low income families that are eligible for free or reduced priced meals (“LI” students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI (foster youth automatically meet the eligibility requirements for free or reduced priced meals, and are therefore not discussed herein separately). AB 97 authorizes a supplemental grant add-on (each, a “Supplemental Grant”) for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by such districts’ percentage of unduplicated EL/LI student enrollment. School districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a “Concentration Grant”) equal to 50% of the applicable Base Grant multiplied the percentage of such district’s unduplicated EL/LI student enrollment in excess of the 55% threshold. The District does qualify for a Concentration Grant.

Table 10 below shows a breakdown of the District’s ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2015-16 through 2019-20, exclusive of charter schools and students in County programs.

**Table 10**  
**ADA, ENROLLMENT AND EL/LI/FY ENROLLMENT PERCENTAGE**  
**Fiscal Years 2015-16 THROUGH 2019-20**  
**Hemet Unified School District (Exclusive of Charter Schools and Students in County Programs)**

<i>Fiscal Year</i>	<i>Average Daily Attendance<sup>(1)</sup></i>					<i>Enrollment<sup>(2)</sup></i>	
	<i>K-3</i>	<i>4-6</i>	<i>7-8</i>	<i>9-12</i>	<i>Total ADA</i>	<i>Total Enrollment</i>	<i>% of EL/LI/FY Enrollment</i>
2015-16	5,951.36	4,596.82	2,800.30	6,386.92	19,735.40	20,966	81.77%
2016-17	5,891.61	4,650.34	2,977.89	6,406.33	19,926.17	21,071	81.79
2017-18	6,042.06	4,609.298	3,031.70	6,346.34	20,029.39	21,126	82.38
2018-19	6,165.24	4,524.10	3,000.97	6,447.12	20,137.43	21,347	83.35
2019-20	6,288.00	4,495.00	3,048.00	6,477.00	20,288.00	21,454	84.49

<sup>(1)</sup> Based on P-2 ADA for fiscal years 2015-16 through 2018-19. Because P-2 ADA for fiscal year 2019-20 will not be released until April 2020, Average Daily Attendance and total enrollment for fiscal year 2019-20 is based on District's current estimate.

<sup>(2)</sup> Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI/FY students is based on a rolling average of such district's EL/LI/FY enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Hemet Unified School District.

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

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

Certain schools districts, known as "basic aid" districts, have allocable local property tax collections that equal or exceed such districts' total LCFF allocation, and result in the receipt of no State apportionment aid. Basic aid school districts receive only special categorical funding, which is deemed to satisfy the "basic aid" requirement of \$120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for basic aid districts is that the legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The District does not currently qualify as a basic aid district.

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

School districts are also required to adopt local control and accountability plans (“LCAPs”) disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by the LCFF. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter. The State Board of Education has adopted a template LCAP for use by school districts. The District has updated its LCAP for fiscal year 2019-20.

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

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district’s strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to assist the district identify and implement programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts achieve the goals set forth in their LCAPs. On September 5, 2016, the State Board of Education took action to approve the LCFF initial Evaluation Rubrics that will lay the foundation of what will be the new evolving local, state and federal continuous improvement and accountability system.

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

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

***Other Sources.*** The federal government provides funding for several school district programs, including specialized programs such as the Every Student Succeeds Act, special education programs, and programs under the Educational Consolidation and Improvement Act. In addition, a small part of a school district’s budget is from local sources other than property taxes, including but not limited to interest income, leases and rentals, educational foundations, donations and sales of property.



## Historical General Fund Financial Information

Table 11 summarizes the District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for fiscal years 2013-14 through 2017-18. The figures in Table 11 below are taken from the District's audited financial statements. See APPENDIX D—"DISTRICT'S 2017-18 AUDITED FINANCIAL STATEMENTS" for further detail on the District's financial condition as of June 30, 2018.

**Table 11**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Summary of General Fund Revenues, Expenditures and Changes in Fund Balance<sup>(1)</sup>**

	<i>Audited</i> 2013-14	<i>Audited</i> 2014-15	<i>Audited</i> 2015-16	<i>Audited</i> 2016-17	<i>Audited</i> 2017-18
<b>REVENUES:</b>					
Local Control Funding Formula	\$ 132,074,030	\$ 151,592,331	\$ 179,062,317	\$ 195,739,591	\$ 203,876,640
Federal Sources	15,442,873	15,334,017	15,996,490	17,980,848	18,314,202
Other State Revenues	16,794,923	13,954,257	28,977,934	24,427,422	24,884,208
Other Local Revenues	15,011,847	16,963,433	18,060,188	16,811,558	16,745,681
TOTAL REVENUES	<u>\$ 179,323,673</u>	<u>\$ 197,844,038</u>	<u>\$ 242,096,929</u>	<u>\$ 254,959,419</u>	<u>\$ 263,820,731</u>
<b>EXPENDITURES:</b>					
Current					
Instruction	\$ 109,856,226	\$ 125,961,212	\$ 140,398,268	\$ 155,310,419	\$ 166,887,029
Instruction-Related Activities:					
Supervision of Instruction	7,185,369	8,444,836	9,449,730	10,718,844	13,229,899
Instructional Library, Media and Technology	1,336,809	1,497,915	1,652,811	2,369,770	2,100,460
School Site Administration	13,328,799	14,892,269	15,764,442	16,764,082	18,141,551
Pupil Services:					
Home-To-School Transportation	4,070,143	4,934,462	5,511,689	5,957,052	7,005,879
Food Services	35,873	32,109	19,002	19,557	28,824
All Other Pupil Services	11,121,454	13,395,881	15,203,414	16,910,380	20,058,547
Administration:					
Data Processing	2,363,649	3,331,629	3,804,184	3,240,325	4,579,163
All Other General Administration	8,600,283	9,707,091	9,962,198	12,280,853	11,558,541
Plant Services	16,682,228	17,919,582	19,281,048	20,465,317	23,146,832
Facility Acquisition and Construction	486,966	1,486,283	1,086,535	5,847,455	1,762,514
Ancillary Services	1,185,736	1,907,325	1,928,608	2,041,090	2,140,569
Community Service	98,388	115,390	132,373	117,973	117,810
Transfers Between Agencies	593,272	491,010	-	-	-
Other Outgo	-	-	239,262	28,826	228,846
Enterprise services	-	-	-	86	1,049
Debt Service					
Principal	697,533	535,634	832,279	932,430	104,108
Interest and Other	544,366	553,902	458,986	51,575	63,002
TOTAL EXPENDITURES	<u>\$ 178,187,094</u>	<u>\$ 205,206,530</u>	<u>\$ 225,737,870</u>	<u>\$ 253,056,557</u>	<u>\$ 271,154,623</u>
Excess (Deficiency) of Revenues Over Expenditures	1,136,579	(7,362,492)	16,359,059	1,902,862	(7,333,892)
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers In	\$ 1,502,778	\$ 585,172	\$ 1,292,995	\$ 4,796,007	\$ 5,860,848
Other Sources	--	420,268	376,735	-	-
Transfers Out	(4,574,537)	(4,588,879)	(3,973,757)	(5,986,066)	(6,797,408)
Net Financing Sources (Uses)	<u>\$ (3,071,759)</u>	<u>\$ (3,583,439)</u>	<u>\$ (2,304,027)</u>	<u>\$ (1,190,059)</u>	<u>\$ (936,560)</u>
NET CHANGE IN FUND BALANCE	\$ (1,935,180)	\$ (10,945,931)	\$ 14,055,032	\$ 712,803	\$ (8,270,452)
FUND BALANCE-BEGINNING	37,466,535	35,531,355	24,585,424	38,640,456	39,353,259
FUND BALANCE-END	<u>\$ 35,531,355</u>	<u>\$ 24,585,424</u>	<u>\$ 38,640,456</u>	<u>\$ 39,353,259</u>	<u>\$ 31,082,807</u>

<sup>(1)</sup> Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for purposes of the District's audited financial statements into the general fund, additional revenues and expenditures are included in the District's audited financial statements, however such amounts are not included in the general fund budgets.

Source: Hemet Unified School District Audited Financial Statements for fiscal years 2013-14 through 2017-18.

Table 12 below compares the District's General Fund Adopted Budget to its General Fund actual revenues and expenditures for fiscal year 2016-17 and 2017-18.

**Table 12**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Comparison of General Fund Budgeted (GAAP Basis) to General Fund Revenues and Expenditures for Fiscal Years 2016-17 and 2017-18<sup>(1)</sup>**

	<i>2016-17 Budget</i>	<i>2016-17 Audited</i>	<i>2017-18 Budget</i>	<i>2017-18 Audited</i>
<b>SOURCES</b>				
Revenue Limit Sources	\$ 192,983,005	\$ 195,739,591	\$ 202,930,091	\$ 203,876,640
Federal Revenues	15,788,863	17,980,848	16,135,274	18,314,202
Other State Revenues	23,783,513	24,427,422	17,430,199	24,884,208
Other Local Revenue	<u>15,571,360</u>	<u>16,811,558</u>	<u>16,125,968</u>	<u>16,745,681</u>
Total Revenues	\$ 248,126,741	\$ 254,959,419	\$ 252,621,532	\$ 263,820,731
<b>EXPENDITURES</b>				
Current				
Certificated salaries	\$ 111,001,338	\$ 110,287,416	\$ 114,684,706	\$ 117,091,118
Classified salaries	41,963,932	36,486,747	39,539,803	40,085,014
Employee benefits	54,069,643	51,793,483	56,621,193	55,957,350
Books and supplies	14,482,330	15,117,849	18,045,606	20,481,840
Services and operating expenditures	23,418,795	39,924,806	30,133,398	35,653,490
Capital outlay	3,250,760	6,527,579	1,177,944	2,362,171
Other outgo	3,473,123	(1,065,328)	(768,119)	(643,470)
Debt service				
Principal	-	932,430	2,005,468	104,108
Interest	<u>-</u>	<u>51,575</u>	<u>1,660,645</u>	<u>63,002</u>
Total Expenditures	\$ 251,659,921	\$ 253,056,557	\$ 263,080,644	\$ 271,154,623
Excess of Revenues over (Under) Expenditures	\$ (3,533,180)	\$ 1,902,862	\$ (10,459,112)	\$ (7,333,892)
<b>OTHER FINANCING SOURCES</b>				
Operating Transfers In	\$ 2,041,023	\$ 4,796,007	\$ 4,298,285	\$ 5,860,848
Operating Transfers Out	<u>(643,747)</u>	<u>(5,986,066)</u>	<u>(2,495,000)</u>	<u>(6,797,408)</u>
Total Other sources (uses)	\$ 1,397,276	\$ (1,190,059)	\$ 1,803,285	\$ (936,560)
Net Increase (Decrease) in Fund Balance	\$ (2,135,904)	\$ (712,803)	\$ (8,655,827)	\$ (8,270,452)
Fund Balance (Deficit), July 1	<u>\$ 38,640,456</u>	<u>\$ 38,640,456</u>	<u>\$ 39,353,259</u>	<u>\$ 39,353,259</u>
Fund Balance (Deficit), June 30	<u>\$ 36,504,552</u>	<u>\$ 39,353,259</u>	<u>\$ 30,697,432</u>	<u>\$ 31,082,807</u>

<sup>(1)</sup> Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for purposes of the District's audited financial statements into the general fund, additional revenues and expenditures are included in the District's audited financial statements, however such amounts are not included in the general fund budgets.

Source: Hemet Unified School District adopted budgets and Audited Financial Statements for fiscal years 2016-17 and 2017-18.

Table 13 below sets forth the District's General Fund balance sheet for the last five fiscal years. The District's moneys, including moneys in the General Fund, are held by the County in the County Treasurer's Pooled Investment Fund. See Appendices H and I attached hereto for more information on the Pooled Investment Fund.

**Table 13**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Summary of Combined General Fund Balance Sheet<sup>(1)</sup>**

	<i>Audited</i> <i>2013-14</i>	<i>Audited</i> <i>2014-15</i>	<i>Audited</i> <i>2015-16</i>	<i>Audited</i> <i>2016-17</i>	<i>Audited</i> <i>2017-18</i>
<b>ASSETS</b>					
Deposits and Investments	\$ 11,991,669	\$ 20,941,650	\$ 36,100,706	\$ 37,964,444	\$ 34,208,702
Receivables	42,306,800	8,930,432	7,698,925	9,112,307	6,263,060
Due from other funds	4,133,598	813,073	340,879	1,419,904	1,318,958
Stores Inventories	<u>271,906</u>	<u>220,937</u>	<u>245,788</u>	<u>207,286</u>	<u>167,825</u>
Total Assets	<u>\$ 58,703,973</u>	<u>\$ 30,906,091</u>	<u>\$ 44,386,298</u>	<u>\$ 48,703,941</u>	<u>\$ 41,958,545</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 22,426,456	\$ 5,067,715	\$ 5,602,417	\$ 6,915,268	\$ 8,972,919
Due to other funds	734,153	991,466	143,425	1,907,424	795,791
Unearned revenue	<u>12,009</u>	<u>261,486</u>	<u>-</u>	<u>527,990</u>	<u>1,107,028</u>
Total Liabilities	\$ 23,172,618	\$ 6,320,667	\$ 5,745,842	\$ 9,350,682	\$ 10,875,738
<b>FUND EQUITY</b>					
<b>Fund balances</b>					
Nonspendable	\$ 296,906	\$ 245,937	\$ 270,788	\$ 232,286	\$ 192,825
Restricted	4,534,590	1,164,301	6,484,760	4,14,451	2,816,755
Committed	1,503,919	1,509,391	3,519,845	4,848,373	14,175,227
Assigned	20,085,940	11,176,020	16,779,463	17,133,149	--
Unassigned	<u>9,110,000</u>	<u>10,489,775</u>	<u>11,585,600</u>	<u>13,015,000</u>	<u>13,898,000</u>
Total Fund Balances	\$ 35,531,355	\$ 24,585,424	\$ 38,640,456	\$ 39,353,259	\$ 31,082,807
Total Liabilities and Fund Balances	<u>\$ 58,703,973</u>	<u>\$ 30,906,091</u>	<u>\$ 44,386,298</u>	<u>\$ 48,703,941</u>	<u>\$ 41,958,545</u>

<sup>(1)</sup> Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for purposes of the District's audited financial statements into the general fund, additional revenues and expenditures are included in the District's audited financial statements, however such amounts are not included in the general fund budgets.

Source: Hemet Unified School District Audited Financial Statements for fiscal years 2013-14 through 2017-18.

### Current Financial Condition

Table 14 below contains the District's Adopted General Fund Budget for fiscal year 2018-19, the unaudited actuals for fiscal year 2018-19 and the difference between the adopted General Fund budget for fiscal year 2018-19 and the unaudited actuals for fiscal year 2018-19. Table 14 also includes the 2019-20 Adopted General Fund Budget.

**Table 14**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Comparison of 2018-19 Adopted General Fund Budget to Estimated Actual Results**  
**for Fiscal Year 2018-19 and Adopted Budget for Fiscal Year 2019-20<sup>(1)</sup>**

	<i>2018-19 Adopted Budget</i>	<i>2018-19 Unaudited Actuals</i>	<i>Difference</i>	<i>2019-20 Adopted Budget</i>
<b>SOURCES</b>				
LCFF	\$ 221,269,152	\$ 222,486,924	0.55%	\$ 232,545,709
Federal Revenues	18,143,146	19,754,209	8.88	17,881,276
Other State Revenues	27,051,792	26,536,870	(1.90)	22,225,746
Other Local Revenue	<u>16,973,214</u>	<u>17,933,672</u>	<u>5.66</u>	<u>16,409,991</u>
Total Revenues	\$ 283,437,304	\$ 286,711,675	1.16	\$ 289,062,722
<b>EXPENDITURES</b>				
Certificated Salaries	\$ 123,183,569	\$ 121,648,858	(1.25)	\$ 125,543,120
Classified Salaries	44,435,583	43,432,504	(2.26)	44,860,488
Employee Benefits	62,845,506	62,330,391	(0.82)	67,621,937
Books and Supplies	17,146,107	12,760,229	(25.58)	20,412,784
Services & Operating Expenditures	35,845,828	36,493,636	1.81	37,120,785
Capital Outlay	817,346	943,014	15.38	704,500
Other Outgo (excluding Transfers of Indirect Costs)	4,284,296	4,127,888		4,081,062
Other Outgo – Transfers of Indirect Costs	<u>(987,959)</u>	<u>(920,738)</u>		<u>(933,200)</u>
Total Expenditures	\$ 287,570,276	\$ 280,815,781	(2.35%)	\$ 299,411,476
Excess of Revenues over (Under) Expenditures	\$ (4,132,972)	\$ 5,895,894		\$ (10,348,754)
<b>OTHER FINANCING SOURCES</b>				
Transfers In/Other Sources	\$ 5,508,854	\$ 5,987,334		\$ 5,796,672
Transfers Out/Other Uses	<u>2,995,000</u>	<u>3,724,236</u>		<u>4,265,000</u>
Total Other sources (uses)	\$ 2,513,854	\$ 2,263,098		\$ 1,531,672
Net Increase (Decrease) in Fund Balance	\$ (1,619,118)	\$ 8,158,992		\$ (8,817,082)
Fund Balance (Deficit), July 1	\$ 24,367,610	\$ 26,168,766		\$ 31,098,361
Fund Balance (Deficit), June 30	\$ 22,748,492	\$ 34,327,758		\$ 22,281,279

<sup>(1)</sup> Excludes activity in the Special Reserve Fund for Postemployment Benefits.

Source: Hemet Unified School District Annual Budget Report for fiscal years 2018-19 and 2019-20; unaudited actuals for fiscal year 2018-19.

In the 2019-20 Adopted Budget, the District projects that General Fund expenditures will exceed revenues by approximately \$15.4 million through fiscal year 2021-22, leaving a projected ending General Fund balance of \$15.7 million at June 30, 2022. The 2019-20 Adopted Budget assumes that there will be limited growth in ADA in the immediate future. If required the District has a variety of cost-cutting measures that it can implement in order to reduce General Fund expenses in future fiscal years. The primary cause of the projected deficit spending is the addition of staff and programs necessary to implement the District's LCAP. The staff and programs provide increased and improved services to students who generate the District's supplemental and concentration grants and include students identified as low income, English learners, and foster youth. If necessary, the District is able to implement the following procedures in order to reduce expenditures in future fiscal years: utilize ending balance reserves and reduce one-time expenditures related to LCAP initiatives and capital equipment and projects.

State law requires the District to maintain a reserve for economic uncertainty equal to at least 3% of General Fund expenditures and other financing uses. The District is also required to demonstrate that available reserves for each of the next two fiscal years will equal or exceed the required amount. In the 2019-20 Adopted Budget, the District projects reserve levels of at least 5% as a percentage of General Fund expenditures in each of fiscal years 2019-20, 2020-21 and 2021-22. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS— Proposition 2" and "STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget—*School Reserves.*"

As the reserve cap provisions of SB 858 are dependent upon State budget actions, the District cannot predict the fiscal years in which the cap may apply.

For several fiscal years prior to fiscal year 2013-14, the State deferred the payment of certain revenues due to school districts to the following fiscal year. In accordance with State accounting standards, the District applies an accrual method of accounting and, accordingly, Tables 11 through 14 do not reflect any deferral of revenues to future fiscal years. The District has borrowed funds on a short-term basis in recent years in order to have adequate cash on hand to meet expenditures. The District may also borrow from internal funds or from the County Treasurer and Tax Collector on a short-term basis, if needed. See “DISTRICT DEBT STRUCTURE—Short-Term Debt” herein.

## **Revenue Sources**

The District categorizes its General Fund revenues into four sources: (1) state apportionment funding under the LCFF; (2) federal sources; (3) other State sources; and (4) other local sources. Each of these revenue sources is described below.

### **State Apportionment Funding**

The primary source of District funding is State apportionment funding through the LCFF. For fiscal years 2016-17 and 2017-18, the District received \$195,739,591 and \$203,876,640 under the LCFF, representing 76.8% and 77.3%, respectively, of its General Fund revenues. For fiscal year 2018-19, the District received \$222,486,925 under the LCFF, representing 77.6% of its General Fund revenues, and for fiscal year 2019-20 has budgeted that it will receive \$232,545,709 under the LCFF, representing 80.4% of General Fund revenues.

### **Federal Revenues**

The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools. The federal revenues, all of which are restricted, comprised approximately 7.1% and 6.9%, respectively, of General Fund revenues in fiscal years 2016-17 and 2017-18. Federal revenues are estimated at approximately 6.9% of General Fund revenues in fiscal year 2018-19 and are budgeted to be 6.2% of General Fund revenues in fiscal year 2019-20.

### **Other State Sources**

In addition to State apportionment funding through the LCFF discussed above, the District receives other State revenues (“Other State Revenue”). In fiscal years 2016-17 and 2017-18, Other State Revenue equaled approximately 9.6% and 9.4%, respectively, of total General Fund revenues. In fiscal year 2018-19, Other State Revenue is estimated at approximately 9.3% of total General Fund revenues, and in fiscal year 2019-20, Other State Revenue is budgeted to equal approximately 7.7% of total General Fund revenues.

### **Other Local Sources**

In addition to property taxes, the District receives additional local sources (“Other Local Revenues”) from items such as the leasing of property owned by the District and interest earnings. These Other Local Revenues (including tuition and transfers) equaled approximately 6.6% and 6.3% of the total General Fund revenues in fiscal years 2016-17 and 2017-18, respectively, and are estimated at approximately 6.3% of General Fund revenues in fiscal year 2018-19. Other Local Revenues are budgeted to be approximately 5.7% of General Fund revenues in fiscal year 2019-20.

## SCHOOL DISTRICT DEBT STRUCTURE

### Long Term Debt

As of June 30, 2018, the District estimates that it had \$270,121,237 of long term debt outstanding. A schedule of changes in long term debt for the fiscal year ended June 30, 2018 is set forth below. Since June 30, 2018, the District has issued its 2019 General Obligation Bonds, Election of 2018, Series A on February 26, 2019 in the initial aggregate principal amount of \$27,500,000. See Note 10 to the District's Audited Financial Statements for Fiscal Year 2017-18 attached as Appendix D hereto for additional discussion on the District's long-term debt.

**Table 15**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Long Term Debt**

	<i>(as Restated)</i> <i>Balance</i> <i>July 1, 2017</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance</i> <i>June 30, 2018</i>	<i>Due in</i> <i>One Year</i>
<b>Governmental Activities</b>					
General Obligation Bonds	\$ 169,720,000	\$ -	\$ 5,425,000	\$ 164,295,000	\$ 5,745,000
Premium on issuance	8,441,026	-	396,030	8,044,996	-
Discount on issuance	(83,016)	-	(6,918)	(76,098)	-
Certificates of Participation	50,832,297	-	2,212,955	48,619,342	2,315,912
Premium on issuance	4,582,751	-	297,811	4,284,940	-
Discount on issuance	(66,495)	-	(3,410)	(63,085)	-
Capital Leases	181,569	-	88,859	92,710	92,710
Compensated Absences					
Payable	856,863	45,784	-	902,647	-
Claims Liability	5,273,552	4,506,442	1,658,336	8,121,658	1,348,000
Net Other Postemployment (OPEB) Liability	<u>26,885,264</u>	<u>3,648,004</u>	<u>1,121,658</u>	<u>29,411,610</u>	<u>-</u>
Total Governmental Activities	<u>\$ 261,097,612</u>	<u>\$ 8,200,230</u>	<u>\$ 11,190,321</u>	<u>\$ 263,633,720</u>	<u>\$ 9,501,622</u>
<b>Business-Type Activities</b>					
Capital Leases	\$ 4,718,799	\$ -	\$ 732,319	\$ 3,986,480	\$ 968,004
Compensated Absences					
Payable	197,693	17,189	-	214,882	-
Net Other Postemployment (OPEB) Liability	<u>2,064,106</u>	<u>299,361</u>	<u>77,312</u>	<u>2,286,155</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 5,308,555</u>	<u>\$ 316,550</u>	<u>\$ 809,631</u>	<u>\$ 6,487,517</u>	<u>\$ 968,004</u>

Source: The District.

### Short Term Debt

Because District revenues from local property taxes and State apportionments are received at irregular intervals throughout the year, while expenditures tend to be incurred on a regular monthly basis, the District has usually found it necessary to borrow for short-term cash needs by issuance of tax and revenue anticipation notes ("TRANs") each year. The District's TRANs are a general obligation of the District, payable from the District's general fund and any other lawfully available moneys, but for which the District has no taxing authority. The District last issued TRANs in fiscal year 2017-18, and does not currently expect to issue TRANs in fiscal year 2019-20.

## **Direct and Overlapping Debt**

Numerous overlapping local agencies provide public services within the District. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. An estimate of direct and overlapping debt of the District is shown in Table 16 below based on information available as of September 1, 2019. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The information provided in Table 16 has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified the information in Table 16 and does not guarantee its accuracy.

**Table 16**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**Estimated Direct and Overlapping Bonded Debt**  
**as of September 1, 2019**

2019-20 Assessed Valuation: \$11,604,609,507

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/19</u>
Metropolitan Water District	0.301%	\$ 144,631
Mount San Jacinto Community College District	12.172	20,008,942
<b>Hemet Unified School District</b>	<b>100.000</b>	<b>179,945,000</b>
Eastern Municipal Water District Improvement Districts	1.922-100.	1,122,743
Riverside County Flood Control District Zone No. 4	19.374	2,427,562
City of Hemet Community Facilities District No. 1999-1	100.000	6,695,000
Hemet Unified School District Community Facilities Districts	100.000	25,090,000
Eastern Municipal Water District, Community Facilities Districts	57.545-100.	23,572,442
Riverside County Community Facilities District No. 03-1	49.988	5,303,727
Riverside County Assessment District No. 168	100.000	1,130,000
Lake Hemet Municipal Water District 1915 Act Bonds	100.000	1,135,000
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 266,575,047</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	3.958%	\$ 31,749,937
Riverside County Pension Obligation Bonds	3.958	9,651,583
<b>Hemet Unified School District Certificates of Participation</b>	<b>100.000</b>	<b>50,580,000<sup>(1)</sup></b>
City of San Jacinto Pension Fund Obligation Bonds	9.643	53,753
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 92,035,273</b>
Less: Riverside County supported obligations		68,754
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 91,966,519</b>
<u>OVERLAPPING TAX INCREMENT DEBT:</u>		\$ 22,130,730
GROSS COMBINED TOTAL DEBT		\$ 380,741,050 <sup>(2)</sup>
NET COMBINED TOTAL DEBT		\$ 380,672,296

Ratios to 2019-20 Assessed Valuation:

<b>Direct Debt (\$179,945,000)</b> .....	<b>1.55%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	2.30%
<b>Combined Direct Debt (\$230,525,000)</b> .....	<b>1.99%</b>
Gross Combined Total Debt .....	3.28%
Net Combined Total Debt.....	3.28%

Ratios to Redevelopment Incremental Valuation (\$1,842,587,275):

Total Overlapping Tax Increment Debt .....	1.20%
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<sup>(1)</sup> Excludes the Certificates.

<sup>(2)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Source: California Municipal Statistics, Inc.

**STATE CONSTITUTIONAL LIMITATIONS ON DISTRICT SOURCES AND EXPENDITURES**

*Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 22, 39, 46, 49, 98, 111, and 1A, and certain other provisions of law discussed below, are discussed in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes.*



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

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

Article XIII A has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the base year value. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value.

Article XIII A requires a vote of two-thirds or more of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b), as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) on bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition.

### **Legislation Implementing Article XIII A**

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

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

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

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

## **Unitary Property**

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization (“SBE”) as part of a “going concern” rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State’s school financing formula. See “DISTRICT FINANCIAL MATTERS – State Funding of Education” herein.

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

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

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

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended.

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

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

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

Article XIII B also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the

State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See “Propositions 98 and 111” below.

### **Article XIII C and Article XIII D of the California Constitution**

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

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those

costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

### **Propositions 98 and 111**

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

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

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

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

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

- a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in State per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.
- b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school

districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

- c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.
- d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.
- e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "Test 1") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "Test 2"). Under Proposition 111, school districts will receive the greater of (1) Test 1, (2) Test 2, or (3) a third test ("Test 3"), which will replace Test 2 in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in State per capita personal income. Under Test 3, school districts will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 will become a "credit" to schools (also referred to as a "maintenance factor") which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Jarvis v. Connell**

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

impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

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

On November 2, 2004, State voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. The State may shift from schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the LAO on July 15, 2010, the reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was expected to be approximately \$1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

### **Proposition 55**

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

The revenues generated from the personal income tax increases will be included in the calculation of the Proposition 98 Minimum Funding Guarantee (defined herein) for school districts and community college

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

## **Proposition 2**

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

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

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

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

Proposition 2 also requires the creation of the Public School System Stabilization Account (the “PSSSA”) into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is required (as described above). Such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would be otherwise paid to K-14 school districts as part of the minimum funding guarantee. A transfer to the PSSSA will only be made if certain additional conditions are met, as follows: (i) the minimum funding guarantee was not suspended in the immediately preceding fiscal year, (ii) the operative Proposition 98 formula for the fiscal year in which a PSSSA transfer might be made is “Test 1,” (iii) no maintenance factor obligation is being created in the budgetary legislation for the fiscal year in which a PSSSA transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the fiscal year in which a PSSSA transfer might be made is higher than the immediately preceding fiscal year, as adjusted for ADA growth and cost of living. Proposition 2 caps the size of the PSSSA at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Reductions to any required transfer to the PSSSA, or draws on the PSSSA, are subject to the same budget emergency requirements described above. However, Proposition 2 also mandates draws on the PSSSA in any fiscal year in which the estimated minimum funding guarantee is less than the prior year’s funding level, as adjusted for ADA growth and cost of living.

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

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

**SB 751.** Senate Bill 751 (“SB 751”), enacted on October 11, 2017, alters the reserve requirements imposed by SB 858. Under SB 751, in a fiscal year immediately after a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds 3% of the combined total general fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised cannot have an assigned or unassigned ending fund balance that exceeds 10% of those funds. SB 751 excludes from the requirements of those provisions basic aid school districts (also known as community funded districts) and small school districts having fewer than 2,501 units of average daily attendance.

### **Proposition 51**

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

**K-12 School Facilities.** Proposition 51 includes \$3 billion for the new construction of K-12 facilities and an additional \$3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school district lacks sufficient local funding, it may apply for additional State grant funding, up to 100% of the project costs. In addition, a total of \$1 billion will be available for the modernization and new construction



of charter school (\$500 million) and technical education (\$500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for State loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, State grants are capped at \$3 million for a new facility and \$1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

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

### **Future Initiatives**

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

## **STATE OF CALIFORNIA FISCAL ISSUES**

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

### **General Overview**

***Recent Financial Stress on State Budget.*** In 2008, the State began experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. Despite the recent significant budgetary improvements, according to the State, there remain a number of major risks and pressures that threaten the State's financial condition, including the threat of recession, potential changes to federal fiscal policies and large unfunded liabilities now totaling in excess of \$200 billion for PERS, STRS, the University of California ("UC") Retirement System and the State's and UC's retiree healthcare benefits plans. The State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State.

***Cash Management by State and Impact on Schools.*** To conserve cash in light of declining revenues resulting from the last recession, the State enacted several statutes deferring the payment of amounts owed to public schools, until a later date in the current, or in a subsequent, fiscal year. This technique was used in all of the State's budget bills from fiscal year 2008-2009 through fiscal year 2012-13. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year. These deferrals reduced amounts paid to K-12 districts and resulted in deferred payments that at one point totaled more than \$10 billion. These deferrals also created cash flow shortages for certain K-12 districts which required an increased level of cash flow borrowings. In fiscal years 2013-14 and 2014-15, the State repaid the majority of these deferrals and the remaining \$992 million was repaid in fiscal year 2015-16.

### **2019-20 State Budget**

On June 27, 2019 the Governor signed into law the State budget for fiscal year 2019-20 (the "2019-20 Budget"). The following information is drawn from the State Department of Finance's summary of the 2019-20 Budget.

For fiscal year 2018-19, the 2019-20 Budget projects total general fund revenues and transfers of \$138 billion and total expenditures of \$142.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$20.7 billion, including \$5.4 billion in the traditional general fund reserve, \$14.4 billion in the BSA and \$900 million in the Safety Net Reserve Fund for the CalWORKs and Medi-Cal programs. For fiscal year 2019-20, the 2019-20 Budget projects total general fund revenues and transfers of \$143.8 billion and authorizes expenditures of \$147.8 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$18.8 billion, including \$1.4 billion in the traditional general fund reserve, \$16.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund. The 2019-20 Budget also authorizes a deposit to the PSSSA of \$376.5 million in order to comply with Proposition 2. The amount is below the threshold required to trigger certain maximum local reserve levels for school districts created by State legislation approved in 2014 (and amended in 2017). See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2.”

For fiscal year 2019-20, the Budget sets the minimum funding guarantee at \$81.1 billion. With respect to K-12 education, ongoing per-pupil spending is set at \$11,993. Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$1.9 billion in Proposition 98 funding for the LCFF, reflecting a 3.26% COLA.
- *Settle-Up Payment* An increase of \$686.6 million for K-14 school districts to pay the balance of past-year Proposition 98 funding owed through fiscal year 2017-18.
- *Special Education* – \$645.3 million in ongoing Proposition 98 funding for special education. Specifically, the 2019-20 Budget allocates (i) \$152.6 million to provide all special education local area plans at least the Statewide target rate for base special education funding, and (ii) \$492.7 million in special education funding, to be allocated to school districts based on the number of children between three to five years of age and with exceptional needs that are being served.
- *Pension Costs* – A \$3.15 billion payment from non-Proposition 98 funds to CalSTRS and CalPERS, to reduce long-term liabilities for K-14 school districts. Of this amount, \$850 million would be provided to buy down employer contribution rates in fiscal years 2019-20 and 2020-21. With these payments, CalSTRS employer contributions will be reduced from 18.13% to 17.1% in fiscal year 2019-20, and from 19.1% to 18.4% in fiscal year 2020-21. The CalPERS employer contribution will be reduced from 20.7% to 19.7% in fiscal year 2019-20, and the projected CalPERS employer contribution is expected to be reduced from 23.6% to 22.7 % in fiscal year 2020-21. The remaining \$2.3 billion would be paid towards employers’ long-term unfunded liability. See also “THE DISTRICT—Retirement System.”
- *After School Programs* – \$50 million in ongoing Proposition 98 funding to provide an increase of approximately 8.3% to the per-pupil daily rate for after school education and safety programs.
- *Teacher Support* – \$43.8 million in one-time non-Proposition 98 funding to provide training and resources for classroom educators and paraprofessionals, to build capacity in key State priorities. The 2019-20 Budget also includes \$89.8 in one-time, non-Proposition 98 funding to provide up to 4,487 grants for students enrolled in professional teacher preparation programs who commit to working in a high-need field at a priority school for at least four years.
- *Broadband Infrastructure* – \$7.5 million in one-time, non-Proposition 98 funding for broadband infrastructure improvements at local educational agencies.
- *Full-Day Kindergarten* – \$300 million in one-time, non-Proposition 98 funding to finance construction or retrofit of facilities to support full-day kindergarten programs.

- *Wildfire-Related Cost Adjustments* – An increase of \$2 million in one-time Proposition 98 funding to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by wildfires which occurred in 2017 and 2018. The 2019-20 Budget also holds both school districts and charter schools impacted by wildfires in 2018 harmless in terms of State funding for two years.
- *Proposition 51* – a total allocation of \$1.5 billion in Proposition 51 bond funds for K-12 school facility projects.

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

### **Future Actions**

The District cannot predict what actions will be taken in the future by the State legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State’s ability to fund schools. State budget shortfalls or changes in funding formulas in future fiscal years may also have an adverse financial impact on the financial condition of the District.

### **State Dissolution of Redevelopment Agencies**

On December 30, 2011, the California Supreme Court issued its decision in the case of California Redevelopment Association v. Matosantos (“Matosantos”), finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all Redevelopment Agencies in California ceased to exist as a matter of law on February 1, 2012. The Court in Matosantos also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS— Proposition 1A and Proposition 22.” ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide.

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

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other

pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, not to exceed \$250,000 in any year, to the extent such costs have been approved in an administrative budget; then, fourth tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the Controller and the Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor-controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the Controller. If the Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Health and Safety Code Section 33401 for payments from a redevelopment agency under which the payments were to be subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

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

ABX1 26 states that in the future, pass-throughs shall be made in the amount “which would have been received had the redevelopment agency existed at that time,” and that the County Auditor-Controller shall “determine the amount of property taxes that would have been allocated to each redevelopment agency had the redevelopment agency not been dissolved pursuant to the operation of ABX1 26 using current assessed values and pursuant to statutory pass-through formulas and contractual agreements with other taxing agencies.”

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

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

## **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.

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

#### **CERTAIN LEGAL MATTERS**

Orrick, Herrington & Sutcliffe LLP, Special Counsel, will render an opinion with respect to the Certificates substantially in the form attached hereto as Appendix C. Copies of such approving opinion will be available at the time of delivery of the Certificates. Special Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain matters will also be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel. Orbach Huff Suarez & Henderson LLP, Los Angeles, California, will act as counsel to the District and the Corporation with respect to certain matters.

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

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

The District does have claims pending against it. The aggregate amount of the uninsured liabilities of the District which may result from all claims will not, in the opinion of the District, materially affect the District's finances or impair its ability to make Base Rental Payments under the Lease Agreement.

## **RATINGS**

S&P Global Ratings, a Standard & Poor's Financial Services LLP Business ("S&P"), is expected to assign its municipal bond rating of "AA" to the Certificates based on the issuance of the Policy by the Insurer at the time of delivery of the Certificates. See "MUNICIPAL BOND INSURANCE" herein. In addition, S&P has assigned its long term underlying rating of "A-" to the Certificates independent of the delivery of the Policy. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any rating for the Certificates will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Certificates.

The District will covenant in a Continuing Disclosure Certificate to file on EMMA, notices of any ratings changes on the Certificates. See the caption "CONTINUING DISCLOSURE" above and APPENDIX E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." Notwithstanding such covenant, information relating to ratings changes on the Certificates may be publicly available from S&P prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the Certificates are directed to S&P and its website and official media outlets for the most current ratings changes with respect to the Certificates after the initial delivery of the Certificates.

## **UNDERWRITING**

The Certificates are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Certificates pursuant to a Certificate Purchase Agreement with the District (the "Certificate Purchase Agreement") at the initial purchase price of \$ \_\_\_\_\_ (being equal to the aggregate principal amount of the, less an Underwriter's discount of \$ \_\_\_\_\_, [plus/less] a [net] original issue [premium/discount] of \$ \_\_\_\_\_). The Certificate Purchase Agreement provides that the Underwriter will purchase all of the Certificates if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Certificate Purchase Agreement. The Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

## **MISCELLANEOUS**

### **Audited Financial Statements**

The District's audited financial statements for Fiscal Year 2017-18, included in this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP, CPAs and Advisors (the "Auditor"), as stated in their report in Appendix D. Attention is called to the scope limitation described in the auditor's report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report herein and has not undertaken to update the audited financial statements for Fiscal Year 2017-18 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 21, 2018. See Note 1 to the District's Audited Financial Statements for Fiscal Year 2017-18 attached as Appendix D hereto for a description of certain changes in accounting policies applicable in fiscal year 2017-18.

**Financial Interests**

The fees being paid to Special Counsel, Disclosures Counsel, Underwriter’s counsel and the District’s Municipal Advisor are contingent upon the execution and delivery of the Certificates.

**ADDITIONAL INFORMATION**

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

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

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

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

HEMET UNIFIED SCHOOL DISTRICT

By: \_\_\_\_\_  
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, 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 Governing Board, the Clerk of the Governing Board, and such other member of the Governing Board as the President may designate, the Superintendent of the District, the Deputy Superintendent, Business Services of the District, and any person authorized by the Governing Board 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 October 1 in each year and extending to the next succeeding September 30, both dates inclusive, except that the first Certificate Year shall begin on the Delivery Date and end on September 30, 2020.

**“Certificates”** means the Hemet Unified 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 Hemet Unified School District School Facilities 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 prepayment of the Prior 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 Hemet Unified 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 Certificates.

“**Escrow Bank**” means U.S. Bank 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 April 1 and October 1 of each year commencing April 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 October 1, 20\_\_, October 1, 20\_\_, and each October 1 thereafter continuing through and including October 1, 20\_\_, and for the Certificates with a stated Principal Payment Date of October 1, 20\_\_, October 1, 20\_\_, and each October 1 thereafter continuing through and including October 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, and (g) 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 Certificates"** means the Hemet Unified School District Series 2007 Certificates of Participation (2007 School Facilities Project).

**"Prior Trust Agreement"** means the Trust Agreement, dated as of October 1, 2004, by and among the Prior Trustee, the District and the Corporation, as supplemented and amended by the First Supplemental Trust Agreement, dated as of November 1, 2007, by and among the Prior Trustee, the District and the Corporation, relating to the Prior Certificates.

**"Prior Trustee"** means U.S. Bank 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 Stifel, Nicolaus & Associates, Incorporated, 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., a 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 October 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.

**“Tax Increment”** means the tax increment revenues received by the successor to the Hemet Redevelopment Agency (the “RDA”) pursuant to former Section 33670(b) of the California Health and Safety Code and as allocated and required to be deposited by the RDA for the benefit of the District pursuant to agreements and arrangements previously entered into by and among the District, the RDA and the City of Hemet, existing as of the date of the Lease Agreement, and as provided by law.

**“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 U.S. Bank 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 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; Application of Available Tax Increment. (a) 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.

(b) To the extent available and subject to the application of the provisions of any pledge, covenant to appropriate or similar commitment to a prior application thereof, the District covenants, to the extent permitted by law, to annually take such action as may be necessary to budget, appropriate and apply Tax Increment it receives in each fiscal year or otherwise legally available to pay the Rental Payments due under the Lease Agreement in such fiscal year.

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 October 1, 20\_\_, from any source of available funds, on any date on or after October 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 Riverside 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 the 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 provisions 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. The District 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 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.

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## APPENDIX B

### CITY OF HEMET AND RIVERSIDE COUNTY GENERAL ECONOMIC DATA

*The following information concerning the City of Hemet (“Hemet”), the County of Riverside (the “County”) and the State of California (the “State”) are presented as general background information. The Certificates are not an obligation of Hemet, the County or the State and the taxing the power of Hemet, the County and the State are not pledged to the payment of the Certificates.*

#### **General**

Hemet is located in Western Riverside County 88 miles southeast of Los Angeles along California State Highway 74. Hemet is approximately 25.97 square miles in area.

Incorporated on January 20, 1910, Hemet operates as a general law city. It has a council-manager form of government, with the five City Council members elected by district for staggered four-year terms. The City Council elects one of the Council members as Mayor.

Hemet provides police protection, fire protection, building safety regulation and inspection, street lighting, beautification, refuse collection, land use planning, and zoning, housing and community services, maintenance and improvement of streets and related structures, traffic safety maintenance and improvement and recreational and cultural programs for citizen participation.

#### **Population**

The following table offers population figures for Hemet, the County and the State as of January 1 for the years 2015 through 2019.

<i>Area</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
City of Hemet	82,161	82,503	83,802	84,423	84,754
County of Riverside	2,321,837	2,350,992	2,384,660	2,412,536	2,440,124
State of California	38,952,462	39,214,803	39,504,609	39,740,508	39,927,315

Source: State of California, Department of Finance E-4 Population Estimates for Cities, Counties and State, 2011-2019, with 2010 Benchmark, Sacramento, California, May 2019.

## Construction Activity

The following table shows building permit valuations and new housing units in Hemet for 2014 through 2018.

<b>CITY OF HEMET</b>					
<b>Building Permit Valuation and New Housing Units</b>					
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
<b>Residential</b>					
Single Family	\$ 32,171,013	\$ 21,147,125	\$ 8,711,442	\$ 1,000,000	\$ 17,978,536
Multi-Family	0	0	0	0	0
Alteration/Additions	911,089	5,242,189	1,154,895	1,216,239	1,363,195
Total	<u>\$ 33,082,102</u>	<u>\$ 26,389,314</u>	<u>\$ 9,866,337</u>	<u>\$ 2,216,239</u>	<u>\$ 19,341,731</u>
<b>Non-Residential</b>					
New Commercial	\$ 5,300,000	\$ 1,956,000	\$ 2,000,000	\$ 1,745,000	\$ 3,075,231
New Industry	0	35,000	0	0	0
Other <sup>(1)</sup>	2,307,920	43,829,122	1,508,296	1,383,099	3,568,989
Alteration/Additions	5,016,753	8,365,745	9,984,800	4,613,083	12,571,409
Total	<u>\$ 12,624,673</u>	<u>\$ 54,185,867</u>	<u>\$ 13,493,096</u>	<u>\$ 7,741,182</u>	<u>\$ 19,215,629</u>
<b>Total All Industry</b>	<u>\$ 45,706,775</u>	<u>\$ 80,575,181</u>	<u>\$ 23,359,433</u>	<u>\$ 9,957,421</u>	<u>\$ 38,557,360</u>
<b>New Housing Units</b>					
Single Family Units	138	92	33	5	62
Multi-Family Units	0	0	0	0	0
Total	<u>138</u>	<u>92</u>	<u>33</u>	<u>5</u>	<u>62</u>

<sup>(1)</sup> Includes churches and religious building, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Source: California Homebuilding Foundation/Construction Industry Research Board

## Employment

The following tables set forth the major employers located in the City.

### CITY OF HEMET PRINCIPAL EMPLOYERS June 30, 2018

<i>Company Name</i>	<i>No. of Employees</i>	<i>Type of business or entity</i>
Hemet Unified School District	3,642	Education
Physicians For Health Hospitals	1,042	Healthcare
Horizon Solar	650*	Solar Energy
Gosch Ford, Toyota, Hyundai & Inland Chevrolet	447	Automobile
County of Riverside	509	Government
Walmart Supercenter	400	Retail
TE Connectivity	380*	Electronics
Manorcare Health Services	285*	Healthcare
City of Hemet	300	Government
Forest River, Inc.	284	Vehicle Manufacturer
Stater Bros	242	Retail
Village Healthcare Retirement	230	Healthcare
American Medical Response	198	Emergency Medical Service
McCrometer, Inc.	180	Manufacturer
Home Depot	178	Home Improvement/Building Materials
Winco Foods	141	Retail
Lowe's	120*	Home Improvement/Building Materials
Target	110	Retail

---

\* Estimate from prior year.

Source: *City of Hemet, Comprehensive Annual Financial Report for the year ended June 30, 2018.*

## Employment and Industry

Employment data by industry is not separately reported on an annual basis for Hemet but is compiled for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the “MSA”), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the MSA has large and growing commercial and service sector employment, as reflected in the table below.

The following table represents the Annual Average Labor Force and Industry Employment for the MSA for the years 2014 through 2018.

### RIVERSIDE-SAN BERNARDINO-ONTARIO MSA INDUSTRY EMPLOYMENT & LABOR FORCE — BY ANNUAL AVERAGE 2014-2018

	2014	2015	2016	2017	2018
Civilian Labor Force	1,916,500	1,954,200	1,983,300	2,017,700	2,053,400
Civilian Employment	1,761,200	1,825,800	1,865,200	1,914,900	1,966,800
Civilian Unemployment	155,300	128,500	118,000	102,800	86,600
Civilian Unemployment Rate	8.1%	6.6%	6.0%	5.1%	4.2%
Total Farm	14,400	14,800	14,600	14,500	14,500
Total Nonfarm	1,290,400	1,354,400	1,403,200	1,454,900	1,504,200
Total Private	1,061,600	1,121,100	1,160,900	1,203,900	1,246,600
Goods Producing	170,300	183,100	191,600	197,600	207,300
Mining & Logging	1,300	1,300	900	1,000	1,200
Construction	77,600	85,700	92,000	97,400	104,800
Manufacturing	91,400	96,200	98,700	99,200	101,300
Service Providing	1,120,100	1,171,200	1,211,700	1,257,300	1,296,900
Trade, Transportation & Utilities	314,800	333,100	347,900	365,500	378,300
Wholesale Trade	58,100	60,500	61,600	62,600	64,900
Retail Trade	169,600	174,400	178,300	180,900	180,800
Transportation, Warehousing & Utilities	87,100	98,100	108,000	122,100	132,600
Information	11,300	11,400	11,500	11,300	11,200
Financial Activities	42,900	44,000	44,600	44,200	43,700
Professional & Business Services	138,700	147,400	144,900	146,900	150,600
Educational & Health Services	195,900	206,300	215,700	226,700	240,000
Leisure & Hospitality	144,800	151,700	160,200	166,300	170,000
Other Services	43,000	44,000	44,600	45,400	45,600
Government	228,800	233,300	242,300	251,000	257,500
Total, All Industries	<u>1,303,700</u>	<u>1,362,400</u>	<u>1,169,400</u>	<u>1,200,200</u>	<u>1,247,800</u>

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The “Total, All Industries” data is not directly comparable to the employment data found in this Appendix C.

Source: State of California, Employment Development Department, Riverside San Bernardino Ontario MSA Industry Employment & Labor Force — by Annual Average, March 2018 Benchmark.

The following table summarizes the labor force, employment and unemployment figures over the past five years for Hemet, the County, the State and the nation as a whole.

**CITY OF HEMET, COUNTY OF RIVERSIDE,  
STATE OF CALIFORNIA AND UNITED STATES  
Average Annual Civilian Labor Force, Employment and Unemployment**

	<i>Labor Force</i>	<i>Employment<sup>(1)</sup></i>	<i>Unemployment<sup>(2)</sup></i>	<i>Unemployment Rate<sup>(3)</sup></i>
<b>2014</b>				
City of Hemet	28,400	25,200	3,200	11.3%
Riverside County	1,011,100	928,300	82,900	8.2
California	18,714,700	17,310,900	1,403,800	7.5
United States <sup>(4)</sup>	155,922,000	146,305,000	9,617,000	6.2
<b>2015</b>				
City of Hemet	28,800	26,100	2,700	9.3%
Riverside County	1,034,200	965,000	64,300	6.7
California	18,851,100	17,681,800	1,169,200	6.2
United States <sup>(4)</sup>	157,130,000	148,834,000	8,296,000	5.3
<b>2016</b>				
City of Hemet	28,900	26,500	2,300	8.0%
Riverside County	1,052,400	988,100	64,300	6.1
California	19,044,500	18,002,800	1,041,700	5.5
United States <sup>(4)</sup>	159,187,000	151,436,000	7,751,000	4.9
<b>2017</b>				
City of Hemet	29,200	27,200	2,000	6.8%
Riverside County	1,073,400	1,017,100	56,300	5.2
California	19,205,300	18,285,500	919,800	4.8
United States <sup>(4)</sup>	160,320,000	153,337,000	6,982,000	4.4
<b>2018</b>				
City of Hemet	29,700	27,900	1,800	5.9%
Riverside County	1,092,400	1,044,600	47,800	4.4
California	19,398,200	18,582,800	815,400	4.2
United States <sup>(4)</sup>	162,075,000	155,761,000	6,314,000	3.9

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, March 2018 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

## Personal Income

Personal income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

Total personal income in the County increased by 52% between 2006 and 2017. The following tables summarize personal income for the County for 2006 through 2017, the latest year for which such information is available.

**PERSONAL INCOME**  
**Riverside County**  
**2006-2017**  
**(Dollars in Thousands)**

<i>Year</i>	<i>Riverside County</i>	<i>Annual Percent Change</i>
2006	\$62,418,784	9.7%
2007	65,610,952	5.1
2008	66,723,925	1.7
2009	65,369,622	(2.0)
2010	67,568,045	3.4
2011	71,949,357	6.5
2012	74,075,529	3.0
2013	76,493,787	3.3
2014	80,637,967	5.4
2015	86,092,487	6.8
2016	90,273,976	4.9
2017	95,140,992	5.4

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Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following tables summarizes per capita personal income for the County, the State of California and the United States for the years 2006 through 2017. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

**PER CAPITA PERSONAL INCOME**  
**Riverside County, State of California and the United States**  
**2006-2017**

<i>Year</i>	<i>Riverside County</i>	<i>California</i>	<i>United States</i>
2006	\$31,018	\$42,139	\$38,114
2007	31,617	43,669	39,844
2008	31,627	43,895	40,904
2009	30,451	42,050	39,284
2010	30,685	43,617	40,546
2011	32,179	46,183	42,735
2012	32,707	48,826	44,599
2013	33,383	49,259	44,851
2014	34,732	52,340	47,060
2015	36,603	55,793	48,985
2016	37,827	57,625	49,883
2017	39,261	60,004	51,731

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**Commercial Activity**

A summary of taxable sales within the City for years 2014 through 2018 are shown in the following tables.

**TAXABLE SALES**  
**City of Hemet**  
**2014-2018**  
**(Dollars in Thousands)**

<i>Year</i>	<i>Retail and Food Permits</i>	<i>Retail and Food Taxable Transactions</i>	<i>Total Permits</i>	<i>Total Outlets Taxable Transactions</i>
2014	1,021	\$863,493	1,388	\$988,533
2015	1,020	869,290	1,509	1,004,651
2016	984	880,319	1,484	1,015,877
2017	992	908,031	1,474	1,042,103
2018	985	916,236	1,499	1,048,644

Source: "Taxable Sales in California (Sales & Use Tax)" — California State Board of Equalization for 2014. Taxable Sales in California, California Department of Tax and Fee Administration for 2015-2018.

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**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]

Hemet Unified School District  
Hemet, California

Hemet Unified School District  
Refunding Certificates of Participation, Series 2019  
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the Hemet Unified School District (the “District”) in connection with the execution and delivery of the Hemet Unified 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 U.S. Bank National Association, as trustee (the “Trustee”), the Hemet Unified School District School Facilities 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, 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**

**DISTRICT'S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2018**



**HEMET UNIFIED  
SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2018**

# HEMET UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Hemet Unified School District  
Hemet, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 82, Schedule of Changes in the District's Total OPEB Liability and Related Ratios on page 83, Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program on page 84, schedule of the District's proportionate share of the net pension liability on page 85, and the schedule of District contributions on page 86, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hemet Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information, referred to in the previous paragraph, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of the Hemet Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hemet Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hemet Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
November 21, 2018



**Christi Barrett**  
Superintendent

**Vincent J. Christakos**  
Assistant Superintendent

**Tracy Chambers**  
Assistant Superintendent

**Darel Hansen**  
Assistant Superintendent

**Dr. Karen Valdes**  
Assistant Superintendent

**Professional Development  
Service Center**

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(951) 765-5100  
Fax: (951) 765-5115

**Professional Development  
Academy**

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Hemet, CA 92545  
(951) 765-5100  
Fax: (951) 765-6421

[www.hemetusd.org](http://www.hemetusd.org)

**Governing Board**

Stacey Bailey  
Rob Davis  
Megan Haley  
Gene Hikel  
Vic Scavarda  
Patrick Searl  
Ross Valenzuela

This section of Hemet Unified School District's (the District) (2017-2018) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

### ***The Financial Statements***

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

*Governmental Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

*The Business-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Hemet Unified School District.

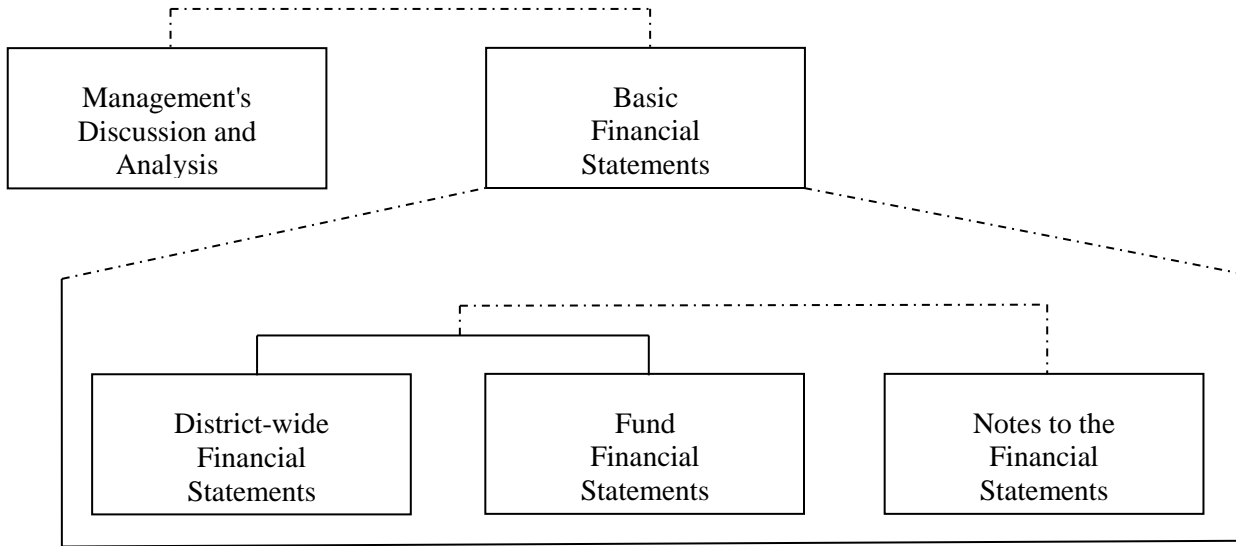
**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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**Figure 1**

**Organization of Hemet Unified School District's Annual Financial Report**



***FINANCIAL HIGHLIGHTS OF THE PAST YEAR***

- Total net position decreased by \$33.4 million over the prior year for a new net position of \$81.5 million.
- Revenues, transfers in, and other financing sources for all funds, including bond issuances, totaled \$329 million. Expenses, transfers out and other uses totaled \$362.4 million.
- The General Fund audited ending balance, which includes \$4.8 million in Fund 20 - Special Reserve for Post-Employment Benefits, totaled \$31.1 million. This represents a decrease of \$8.3 million from the prior year.
- No new General Obligation Bonds or capital equipment leases were issued in 2017-18.
- The District's 2017-18 P-2 Average Daily Attendance (ADA), excluding charter schools and students in County programs, was reported at 20,029, an increase of 103 over the prior year.
- The District filed a positive status with both its First and Second Interim reports in 2017-18.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### *DISTRICT-WIDE STATEMENTS*

#### *The Statement of Net Position and the Statement of Activities*

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

***Governmental Activities*** - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as certificates of participation, finance these activities.

***Business-Type Activities*** - The District charges fees to help it cover the costs of certain services it provides. The District's transportation operations are included in this category.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### ***REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS***

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

***Governmental Funds*** - The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds 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 general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

***Proprietary Funds*** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund and Transportation (Enterprise Fund). The internal service funds are reported with governmental activities in the government-wide financial statements.

### ***THE DISTRICT AS TRUSTEE***

#### ***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. 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.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$81.5 million for the fiscal year ended June 30, 2018. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental and business-type activities.

**Table 1**

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	(As Restated)		(As Restated)		(As Restated)	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current and other assets	\$ 90.2	\$ 98.9	\$ 12.8	\$ 10.5	\$ 103.0	\$ 109.4
Capital assets	443.9	454.0	8.2	8.6	452.1	462.6
<b>Total Assets</b>	<b>534.1</b>	<b>552.9</b>	<b>21.0</b>	<b>19.1</b>	<b>555.1</b>	<b>572.0</b>
<b>Deferred Outflows of Resources</b>	<b>97.5</b>	<b>77.7</b>	<b>9.5</b>	<b>5.1</b>	<b>107.0</b>	<b>82.8</b>
<b>Liabilities</b>						
Current liabilities	14.6	14.8	0.9	0.5	15.5	15.3
Long-term obligations	263.6	266.7	6.5	5.3	270.1	272.0
Aggregate net pension liability	259.3	235.6	23.5	9.3	282.8	244.9
<b>Total Liabilities</b>	<b>537.5</b>	<b>517.1</b>	<b>30.9</b>	<b>15.1</b>	<b>568.4</b>	<b>532.2</b>
<b>Deferred Inflows of Resources</b>	<b>11.9</b>	<b>6.1</b>	<b>0.3</b>	<b>0.3</b>	<b>12.2</b>	<b>6.4</b>
<b>Net Position</b>						
Net investment in capital assets	223.8	218.4	4.2	4.5	228.0	222.9
Restricted	27.6	28.5	-	-	27.6	28.5
Unrestricted (Deficit)	(169.2)	(139.5)	(4.9)	4.3	(174.1)	(135.2)
<b>Total Net Position</b>	<b>\$ 82.2</b>	<b>\$ 107.4</b>	<b>\$ (0.7)</b>	<b>\$ 8.8</b>	<b>\$ 81.5</b>	<b>\$ 116.2</b>

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### *Changes in Net Position*

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement for the year.

**Table 2**

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 1.8	\$ 1.8	\$ 24.3	\$ 32.0	\$ 26.1	\$ 33.8
Operating grants and contributions	63.1	56.2	0.5	0.7	63.6	56.9
Capital grants and contributions	0.1	6.0	-	-	0.1	6.0
General Revenues:						
Federal and State aid	179.7	179.7	-	-	179.7	179.7
Property taxes	47.4	47.4	-	-	47.4	47.4
Other general revenues	12.1	9.2	-	-	12.1	9.2
<b>Total Revenues</b>	<b>304.2</b>	<b>300.3</b>	<b>24.8</b>	<b>32.7</b>	<b>329.0</b>	<b>333.0</b>
<b>Expenses</b>						
Instruction-related	234.4	209.5	-	-	234.4	209.5
Pupil services	43.0	37.0	-	-	43.0	37.0
Administration	19.1	17.1	-	-	19.1	17.1
Plant services	26.7	22.9	-	-	26.7	22.9
Ancillary	2.3	2.1	-	-	2.3	2.1
Other	8.5	17.8	28.4	21.9	36.9	39.7
<b>Total Expenses</b>	<b>334.0</b>	<b>306.4</b>	<b>28.4</b>	<b>21.9</b>	<b>362.4</b>	<b>328.3</b>
Transfers	4.6	3.4	(4.6)	(3.4)	-	-
<b>Change in Net Position</b>	<b>\$ (25.2)</b>	<b>\$ (2.7)</b>	<b>\$ (8.2)</b>	<b>\$ 7.4</b>	<b>\$ (33.4)</b>	<b>\$ 4.7</b>



# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### *Governmental Activities*

As reported in the *Statement of Activities* on page 16, the cost of all governmental activities in 2017-2018 was \$334 million. The amount that our taxpayers ultimately financed for these activities through local taxes was \$47.4 million. The remaining cost was paid by those who benefited from the programs \$1.8 million or by other governments and organizations who subsidized certain programs with \$63.1 million in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$179.7 million in Federal and State aid and \$12.1 million with other General Fund revenue sources such as interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions - instruction, instruction-related activities, pupil services, administration, plant services, ancillary services, and other activities, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits provided by that function.

**Table 3**

(Amounts in millions)	Total Cost of Services		Total Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$ 197.0	\$ 177.5	\$ 165.8	\$ 141.7
Instruction-related activities	37.4	32.0	28.5	24.4
Pupil services	43.0	37.0	24.6	21.0
Administration	19.1	17.1	16.8	15.0
Plant services	26.7	22.9	24.8	22.0
Ancillary services	2.3	2.1	2.3	2.1
Other	8.5	17.8	6.2	16.3
<b>Total</b>	<b>\$ 334.0</b>	<b>\$ 306.4</b>	<b>\$ 269.0</b>	<b>\$ 242.5</b>

### ***THE DISTRICT'S FUNDS***

Upon completion of the 2017-2018 fiscal year, the District's governmental funds reported a combined fund balance of \$67.2 million, a decrease of \$10.0 million from 2016-2017 (Table 4).

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

**Table 4**

(Amounts in millions)	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 39.4	\$ 269.6	\$ 277.9	\$ 31.1
Bond Interest and Redemption Fund	14.5	12.3	12.1	14.7
Non-Major Governmental Funds	23.3	33.6	35.5	21.4
<b>Total</b>	<b>\$ 77.2</b>	<b>\$ 315.5</b>	<b>\$ 325.5</b>	<b>\$ 67.2</b>

### *General Fund Budgetary Highlights*

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 6, 2018. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in this annual financial report on page 82.)

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### *Capital Assets*

At June 30, 2018, the District had \$452 million in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$10.5 million, or 2.3 percent, over the prior year (Table 5).

**Table 5**

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
Land	\$ 24.7	\$ 24.7	\$ -	\$ -	\$ 24.7	\$ 24.7
Construction in progress	1.5	35.3	-	-	1.5	35.3
Buildings and improvements	409.0	386.2	-	-	409.0	386.2
Equipment	8.6	7.8	8.2	8.5	16.8	16.3
<b>Total</b>	<b>\$ 443.8</b>	<b>\$ 454.0</b>	<b>\$ 8.2</b>	<b>\$ 8.5</b>	<b>\$ 452.0</b>	<b>\$ 462.5</b>

This year's additions totaled \$6.8 million, with the majority of expenses related to capital assets for 2018-2019 include Hemet Elementary, Valle Vista Preschool facilities and bus purchases. The District's capital assets additions, deletions, and balances are presented in Note 5 in these financial statements.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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Capital projects planned for the 2018-2019 year include completion of the Valle Vista Preschool facility and other miscellaneous projects.

### *Long-Term Obligations*

At June 30, 2018, the District had \$225.1 million in general obligation bonds and certificates of participation outstanding compared to \$233.4 million in June 30, 2017, a decrease of \$8.3 million, or 3.6 percent. Other obligations consisted of those items listed in Table 6 below.

**Table 6**

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	(As Restated)		(As Restated)		(As Restated)	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 172.3	\$ 178.1	\$ -	\$ -	\$ 172.3	\$ 178.1
Certificates of participation	52.8	55.3	-	-	52.8	55.3
Capital leases	0.1	0.1	4.0	4.7	4.1	4.8
Compensated absences payable	0.9	0.9	0.2	0.2	1.1	1.1
Claims liability	8.1	5.3	-	-	8.1	5.3
Net OPEB obligation	29.4	26.9	2.3	2.1	31.7	29.0
<b>Total</b>	<b>\$ 263.6</b>	<b>\$ 266.6</b>	<b>\$ 6.5</b>	<b>\$ 7.0</b>	<b>\$ 270.1</b>	<b>\$ 273.6</b>

Other obligations include compensated absences payable, postemployment benefits (not including health benefits), capital leases, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

### *Net Pension Liability (NPL)*

At year-end, the District had a net pension liability of \$282.9 million, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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Table 7 lists the District's 2018-19 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2018. Budgetary goals were developed and prioritized by the District's leadership team and governing board. Input provided by these two groups was used as the framework to develop the District's 2018-19 budget, which includes site and department allocations for both staffing and operating budgets.

**Table 7**

### 2018-2019 Budget Assumptions

Cost of Living Adjustment (COLA) (applied to LCFF targeted base)	3.00%
Enrollment (excluding charters)	21,443
Enrollment Growth (Decline)	274
ADA – Average Daily Attendance	20,281
ADA – Funded	20,281
ADA Percentage	94.6%
Salary Increase	3.0%
Step and Column Percent of Salaries	1.45%
Deferred/Routine Maintenance - Percent of Total Expenditures	3.00%
New Schools/(School Closures)	0
Reserve for Economic Uncertainties	5.00%

### ***CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional information contact the Assistant Superintendent, Business Services, at Hemet Unified School District, 1791 West Acacia Avenue, Hemet, California, 92545-3797, or e-mail at: [vchristakos@hemetUSD.k12.ca.us](mailto:vchristakos@hemetUSD.k12.ca.us).

# HEMET UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Deposits and investments	\$ 81,109,172	\$ 5,213,180	\$ 86,322,352
Receivables	8,503,123	7,562,738	16,065,861
Internal balances	9,817	(9,817)	-
Stores inventories	665,697	-	665,697
Capital assets			
Land and construction in process	26,235,739	-	26,235,739
Other capital assets	614,114,541	20,998,557	635,113,098
Less: Accumulated depreciation	(196,477,968)	(12,840,607)	(209,318,575)
Total Capital Assets	<u>443,872,312</u>	<u>8,157,950</u>	<u>452,030,262</u>
<b>TOTAL ASSETS</b>	<u>534,160,121</u>	<u>20,924,051</u>	<u>555,084,172</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	<u>97,538,383</u>	<u>9,462,147</u>	<u>107,000,530</u>
<b>LIABILITIES</b>			
Accounts payable	10,209,285	865,339	11,074,624
Accrued interest payable	3,210,885	-	3,210,885
Unearned revenue	1,158,409	-	1,158,409
Long-term obligations			
Current portion of long-term obligations other than pensions	9,501,622	968,004	10,469,626
Noncurrent portion of long-term obligations other than pensions	254,132,098	5,519,513	259,651,611
Total Long-Term Obligations	<u>263,633,720</u>	<u>6,487,517</u>	<u>270,121,237</u>
Aggregate net pension liability	<u>259,313,511</u>	<u>23,494,505</u>	<u>282,808,016</u>
<b>TOTAL LIABILITIES</b>	<u>537,525,810</u>	<u>30,847,361</u>	<u>568,373,171</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	<u>11,925,095</u>	<u>282,003</u>	<u>12,207,098</u>
<b>NET POSITION</b>			
Net investment in capital assets	223,806,075	4,171,470	227,977,545
Restricted for:			
Debt service	11,934,876	-	11,934,876
Capital projects	9,779,734	-	9,779,734
Educational programs	2,878,700	-	2,878,700
Other activities	3,074,566	-	3,074,566
Unrestricted (Deficit)	<u>(169,226,352)</u>	<u>(4,914,636)</u>	<u>(174,140,988)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 82,247,599</u>	<u>\$ (743,166)</u>	<u>\$ 81,504,433</u>

The accompanying notes are an integral part of these financial statements.

# HEMET UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 197,034,593	\$ 9,496	\$ 31,094,564	\$ 73,808
Instruction-related activities:				
Supervision of instruction	14,165,595	121	7,386,725	-
Instructional library, media and technology	2,221,350	146	44,976	-
School site administration	20,979,018	3,816	1,421,968	-
Pupil services:				
Home-to-school transportation	7,005,879	-	248,392	-
Food services	15,137,369	864,859	12,336,062	-
All other pupil services	20,833,771	63	4,953,233	-
Administration:				
Data processing	5,314,414	710	1,171	-
All other administration	13,834,744	50,800	2,294,355	-
Plant services	26,691,213	18,328	1,917,528	-
Ancillary services	2,290,351	-	39,713	-
Community services	118,487	-	-	-
Enterprise services	631,354	-	-	-
Interest on long-term obligations	7,507,011	-	-	-
Other outgo	228,846	863,549	1,366,913	-
<b>Total Governmental Activities</b>	<u>333,993,995</u>	<u>1,811,888</u>	<u>63,105,600</u>	<u>73,808</u>
<b>Business-Type Activities</b>				
Transportation	28,381,599	24,264,685	467,889	-
<b>Total School District</b>	<u>\$ 362,375,594</u>	<u>\$ 26,076,573</u>	<u>\$ 63,573,489</u>	<u>\$ 73,808</u>

### General Revenues and Subventions:

Property taxes, levied for general purposes  
Property taxes, levied for debt service  
Taxes levied for other specific purposes  
Federal and State aid not restricted to specific purposes  
Interest and investment earnings  
Transfers between agencies  
Miscellaneous

Subtotal, General Revenues

### Excess of Revenues Over Expenses

Transfers between funds

### Total General Revenues and Transfers

#### Change in Net Position

Net Position - Beginning

Restatement

Net Position - Beginning (as Restated)

Net Position - Ending

The accompanying notes are an integral part of these financial statements.

**Net (Expenses) Revenues and  
Changes in Net Position**

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (165,856,725)	\$ -	\$ (165,856,725)
(6,778,749)	-	(6,778,749)
(2,176,228)	-	(2,176,228)
(19,553,234)	-	(19,553,234)
(6,757,487)	-	(6,757,487)
(1,936,448)	-	(1,936,448)
(15,880,475)	-	(15,880,475)
(5,312,533)	-	(5,312,533)
(11,489,589)	-	(11,489,589)
(24,755,357)	-	(24,755,357)
(2,250,638)	-	(2,250,638)
(118,487)	-	(118,487)
(631,354)	-	(631,354)
(7,507,011)	-	(7,507,011)
2,001,616	-	2,001,616
(269,002,699)	-	(269,002,699)
-	(3,649,025)	(3,649,025)
(269,002,699)	(3,649,025)	(272,651,724)
30,726,159	-	30,726,159
13,141,771	-	13,141,771
3,545,683	-	3,545,683
179,722,129	-	179,722,129
293,498	-	293,498
369,364	-	369,364
11,404,859	-	11,404,859
239,203,463	-	239,203,463
(29,799,236)	(3,649,025)	(33,448,261)
4,646,695	(4,646,695)	-
(25,152,541)	(8,295,720)	(33,448,261)
112,926,339	8,807,250	121,733,589
(5,526,199)	(1,254,696)	(6,780,895)
107,400,140	7,552,554	114,952,694
\$ 82,247,599	\$ (743,166)	\$ 81,504,433

# HEMET UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2018

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	<b>General Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>ASSETS</b>		
Deposits and investments	\$ 34,208,702	\$ 14,747,961
Receivables	6,263,060	-
Due from other funds	1,318,958	-
Stores inventories	167,825	-
<b>Total Assets</b>	<b>\$ 41,958,545</b>	<b>\$ 14,747,961</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 8,972,919	\$ -
Due to other funds	795,791	-
Unearned revenue	1,107,028	-
<b>Total Liabilities</b>	<b>10,875,738</b>	<b>-</b>
<b>Fund Balances:</b>		
Nonspendable	192,825	-
Restricted	2,816,755	14,747,961
Committed	14,175,227	-
Assigned	-	-
Unassigned	13,898,000	-
<b>Total Fund Balances</b>	<b>31,082,807</b>	<b>14,747,961</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 41,958,545</b>	<b>\$ 14,747,961</b>

The accompanying notes are an integral part of these financial statements.



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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 20,648,811	\$ 69,605,474
2,185,684	8,448,744
297,343	1,616,301
497,872	665,697
<u>\$ 23,629,710</u>	<u>\$ 80,336,216</u>
\$ 1,088,500	\$ 10,061,419
1,080,437	1,876,228
51,381	1,158,409
<u>2,220,318</u>	<u>13,096,056</u>
502,942	695,767
18,445,613	36,010,329
390,728	14,565,955
2,070,109	2,070,109
-	13,898,000
<u>21,409,392</u>	<u>67,240,160</u>
<u>\$ 23,629,710</u>	<u>\$ 80,336,216</u>

# HEMET UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

---

**Total Fund Balance - Governmental Funds** \$ 67,240,160  
**Amounts Reported for Governmental Activities in the  
Statement of Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is:	\$ 640,350,280	
Accumulated depreciation is:	<u>(196,477,968)</u>	
Net Capital Assets		443,872,312

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (3,210,885)

An internal service fund is used by the District's management to charge the costs of the health and welfare benefits and workers' compensation program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities. Internal Service Fund net assets are: 3,558,297

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:

Pension contributions subsequent to measurement date	25,157,301	
Net change in proportionate share of net pension liability	21,429,471	
Differences between projected and actual earnings on pension plan investments	2,452,990	
Differences between expected and actual experience in the measurement of the total pension liability	3,237,137	
Changes of assumptions	<u>45,261,484</u>	
Total Deferred Outflows of Resources Related to Pensions		97,538,383

The accompanying notes are an integral part of these financial statements.

**HEMET UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION (CONTINUED)  
JUNE 30, 2018**

---

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:

Net change in proportionate share of net pension liability	(2,786,437)	
Difference between projected and actual earnings on pension plan investments	(5,017,718)	
Differences between expected and actual experience in the measurement of the total pension liability	(3,286,066)	
Changes of assumptions	<u>(834,874)</u>	
Total Deferred Inflows of Resources Related to Pensions		(11,925,095)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. \$ (259,313,511)

Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.

Long-term obligations at year-end consist of:

General obligation bonds	\$ (164,295,000)	
Premium on issuance, net of amortization	(8,044,996)	
Discount on issuance, net of amortization	76,098	
Certificates of participation	(48,619,342)	
Premium on issuance, net of amortization	(4,284,940)	
Discount on issuance, net of amortization	63,085	
Capital lease obligations	(92,710)	
Compensated absences payable	(902,647)	
Net OPEB liability	<u>(29,411,610)</u>	
Total Long-Term Obligations		(255,512,062)
<b>Total Net Position - Governmental Activities</b>		<b><u><u>\$ 82,247,599</u></u></b>

The accompanying notes are an integral part of these financial statements.

# HEMET UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
<b>REVENUES</b>			
Local Control Funding Formula	\$ 203,876,640	\$ -	\$ 5,270,378
Federal sources	18,314,202	-	12,351,806
Other State sources	24,884,208	158,577	4,943,266
Other local sources	16,745,681	12,158,934	3,177,106
<b>Total Revenues</b>	<u>263,820,731</u>	<u>12,317,511</u>	<u>25,742,556</u>
<b>EXPENDITURES</b>			
Current			
Instruction	166,887,029	-	6,097,602
Instruction-related activities:			
Supervision of instruction	13,229,899	-	228,358
Instructional library, media, and technology	2,100,460	-	9,125
School site administration	18,141,551	-	1,172,844
Pupil services:			
Home-to-school transportation	7,005,879	-	-
Food services	28,824	-	13,271,624
All other pupil services	20,058,547	-	234,316
Administration:			
Data processing	4,579,163	-	128
All other administration	11,558,541	-	1,088,811
Plant services	23,146,832	-	3,223,226
Ancillary services	2,140,569	-	96,885
Community services	117,810	-	-
Other outgo	228,846	-	-
Enterprise services	1,049	-	-
Facility acquisition and construction	1,762,514	-	4,081,071
Debt service			
Principal	104,108	5,425,000	1,840,000
Interest and other	63,002	6,712,104	1,878,430
<b>Total Expenditures</b>	<u>271,154,623</u>	<u>12,137,104</u>	<u>33,222,420</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(7,333,892)</u>	<u>180,407</u>	<u>(7,479,864)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	5,860,848	-	7,826,637
Transfers out	(6,797,408)	-	(2,243,382)
<b>Net Financing Sources (Uses)</b>	<u>(936,560)</u>	<u>-</u>	<u>5,583,255</u>
<b>NET CHANGE IN FUND BALANCES</b>	(8,270,452)	180,407	(1,896,609)
<b>Fund Balance - Beginning</b>	39,353,259	14,567,554	23,306,001
<b>Fund Balances - Ending</b>	<u>\$ 31,082,807</u>	<u>\$ 14,747,961</u>	<u>\$ 21,409,392</u>

The accompanying notes are an integral part of these financial statements.

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<b>Total Governmental Funds</b>
\$ 209,147,018
30,666,008
29,986,051
32,081,721
<u>301,880,798</u>
172,984,631
13,458,257
2,109,585
19,314,395
7,005,879
13,300,448
20,292,863
4,579,291
12,647,352
26,370,058
2,237,454
117,810
228,846
1,049
5,843,585
7,369,108
8,653,536
<u>316,514,147</u>
<u>(14,633,349)</u>
13,687,485
<u>(9,040,790)</u>
<u>4,646,695</u>
(9,986,654)
77,226,814
<u>\$ 67,240,160</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018**

---

**Total Net Change in Fund Balances - Governmental Funds** \$ (9,986,654)

**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation exceeded capital outlay in the period.

Capital outlays	\$ 6,790,709	
Depreciation expense	<u>(16,879,875)</u>	
Net Expense Adjustment		(10,089,166)

In the Statement of Activities, certain operating expenses - compensated absences(vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than amounts earned by \$45,784.

(45,784)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.

(9,672,648)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.

(2,526,346)

The accompanying notes are an integral part of these financial statements.

**HEMET UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2018**

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Repayment of principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds and bond anticipation notes	5,425,000
Certificates of participation	2,212,955
Capital lease obligations	88,859

Governmental funds report the effect of premiums and discounts when the debt is first issued, whereas the amounts are deferred and amortized over the life of the debt in the Statement of Activities. This amount is the net effect of the amortization of the related items:

Premium on issuance for general obligation bonds	\$ 396,030	
Discount on issuance for general obligation bonds	(6,918)	
Premium on issuance for certificates of participation	297,811	
Discount on issuance for certificates of participation	<u>(3,410)</u>	
Combined Adjustment		683,513

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

105,306

An internal service fund is used by the District's management to charge the costs of the health and welfare benefits and workers' compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

(1,347,576)

**Change in Net Position of Governmental Activities**

\$ (25,152,541)

The accompanying notes are an integral part of these financial statements.

**HEMET UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<b>Business-Type Activities <u>Enterprise Fund</u></b>	<b>Governmental Activities <u>Internal Service Fund</u></b>
	<b><u>Transportation</u></b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Deposits and investments	\$ 5,213,180	\$ 11,503,698
Receivables	7,562,738	54,379
Due from other funds	482,222	269,744
<b>Total Current Assets</b>	<b><u>13,258,140</u></b>	<b><u>11,827,821</u></b>
<b>Noncurrent Assets</b>		
Capital assets	20,998,557	-
Less: accumulated depreciation	(12,840,607)	-
<b>Total Noncurrent Assets</b>	<b><u>8,157,950</u></b>	<b><u>-</u></b>
<b>Total Assets</b>	<b><u>21,416,090</u></b>	<b><u>11,827,821</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pensions	9,462,147	-
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	865,339	147,866
Due to other funds	492,039	-
Claims liabilities	-	1,348,000
<b>Total Current Liabilities</b>	<b><u>1,357,378</u></b>	<b><u>1,495,866</u></b>
<b>Noncurrent Liabilities</b>		
Noncurrent portion of claims liabilities	-	6,773,658
Capital lease	3,986,480	-
Net OPEB liability	2,286,155	-
Compensated absences payable	214,882	-
Aggregate net pension liability	23,494,505	-
<b>Total Liabilities</b>	<b><u>31,339,400</u></b>	<b><u>8,269,524</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	282,003	-
<b>NET POSITION</b>		
Net investment in capital assets	4,171,470	-
Unrestricted	(4,914,636)	3,558,297
<b>Total Net Position</b>	<b><u>\$ (743,166)</u></b>	<b><u>\$ 3,558,297</u></b>

The accompanying notes are an integral part of these financial statements.



**HEMET UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Business-Type Activities Enterprise Fund</b>	<b>Governmental Activities Internal Service Fund</b>
	<b>Transportation</b>	<b>Service Fund</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 24,644,304	\$ -
Charges to other funds and miscellaneous revenues	-	1,688,437
<b>Total Operating Revenues</b>	<b>24,644,304</b>	<b>1,688,437</b>
<b>OPERATING EXPENSES</b>		
Payroll costs	26,222,567	306
Professional and contract services	(2,958,616)	3,198,256
Supplies and materials	2,933,168	1,515
Facility rental	902,185	-
Depreciation	1,282,295	-
<b>Total Operating Expenses</b>	<b>28,381,599</b>	<b>3,200,077</b>
<b>Operating (Loss)</b>	<b>(3,737,295)</b>	<b>(1,511,640)</b>
<b>NONOPERATING REVENUES</b>		
Interest income	82,238	164,064
Grants	6,032	-
<b>Total Nonoperating Revenues</b>	<b>88,270</b>	<b>164,064</b>
<b>Income Before Transfers</b>	<b>(3,649,025)</b>	<b>(1,347,576)</b>
Transfers out	(4,646,695)	-
<b>Change in Net Position</b>	<b>(8,295,720)</b>	<b>(1,347,576)</b>
<b>Net Position - Beginning</b>	<b>8,807,250</b>	<b>4,905,873</b>
<b>Restatement</b>	<b>(1,254,696)</b>	<b>-</b>
<b>Net Position - Beginning (as Restated)</b>	<b>7,552,554</b>	<b>4,905,873</b>
<b>Total Net Position - Ending</b>	<b>\$ (743,166)</b>	<b>\$ 3,558,297</b>

The accompanying notes are an integral part of these financial statements.

**HEMET UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Business-Type Activities Enterprise Fund</b>	<b>Governmental Activities Internal Service Fund</b>
	<b>Transportation</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 24,726,542	\$ -
Cash received from assessments made to other funds	(482,222)	1,501,308
Cash payments to employees for services	(26,222,567)	(306)
Cash payments to suppliers for goods and services	(876,737)	-
Cash payments for administrative expense	(1,298,088)	(1,515)
Other operating cash payments	(1,027,952)	(2,435,684)
Net Cash Used For Operating Activities	<u>(5,181,024)</u>	<u>(936,197)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating grants received	6,032	-
Transfers to other funds	4,646,693	-
Net Cash Provided by Noncapital Financing Activities	<u>4,652,725</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	916,275	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	82,238	141,934
Net Increase (Decrease) in Cash and Cash Equivalents	470,214	(794,263)
Cash and Cash Equivalents - Beginning	4,742,966	12,297,961
Cash and Cash Equivalents - Ending	<u>\$ 5,213,180</u>	<u>\$ 11,503,698</u>

The accompanying notes are an integral part of these financial statements.

# HEMET UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED JUNE 30, 2018

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### RECONCILIATION OF OPERATING LOSS

#### TO NET CASH USED FOR OPERATING ACTIVITIES:

Operating loss	\$	(3,737,295)	\$	(1,511,640)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation		1,282,295		-
Changes in assets and liabilities:				
Receivables		1,201,173		-
Due from other funds		(40,755)		(187,129)
Capital assets		916,275		-
Deferred outflows		4,313,965		-
Accounts payable		388,058		60,416
Due to other funds		(684,216)		16,676
Capital leases		(732,319)		-
Net OPEB liability		1,001,074		-
Compensated absences payable		17,189		-
Aggregate net pension liability		(14,242,162)		-
Claims liabilities		5,131,669		685,480
Deferred inflows		4,025		-
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>\$</b>	<b>(5,181,024)</b>	<b>\$</b>	<b>(936,197)</b>

The accompanying notes are an integral part of these financial statements.

# HEMET UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	<b>Agency Funds</b>		
	<b>Associated Student Body</b>	<b>Debt Service Fund for Special Tax Bonds</b>	<b>Total Agency Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 1,438,495	\$ 4,725,055	\$ 6,163,550
Stores inventories	23,446	-	23,446
<b>Total Assets</b>	<b>\$ 1,461,941</b>	<b>\$ 4,725,055</b>	<b>\$ 6,186,996</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 852	\$ -	\$ 852
Due to bond holders	-	4,725,055	4,725,055
Due to student groups	1,461,089	-	1,461,089
<b>Total Liabilities</b>	<b>\$ 1,461,941</b>	<b>\$ 4,725,055</b>	<b>\$ 6,186,996</b>

The accompanying notes are an integral part of these financial statements.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Hemet Unified School District (the District) was established on July 1, 1966, under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates fourteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, an adult school, and two charter schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Hemet Unified School District, this includes general operations, food service, and student related activities of the District.

#### Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Golden West Schools Financing Authority (the Authority) and the Hemet Unified School District School Facilities Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Certificates of participation and other debt issued by the Authority and the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Authority or the Corporation.

The Hemet Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Charter School** The District has approved a Charter for the Western Center Academy Charter School pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the Charter School Special Revenue Fund.

### Other Related Entity

**Joint Powers Authority** The District is associated with one joint powers authority. This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 16 to the financial statements. This organization is:

Southern California Regional Liability Excess Fund (So Cal ReLiEF)

### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Postemployment Benefits, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects a decrease in the fund balance of \$4,848,373.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund are used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Charter Schools Fund** The Charter Schools Fund is used by the District to account separately for the operating activities of district-operated charter schools that would otherwise be reported in the authorizing district's General Fund.

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues for restricted or committed adult education programs and is to be expended for adult education purposes only.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes. (*Education Code* Sections 17582)

**Capital Project Funds** The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51), authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

**Special Reserve Fund for Capital Outlay Projects** The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

**Capital Projects for Blended Component Units Fund** The Capital Projects for Blended Component Units Fund is used to account for capital projects financed by the 2004 COP, 2006 COP, 2007 COP, 2005-3 CFD, and 2005-4 CFD issuances that are considered blended component units of the District under generally accepted accounting principles (GAAP).

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term obligations.

**Debt Service Fund for Blended Component Units** The Debt Service Fund for Blended Component Units is used to account for the accumulation of resources for the payment of the principal and interest on bonds issued by Financing Authorities and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the Local Education Agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. These funds of the District account for the financial transactions related to the Transportation activities of the District.

**Internal Service Fund** Internal service funds may be used to account for goods or services provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self-Insurance program for health and welfare and workers' compensation services that is accounted for in an internal service fund.

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District does not have any trust funds.

The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB), debt service fund for special tax bonds, and funds held on behalf of other agencies.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide financial *Statement of Activities* presents a comparison between direct expenses and program revenues for each segment of the District and for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Governmental Funds** All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Proprietary Funds** Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the *Statement of Net Position*. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned Revenue** Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

### **Investments**

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental-type funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial *Statement of Net Position*. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables".

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

### **Debt Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities *Statement of Net Position*. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

### Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment Program (MPP) and additions to/deductions from MPP's fiduciary net position have been determined on the same basis as they are reported by MPP. For this purpose, MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

### Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than five percent of General Fund expenditures and other financing uses.

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2018. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$27,667,876 of restricted net position.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

### **New Accounting Pronouncements**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 81,109,172
Business-type activities	5,213,180
Fiduciary funds	6,163,550
Total Deposits and Investments	<u>\$ 92,485,902</u>

Deposits and investments as of June 30, 2018, consisted of the following:

Cash on hand and in banks	\$ 7,274,582
Cash in revolving	30,070
Investments	85,181,250
Total Deposits and Investments	<u>\$ 92,485,902</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations; the Riverside County Investment Pool.

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government.

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

### Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Reported Amount	Maturity Date/ Weighted Average Maturity in Days
Federal Farm Credit Banks	\$ 1,292,935	3/12/2019
Certificates of Deposit	980,337	86
Federal Home Loan Mortgage Corp. - MTN	1,163,558	1007
Federal National Mortgage Association	365,930	578
Commercial Paper	800,040	9/19/2018
Riverside County Investment Pool	80,578,450	427
Total	\$ 85,181,250	

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Rating as of June 30, 2018</u>	<u>Reported Amount</u>
Federal Farm Credit Banks	Not Required	Aaa	\$ 1,292,935
Certificates of Deposit	Not Required	Not Rated	980,337
Federal Home Loan Mortgage Corp. - MTN	Not Required	Aaa	1,163,558
Federal National Mortgage Association	Not Required	Aaa	365,930
Commercial Paper	P-1	Aaa	800,040
Riverside County Investment Pool	Not Required	Aaa-bf	80,578,450
Total			<u>\$ 85,181,250</u>

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance \$6,686,208 was exposed to custodial credit risk because it was uninsured..

### NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Riverside County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Fair Value Measurements	
		Using Level 2 Inputs	Uncategorized
Federal Farm Credit Banks	\$ 1,292,935	\$ 1,292,935	\$ -
Certificates of Deposit	980,337	980,337	-
Federal Home Loan Mortgage Corp. - MTN	1,163,558	1,163,558	-
Federal National Mortgage Association	365,930	365,930	-
Commercial Paper	800,040	800,040	-
Riverside County Investment Pool	80,578,450	-	80,578,450
Total	<u>\$ 85,181,250</u>	<u>\$ 4,602,800</u>	<u>\$ 80,578,450</u>

All assets have been valued using a market approach, with quoted market prices.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Transportation Enterprise Fund
Federal Government					
Categorical aid	\$ 2,764,416	\$ 1,411,848	\$ -	\$ 4,176,264	\$ -
State Government					
LCFF					
apportionment	2,558	-	-	2,558	-
Categorical aid	784,042	563,151	-	1,347,193	-
Lottery	886,708	27,406	-	914,114	-
Other State	1,477,487	29,456	-	1,506,943	
Local Government					
Interest	124,430	59,225	51,983	235,638	24,761
Other local sources	223,419	94,598	2,396	320,413	7,537,977
Total	<u>\$ 6,263,060</u>	<u>\$ 2,185,684</u>	<u>\$ 54,379</u>	<u>\$ 8,503,123</u>	<u>\$ 7,562,738</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 24,701,180	\$ -	\$ -	\$ 24,701,180
Construction in progress	35,298,947	850,292	34,614,680	1,534,559
Total Capital Assets Not Being Depreciated	60,000,127	850,292	34,614,680	26,235,739
Capital Assets Being Depreciated				
Buildings and improvements	551,126,794	38,416,355	70,000	589,473,149
Furniture and equipment	22,502,650	2,138,742	-	24,641,392
Total Capital Assets Being Depreciated	573,629,444	40,555,097	70,000	614,114,541
Total Capital Assets	633,629,571	41,405,389	34,684,680	640,350,280
Less Accumulated Depreciation				
Buildings and improvements	164,944,225	15,594,304	70,000	180,468,529
Furniture and equipment	14,723,868	1,285,571	-	16,009,439
Total Accumulated Depreciation	179,668,093	16,879,875	70,000	196,477,968
Governmental Activities Capital Assets, Net	453,961,478	24,525,514	34,614,680	443,872,312
<b>Business-Type Activities</b>				
Capital Assets Being Depreciated				
Furniture and equipment	20,082,282	916,275	-	20,998,557
Less Accumulated Depreciation				
Furniture and equipment	11,558,312	1,282,295	-	12,840,607
Business-Type Activities Capital Assets, Net	8,523,970	(366,020)	-	8,157,950
<b>School District Totals</b>	<b>\$ 462,485,448</b>	<b>\$ 24,159,494</b>	<b>\$ 34,614,680</b>	<b>\$ 452,030,262</b>



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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Depreciation expense was charged as a direct expense to governmental functions as follows:

### **Governmental Activities**

Instruction	\$ 13,942,753
School site administration	455,758
Food services	793,354
All other administration	995,912
Plant services	692,098
Total Depreciation Expenses Governmental Activities	<u>16,879,875</u>

### **Business-Type Activities**

Home-to-school transportation	<u>1,282,295</u>
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### **School District Totals**

\$ 18,162,170

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 6 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	
General Fund	\$ -	\$ 828,864	\$ 490,094	\$ 1,318,958
Non-Major Governmental Funds	297,343	-	-	297,343
Transportation Enterprise Fund	482,222	-	-	482,222
Internal Service Fund	16,226	251,573	1,945	269,744
Total	<u>\$ 795,791</u>	<u>\$ 1,080,437</u>	<u>\$ 492,039</u>	<u>\$ 2,368,267</u>

A balance of \$123,474 is due to the Charter Schools Non-Major Governmental Fund from the General fund for In-Lieu final calculation.

A balance of \$91,140 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for unpaid meals.

A balance of \$422,805 is due to the Transportation Enterprise Fund from the General Fund to cover costs.

A balance of \$319,363 is due to the to the General Fund from the Charter Schools Non-Major Governmental Fund for Special Education Master Plan.

A balance of \$127,457 is due to the General Fund from the Charter Non-Major Governmental Fund to cover costs.

A balance of \$250,000 is due to Internal Service Fund from the Child Development Non-Major Governmental Fund for temporary loan.

A balance of \$261,146 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect cost.

A balance of \$486,920 is due to the General Fund from the Transportation Enterprise Fund for charge backs.

Remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**Operating Transfers**

Interfund transfers for the year ended June 30, 2018, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	
General Fund	\$ -	\$ 1,214,153	\$ 4,646,695	\$ 5,860,848
Non-Major Governmental Funds	6,797,408	1,029,229	-	7,826,637
Total	<u>\$ 6,797,408</u>	<u>\$ 2,243,382</u>	<u>\$ 4,646,695</u>	<u>\$ 13,687,485</u>

The General Fund transferred to the Debt Service for Blended Component Units Non-Major Governmental Fund for debt service payments.	\$ 3,711,268
The General Fund transferred to the Cafeteria Non-Major Governmental Fund to support excess costs.	91,140
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund to cover costs.	2,500,000
The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for debt service payments.	495,000
The Charter Schools Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment.	379,416
The Capital Projects Non-Major Governmental Fund for Blended Component Units transferred to the Capital Facilities Non-Major Governmental Fund for the reimbursement of costs.	1,029,229
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the General Fund for Prop 39 expenses.	834,737
The Transportation Enterprise Fund transferred to the General Fund for admin fees and to cover District transportation costs.	4,646,695
Total	<u>\$ 13,687,485</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 4,441,014	\$ 583,149	\$ 147,866	\$ 5,172,029
LCFF apportionment	2,674,661	73,727	-	2,748,388
Salaries and benefits	1,857,244	225,443	-	2,082,687
Construction	-	206,181	-	206,181
Total	<u>\$ 8,972,919</u>	<u>\$ 1,088,500</u>	<u>\$ 147,866</u>	<u>\$ 10,209,285</u>

	Transportation Enterprise Fund	Fiduciary Funds
Vendor payables	\$ 582,346	\$ 852
LCFF apportionment	-	-
Salaries and benefits	282,993	-
Construction	-	-
Total	<u>\$ 865,339</u>	<u>\$ 852</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 21,837	\$ -	\$ 21,837
State categorical aid	1,085,191	51,381	1,136,572
Total	<u>\$ 1,107,028</u>	<u>\$ 51,381</u>	<u>\$ 1,158,409</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 6, 2017, the District issued \$7,900,000 of Tax and Revenue Anticipation Notes bearing interest at 3 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 29, 2018. By April, 2018, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2018</u>
7/6/2017	3.00%	6/29/2018	\$ -	\$ 7,900,000	\$ 7,900,000	\$ -

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 10 - LONG-TERM OBLIGATIONS

#### Summary

A schedule of changes in long-term obligations for the year ended June 30, 2018, is shown below:

	(as Restated)			Balance June 30, 2018	Due in One Year
	Balance July 1, 2017	Additions	Deductions		
<b>Governmental Activities</b>					
General Obligation Bonds	\$ 169,720,000	\$ -	\$ 5,425,000	\$ 164,295,000	\$ 5,745,000
Premium on issuance	8,441,026	-	396,030	8,044,996	-
Discount on issuance	(83,016)	-	(6,918)	(76,098)	-
Certificates of Participation	50,832,297	-	2,212,955	48,619,342	2,315,912
Premium on issuance	4,582,751	-	297,811	4,284,940	-
Discount on issuance	(66,495)	-	(3,410)	(63,085)	-
Capital Leases	181,569	-	88,859	92,710	92,710
Compensated Absences Payable	856,863	45,784	-	902,647	-
Claims Liability	5,273,552	4,506,442	1,658,336	8,121,658	1,348,000
Net Other Postemployment (OPEB) Liability	26,885,264	3,648,004	1,121,658	29,411,610	-
Total Governmental Activities	<u>\$ 261,097,612</u>	<u>\$ 8,200,230</u>	<u>\$ 11,190,321</u>	<u>\$ 263,633,720</u>	<u>\$ 9,501,622</u>
<b>Business-Type Activities</b>					
Capital Leases	\$ 4,718,799	\$ -	\$ 732,319	\$ 3,986,480	\$ 968,004
Compensated Absences Payable	197,693	17,189	-	214,882	-
Net Other Postemployment (OPEB) Liability	2,064,106	299,361	77,312	2,286,155	-
Total Business-Type Activities	<u>\$ 5,308,555</u>	<u>\$ 316,550</u>	<u>\$ 809,631</u>	<u>\$ 6,487,517</u>	<u>\$ 968,004</u>

- Payments on General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues.
- Payments on the Certificates of Participation and Lease Revenue Bonds are made by the Debt Service for Blended Component Units Fund.
- Payments for Capital Leases are made by the General Fund, Capital Facilities Fund, and the Transportation Enterprise Fund.
- The Accumulated Vacation will be paid by the fund for which the employee worked.
- Payments for Supplemental Early Retirement obligations are made by the General Fund.
- Payments for the OPEB obligation will be paid by the fund for which the employee worked.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Issued	Redeemed	Bonds Outstanding June 30, 2018
7/28/10	8/1/26	4.00% - 4.50%	\$ 18,740,000	\$ 13,555,000	\$ -	\$ 1,135,000	\$ 12,420,000
7/18/12	8/1/28	2.00% - 4.00%	21,260,000	17,525,000	-	1,395,000	16,130,000
12/16/14	8/1/38	3.00% - 5.00%	93,170,000	89,640,000	-	2,630,000	87,010,000
5/19/15	8/1/40	3.00% - 5.00%	49,000,000	49,000,000	-	265,000	48,735,000
			<u>\$ 182,170,000</u>	<u>\$ 169,720,000</u>	<u>\$ -</u>	<u>\$ 5,425,000</u>	<u>\$ 164,295,000</u>

### Debt Service Requirements to Maturity

The bonds mature through 2041 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	\$ 5,745,000	\$ 6,465,913	\$ 12,210,913
2020	6,105,000	6,202,642	12,307,642
2021	6,450,000	5,941,448	12,391,448
2022	6,790,000	5,671,788	12,461,788
2023	7,155,000	5,379,043	12,534,043
2024-2028	40,500,000	22,381,039	62,881,039
2029-2033	34,245,000	15,166,425	49,411,425
2034-2038	42,050,000	7,526,775	49,576,775
2039-2041	15,255,000	852,900	16,107,900
Total	<u>\$ 164,295,000</u>	<u>\$ 75,587,973</u>	<u>\$ 239,882,973</u>

### 2010 General Obligation Refunding Bonds

In July 2010, the District issued \$18,740,000 of the 2010 General Obligation Refunding Bonds. The bonds mature on August 1, 2026, with interest yields ranging from 4.00 to 4.50 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series A. At June 30, 2018, the principal balance outstanding was \$12,420,000 and unamortized premium was \$153,972.

### 2012 General Obligation Refunding Bonds

In July 2012, the District issued \$21,260,000 of the 2012 General Obligation Refunding Bonds. The bonds mature on August 1, 2028, with interest yields ranging from 2.00 to 4.00 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series B, and C. At June 30, 2018, the principal balance outstanding was \$16,130,000 and unamortized discount was \$76,098.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 2014 General Obligation Refunding Bonds

In December 2014, the District issued \$93,170,000 of the 2014 General Obligation Refunding Bonds. The bonds mature on August 1, 2038, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds were used to refund a portion of the outstanding 2002 General Obligation Bonds, Series D and E and the 2006 General Obligation Bonds, Series A and B. The additional proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2018, the principal balance outstanding was \$87,010,000 and unamortized premium was \$6,505,901.

### 2012 General Obligation Bonds, Series A

In May 2015, the District issued \$49,000,000 of the 2012 General Obligation Bonds, Series A. The bonds mature on August 1, 2040, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2018, the principal balance outstanding was \$48,735,000 and unamortized premium was \$1,385,123.

### Certificates of Participation Summary

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Original Issue	COP Outstanding July 1, 2017	Issued	Redeemed	COP Outstanding June 30, 2018
12/13/05	12/27/20	\$ 5,000,000	\$ 1,477,297	\$ -	\$ 372,955	\$ 1,104,342
11/21/07	10/01/36	4,610,000	3,535,000	-	-	3,535,000
09/30/15	10/01/28	16,690,000	15,630,000	-	1,085,000	14,545,000
09/27/16	10/01/34	23,965,000	23,965,000	-	-	23,965,000
09/27/16	10/01/23	6,225,000	6,225,000	-	755,000	5,470,000
		<u>\$ 56,490,000</u>	<u>\$ 50,832,297</u>	<u>\$ -</u>	<u>\$ 2,212,955</u>	<u>\$ 48,619,342</u>



**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Debt Service Requirements to Maturity**

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 2,315,912	\$ 1,827,024	\$ 4,142,936
2020	2,449,087	1,765,886	4,214,973
2021	2,524,343	1,711,166	4,235,509
2022	2,285,000	1,651,692	3,936,692
2023	2,980,000	1,582,556	4,562,556
2024-2028	14,300,000	6,146,988	20,446,988
2029-2033	13,740,000	2,925,019	16,665,019
2034-2037	8,025,000	435,663	8,460,663
Total	<u>\$ 48,619,342</u>	<u>\$ 18,045,994</u>	<u>\$ 66,665,336</u>

**2005 Qualified Zone Academy Bond Certificates of Participation**

On December 13, 2005, the District issued \$5,000,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on December 27, 2020. The District received net proceeds of \$4,876,231 (after payment of \$123,769 in underwriter fees, and issuance costs).

The District began making annual deposits of \$275,665 on December 27, 2006, into an investment account with US Bank for payment of the QZAB at maturity. Fifteen payments will be made from December 27, 2006 to December 27, 2020, which will total \$4,134,975.

The required payments through December 27, 2020, are as follows:

Fiscal Year	Required Payments
2019	\$ 275,665
2020	275,665
2021	<u>275,665</u>
Total Remaining Payments	826,995
Cumulative payments made by County Office of Education	3,895,658
Projected cumulative interest earnings	277,347
Total obligation	<u>\$ 5,000,000</u>
Remaining obligation to be funded with required payments and interest earnings	<u>\$ 1,104,342</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 2007 Certificates of Participation

On November 21, 2007, the District, pursuant to a lease agreement with the Hemet Unified School District Facilities Corporation, issued certificates of participation in the amount of \$4,610,000. The certificates were issued to finance the acquisition and construction of school facilities, fund a reserve account, and pay issuance costs associated with the execution and delivery of the certificates. At June 30, 2018, the principal balance outstanding was \$3,535,000 and unamortized discount was \$63,085.

### 2015 Refunding Certificates of Participation

In September 2015, the District issued \$16,690,000 of the 2015 Refunding Certificates of Participation. The certificates mature on October 1, 2028, with interest yields ranging from 2.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2004 Certificates of Participation and the 2005 Lease Revenue Bonds. At June 30, 2018, the principal balance outstanding was \$14,545,000 and unamortized premium was \$1,100,652.

### 2016 Refunding Certificates of Participation, Series A

In September 2016, the District issued \$23,965,000 of the 2016 Refunding Certificates of Participation, Series A. The certificates mature on October 1, 2034, with interest yields ranging from 3.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2018, the principal balance outstanding was \$23,965,000 and unamortized premium was \$3,184,288.

### 2016 Refunding Certificates of Participation, Series B

In September 2016, the District issued \$6,225,000 of the 2016 Refunding Certificates of Participation, Series B. The certificates mature on October 1, 2023, with interest yields ranging from 1.59 to 2.72 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2018, the principal balance outstanding was \$5,470,000.

### Capital Leases - Governmental Activities

The District's liability on lease agreements with options to purchase is summarized below:

	Energy Management Equipment
Balance, July 1, 2017	\$ 193,456
Payments	96,728
Balance, June 30, 2018	<u>\$ 96,728</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
<u>2019</u>	<u>\$ 96,728</u>
Less: Amount Representing Interest	4,018
Present Value of Minimum Lease Payments	<u><u>\$ 92,710</u></u>

### Capital Leases - Business-Type Activities

The District's liability on lease agreements with options to purchase is summarized below:

	Buses
Balance, July 1, 2017 (as Restated)	<u>\$ 5,131,826</u>
Payments	863,304
Balance, June 30, 2018	<u><u>\$ 4,268,522</u></u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
<u>2019</u>	<u>\$ 1,065,843</u>
2020	1,065,846
2021	1,065,847
2022	401,338
2023	267,859
2024-2025	401,789
Total	<u>4,268,522</u>
Less: Amount Representing Interest	282,042
Present Value of Minimum Lease Payments	<u><u>\$ 3,986,480</u></u>

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District and the Business-Type Activities at June 30, 2018, amounted to \$902,647 and 214,882, respectively.

### Claims Liability

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of \$8,121,658.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**Net Other Post Employment Benefits (OPEB) Liability**

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, deferred inflows or resources, and OPEB expense for the following plans:

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>OPEB Expense</u>
District Plan	\$ 27,858,984	\$ 3,648,004
Transportation Plan	2,286,155	299,361
Medicare Premium Payment (MPP) Program	1,552,626	179,536
Total	<u>\$ 31,697,765</u>	<u>\$ 4,126,901</u>

The details of each plan are as follows:

**District and Transportation Plan**

**Plan administration**

The District's Governing Board administers the Postemployment Benefits Plan (the Plan) is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASSB Statement No. 75.

*Plan membership*

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	95
Active employees	2,521
	<u>2,616</u>

*Benefits provided*

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. The Hemet Unified School District's Governing Board (the Governing Board) has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *Contributions*

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed \$1,019,434 to the Plan, of which \$379,228 was used for current premiums

### **Net OPEB Liability of the District and Transportation**

#### *Actuarial assumptions*

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

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.80 percent
Health care cost trend rates	4.00 percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

### **Changes in the Total OPEB Liability**

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ 27,217,208
Service cost	2,879,278
Interest	1,068,087
Benefit payments	(1,019,434)
Net change in total OPEB liability	<u>2,927,931</u>
Balance at June 30, 2018	<u>\$ 30,145,139</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### *Sensitivity of the total OPEB liability to changes in the discount rate*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.8 percent) or 1-percentage-point higher (4.8 percent) than the current discount rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.8%)	\$ 32,234,772
Current discount rate (3.8%)	30,145,139
1% increase (4.8%)	28,214,472

### *Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3 percent) or 1-percentage-point higher (5 percent) than the current healthcare costs trend rates:

<u>Health Care Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3%)	\$ 28,772,974
Current healthcare cost trend rate (4%)	30,145,139
1% increase (5%)	31,379,129

### **OPEB Expense related to OPEB**

For the year ended June 30, 2018, the District and Transportation recognized OPEB expense of \$3,648,004 and \$299,361, respectively.

### **Medicare Premium Payment (MPP) Program**

#### **Plan Description**

The Medicare Premium (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **Benefits Provided**

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the STRP DB Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

### **Contributions**

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District's contributions. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB**

At June 30, 2018, the District reported a liability of \$1,552,626 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 was 0.3691 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$179,536.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016 was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.



**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 1,718,866
Current discount rate (3.58%)	1,552,626
1% increase (4.58%)	1,390,923

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates*

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 1,403,035
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,552,626
1% increase (4.7% Part A and 5.1% Part B)	1,700,723

# **HEMET UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **NOTE 11 - NON-OBLIGATORY DEBT**

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$29,505,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 12 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 25,000	\$ -	\$ 5,070	\$ 30,070
Stores inventories	167,825	-	497,872	665,697
Total Nonspendable	<u>192,825</u>	<u>-</u>	<u>502,942</u>	<u>695,767</u>
<b>Restricted</b>				
Legally restricted programs	2,816,755	-	3,136,511	5,953,266
Capital projects	-	-	14,911,302	14,911,302
Debt service	-	14,747,961	397,800	15,145,761
Total Restricted	<u>2,816,755</u>	<u>14,747,961</u>	<u>18,445,613</u>	<u>36,010,329</u>
<b>Committed</b>				
Deferred maintenance program	-	-	389,228	389,228
OPEB reserves	4,914,042	-	-	4,914,042
Capital equipment and improvements	-	-	1,500	1,500
LCAP initiatives	3,442,773	-	-	3,442,773
STRS and PERS rate increases	3,049,970	-	-	3,049,970
Instructional materials and services	1,323,809	-	-	1,323,809
Health and welfare premiums	830,170	-	-	830,170
Technology infrastructure	375,000	-	-	375,000
Instructional supplies and services	239,463	-	-	239,463
Total Committed	<u>14,175,227</u>	<u>-</u>	<u>390,728</u>	<u>14,565,955</u>
<b>Assigned</b>				
Capital equipment and improvements	-	-	458,744	458,744
Other assignments	-	-	1,611,365	1,611,365
Total Assigned	<u>-</u>	<u>-</u>	<u>2,070,109</u>	<u>2,070,109</u>
<b>Unassigned</b>				
Economic uncertainties	13,898,000	-	-	13,898,000
Total	<u>\$31,082,807</u>	<u>\$ 14,747,961</u>	<u>\$ 21,409,392</u>	<u>\$ 67,240,160</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 13 - RISK MANAGEMENT

#### Description

The District's risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, vision, dental, disability, and workers' compensation programs are administered by the District. The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance through Southern California Regional Liability Excess Fund Joint Powers Authority for first party damage with coverage up to a maximum of \$250 million, subject to Member Retained Limits ranging from \$250 to \$5,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence with excess liability coverage up to \$24 million per occurrence and \$52 million aggregate, all subject to a \$5,000 Member Retained Limit per occurrence. The District self-insures workers' compensation coverage up to \$1,000,000 per occurrence with excess coverage up to \$10,000,000.

#### Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

#### Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	\$ 6,824,989
Claims provision	2,562,483
Claims paid	(1,951,294)
Liability Balance, June 30, 2017	7,436,178
Claims provision	2,343,816
Claims paid	(1,658,336)
Liability Balance, June 30, 2018	\$ 8,121,658
Amount available to pay claims	\$ 11,827,821

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 188,518,139	\$ 63,714,777	\$ 11,096,951	\$ 29,632,899
CalPERS	94,289,877	43,285,753	1,110,147	17,089,688
Total Governmental	<u>\$ 282,808,016</u>	<u>\$ 107,000,530</u>	<u>\$ 12,207,098</u>	<u>\$ 46,722,587</u>

The details of each plan are as follows:

#### California State Teachers' Retirement System (CalSTRS)

##### Plan Description

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

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

##### Benefits Provided

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

### Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$17,016,552.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 188,518,139
State's proportionate share of the net pension liability associated with the District	111,525,738
Total	<u>\$ 300,043,877</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.2038 percent and 0.2081 percent, resulting in a net decrease in the proportionate share of 0.0043 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$29,632,899. In addition, the District recognized pension expense and revenue of \$11,226,136 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 17,016,552	\$ -
Net change in proportionate share of net pension liability	11,075,880	2,788,128
Differences between projected and actual earnings on pension plan investments	-	5,020,763
Differences between expected and actual experience in the measurement of the total pension liability	697,158	3,288,060
Changes of assumptions	34,925,187	-
Total	<u>\$ 63,714,777</u>	<u>\$ 11,096,951</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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The deferred outflows/(inflows) of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (4,173,946)
2020	3,158,446
2021	455,430
2022	(4,460,693)
Total	<u>\$ (5,020,763)</u>

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ 7,400,061
2020	7,400,061
2021	7,400,061
2022	7,400,061
2023	5,549,426
Thereafter	5,472,367
Total	<u>\$ 40,622,037</u>



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 276,804,477
Current discount rate (7.10%)	188,518,139
1% increase (8.10%)	116,867,792

### California Public Employees Retirement System (CalPERS)

#### Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.50%
Required employer contribution rate	15.531%	15.531%

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$10,101,165.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$94,289,877. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.3950 percent and 0.3874 percent, resulting in a net increase in the proportionate share of 0.0076 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$17,089,688. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,101,165	
Net change in proportionate share of net pension liability	12,772,266	-
Difference between projected and actual earnings on pension plan investments	3,261,785	-
Differences between expected and actual experience in the measurement of the total pension liability	3,378,017	-
Changes of assumptions	13,772,520	1,110,147
Total	<u>\$ 43,285,753</u>	<u>\$ 1,110,147</u>

The deferred outflows/(inflows) of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (88,383)
2020	3,763,392
2021	1,372,927
2022	(1,786,151)
Total	<u>\$ 3,261,785</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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The deferred outflows of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ 11,502,478
2020	10,483,157
2021	6,827,021
Total	<u>\$ 28,812,656</u>

### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.9%

**Discount Rate**

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

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

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 138,730,625
Current discount rate (7.15%)	94,289,877
1% increase (8.15%)	57,422,556

**Social Security**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of 9,069,430 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS). No contributions were made to CalPERS for the year ended June 30, 2018. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

### NOTE 15 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

#### Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Site acquisition	\$ 25,000	2019
DSA closeout projects	22,710	2020
Fire alarm replacement project	208,550	2019
Relo restroom replacement project	265,413	2019
Relo trailer move project	7,983	2019
Security modernization project	19,990	2019
Turf replacement project	464,445	2019
College & Career Center modernization multi sites project	63,255	2019
New school Gibbel ES project	1,106,074	2021
	\$ 2,183,420	

### NOTE 16 - PARTICIPATION JOINT POWERS AUTHORITY

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF) a joint powers authority (JPA). The District pays an annual premium for its property liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the JPA and the District are included in these statements. Audited financial statements are available from the JPA.

During the year ended June 30, 2018, the District made payments of \$1,383,737 to SoCal ReLiEF, for services received.



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

Certain items that occurred in the prior year net position have been restated as of June 30, 2017, to more accurately reflect the substance of the underlying transactions. Additionally, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

#### Statement of Net Position - Governmental Activities

Net Position - Beginning	\$ 112,926,339
Change in net OPEB liability from the adoption of GASB Statement No. 75	(6,106,707)
Overstatement of compensated absences payable	197,693
Overstatement of capital lease payable	382,815
Net Position - Beginning as Restated	<u>\$ 107,400,140</u>

#### Statement of Net Position - Business-Type Activities

Net Position - Beginning	\$ 8,807,250
Change in net OPEB liability from the adoption of GASB Statement No. 75	(779,025)
Understatement of deferred inflows of resources related to pensions	(277,978)
Understatement of compensated absences payable	(197,693)
Net Position - Beginning as Restated	<u>\$ 7,552,554</u>

#### Government-Wide Financial Statements

Net Position - Beginning	\$ 121,733,589
Change in net OPEB liability from the adoption of GASB Statement No. 75	(6,885,732)
Understatement of deferred inflows of resources related to pensions	(277,978)
Understatement of capital leases payable	382,815
Net Position - Beginning as Restated	<u>\$ 114,952,694</u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# HEMET UNIFIED SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive</b>
				<b>(Negative)</b>
			<b>Final</b>	<b>to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 202,930,091	\$ 204,178,597	\$ 203,876,640	\$ (301,957)
Federal sources	16,135,274	18,854,712	18,314,202	(540,510)
Other State sources	17,430,199	25,414,021	24,884,208	(529,813)
Other local sources	16,125,968	16,421,326	16,745,681	324,355
<b>Total Revenues <sup>1</sup></b>	<b>252,621,532</b>	<b>264,868,656</b>	<b>263,820,731</b>	<b>(1,047,925)</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	114,684,706	117,509,594	117,091,118	418,476
Classified salaries	39,539,803	39,066,043	40,085,014	(1,018,971)
Employee benefits	56,621,193	57,184,547	55,957,350	1,227,197
Books and supplies	18,045,606	21,129,857	20,481,840	648,017
Services and operating expenditures	30,113,398	36,929,035	35,653,490	1,275,545
Capital outlay	1,177,944	2,241,521	2,362,171	(120,650)
Other outgo	(768,119)	(494,975)	(643,470)	148,495
Debt service				
Principal	2,005,468	1,999,747	104,108	1,895,639
Interest	1,660,645	1,772,984	63,002	1,709,982
<b>Total Expenditures <sup>1</sup></b>	<b>263,080,644</b>	<b>277,338,353</b>	<b>271,154,623</b>	<b>6,183,730</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(10,459,112)</b>	<b>(12,469,697)</b>	<b>(7,333,892)</b>	<b>5,135,805</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	4,298,285	5,365,736	5,860,848	495,112
Transfers out	(2,495,000)	(3,033,318)	(6,797,408)	(3,764,090)
<b>Net Financing Sources (Uses)</b>	<b>1,803,285</b>	<b>2,332,418</b>	<b>(936,560)</b>	<b>(3,268,978)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(8,655,827)</b>	<b>(10,137,279)</b>	<b>(8,270,452)</b>	<b>1,866,827</b>
<b>Fund Balance - Beginning</b>	<b>39,353,259</b>	<b>39,353,259</b>	<b>39,353,259</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 30,697,432</b>	<b>\$ 29,215,980</b>	<b>\$ 31,082,807</b>	<b>\$ 1,866,827</b>

<sup>1</sup> Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

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	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 2,879,278
Interest	1,068,087
Benefit payments	<u>(1,019,434)</u>
<b>Net change in total OPEB liability</b>	2,927,931
<b>Total OPEB liability - beginning</b>	<u>27,217,208</u>
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 30,145,139</u></u>
<b>Covered-employee payroll</b>	N/A <sup>1</sup>
<b>District's net OPEB liability as a percentage of covered-employee payroll</b>	N/A <sup>1</sup>

1 The District's OPEB Plan is not administered through a trust and contributions are not made based on measure of pay. Therefore, no measure of payroll is presented.

*Note:* In the Future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

## HEMET UNIFIED SCHOOL DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

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Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.3691%</u>
District's proportionate share of the net OPEB liability	\$ 1,552,626
District's covered-employee payroll	<u>N/A<sup>1</sup></u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

See accompanying note to required supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.2038%</u>	<u>0.2081%</u>
District's proportionate share of the net pension liability	<u>\$ 188,518,139</u>	<u>\$ 168,316,604</u>
State's proportionate share of the net pension liability associated with the District	<u>111,525,738</u>	<u>95,819,640</u>
Total	<u>\$ 300,043,877</u>	<u>\$ 264,136,244</u>
District's covered - employee payroll	<u>\$ 110,506,645</u>	<u>\$ 104,777,884</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>170.59%</u>	<u>160.64%</u>
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.3950%</u>	<u>0.3874%</u>
District's proportionate share of the net pension liability	<u>\$ 94,289,877</u>	<u>\$ 76,508,391</u>
District's covered - employee payroll	<u>\$ 54,065,452</u>	<u>\$ 66,483,861</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>174.40%</u>	<u>115.08%</u>
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.2040%</u>	<u>0.1826%</u>
<u>\$ 137,370,181</u>	<u>\$ 106,695,256</u>
<u>72,653,682</u>	<u>64,427,202</u>
<u>\$ 210,023,863</u>	<u>\$ 171,122,458</u>
<u>\$ 94,422,286</u>	<u>\$ 101,632,715</u>
<u>145.48%</u>	<u>104.98%</u>
<u>74%</u>	<u>77%</u>
<u>0.3753%</u>	<u>0.3178%</u>
<u>\$ 55,315,901</u>	<u>\$ 40,039,851</u>
<u>\$ 41,568,601</u>	<u>\$ 42,763,852</u>
<u>133.07%</u>	<u>93.63%</u>
<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

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	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 17,016,552	\$ 13,901,736
Contributions in relation to the contractually required contribution	<u>17,016,552</u>	<u>13,901,736</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 117,924,823</u>	<u>\$ 110,506,645</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 10,101,165	\$ 7,508,610
Contributions in relation to the contractually required contribution	<u>10,101,165</u>	<u>7,508,610</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 65,038,729</u>	<u>\$ 54,065,452</u>
Contributions as a percentage of covered - employee payroll	<u>15.53%</u>	<u>13.89%</u>

See accompanying note to required supplementary information.



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<u>2016</u>	<u>2015</u>
\$ 11,242,667	\$ 8,384,699
<u>11,242,667</u>	<u>8,384,699</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 104,777,884</u>	<u>\$ 94,422,286</u>
<u>10.73%</u>	<u>8.88%</u>
\$ 7,876,343	\$ 4,893,040
<u>7,876,343</u>	<u>4,893,040</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 66,483,861</u>	<u>\$ 41,568,601</u>
<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

#### **Schedule of Changes in the District's Net OPEB Liability and Related Ratios**

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

*Change in benefit terms* – There were no changes in benefit terms since the previous valuation for other postemployment benefits.

*Change of assumptions* – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

#### **Schedule of the District's Proportionate Share of the Net Pension Liability – MPP Program**

*Change in benefit terms* – There were no changes in benefits terms since the previous valuation.

*Change of assumptions* – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

#### **Schedule of the District's Proportionate Share of the Net Pension Liability**

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the States's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

*Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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*Change of Assumptions* – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

### **Schedule of District Contributions**

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

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*SUPPLEMENTARY INFORMATION*

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**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through CDE:				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	\$ 2,457,073	\$ -
National School Lunch Program	10.555	13524	8,068,756	-
Meal Supplement	10.555	13396	305,265	-
Food Distribution	10.555	13524	1,387,203	-
Total Child Nutrition Cluster			12,218,297	-
Equipment Assistance Grants	10.579	14906	24,839	-
Fresh Fruit and Vegetable Program	10.582	14968	80,053	-
Forest Reserve	10.665	10044	75,502	-
Total U.S. Department of Agriculture			12,398,691	-
<b>U.S. DEPARTMENT OF DEFENSE</b>				
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	126,071	-
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed through California Department of Education (CDE):				
Indian Education - Grants to Local Educational Agencies	84.060	10011	\$ 15,627	\$ -
Carl D. Perkins Vocational and Technical Education	84.048	14894	221,487	-
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14981	7,975,679	10,902
Title I, Part G - Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	17,454	-
Title II, Part A - Supporting Effective Instruction	84.367	14341	1,024,801	249
Title III - English Learner Student Program	84.365	14346	359,574	-
Title IV, Part B - 21st Century Community Learning Centers Program	84.287	14349	900,010	-
Elementary and Secondary School Counseling Grant	84.215E	[1]	345,786	-
Building Assets Reducing Risk (BARR) Investing in Innovation (i3) Fund	84.411	10130	196,735	-

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
Passed through Riverside County Special Education				
Local Plan Area:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611 Local Assistance, Part B, Section 611, Private School ISPs	84.027	13379	4,130,267	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	2,831	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	78,017	-
Mental Health Allocation Plan, Part B, Section 611	84.027	15197	291,499	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	393,517	-
			808	-
Total Special Education Cluster			4,896,939	-
Special Education: Project Read	84.323	14913	48,180	-
Total U.S. Department of Education			16,002,272	11,151
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through Riverside County Office of Education (RCOE):				
Head Start	93.600	10016	1,371,748	-
Passed through California Department of Health Services:				
Child Care Initiative Project (CCIP) and Resource & Referral (CRRP) contracts	93.575	13942	28,510	-
Medi-Cal Assistance Program				
Medi-Cal Billing Option	93.778	10013	215,187	-
Medi-Cal Administrative Activities Program	93.778	10060	602,586	-
Total Medi-Cal Assistance Program			817,773	-
Total U.S. Department of Health and Human Services			2,218,031	-
Total Federal Programs			\$ 30,745,065	\$ 11,151

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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### ORGANIZATION

The Hemet Unified School District was established on July 1, 1966, and consists of an area comprising approximately 640 square miles. The District operates fourteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, an adult school, and two-charter school. There were no boundary changes during the year.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Horacio Valenzuela	President	2018
Megan Haley	Vice President	2020
Stacey Bailey	Member	2020
Rob Davis	Member	2018
Gene Hikel	Member	2020
Vic Scavarda	Member	2018
Patrick Searl	Member	2020

### ADMINISTRATION

Christi Barrett	Superintendent
Vincent Christakos	Assistant Superintendent, Business Services
Tracy Chambers	Assistant Superintendent, Educational Services
Karen Valdes	Assistant Superintendent, Student Services
Darel Hansen	Deputy Superintendent, Human Resources
Pam Buckhout	Director of Fiscal Services

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,022.05	6,015.75
Fourth through sixth	4,583.95	4,581.53
Seventh and eighth	2,990.47	2,992.39
Ninth through twelfth	6,266.49	6,225.30
Total Regular ADA	<u>19,862.96</u>	<u>19,814.97</u>
Extended Year Special Education		
Transitional kindergarten through third	16.26	23.77
Fourth through sixth	14.73	17.91
Seventh and eighth	8.46	9.11
Ninth through twelfth	9.94	27.80
Total Extended Year Special Education	<u>49.39</u>	<u>78.59</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	3.55	2.98
Fourth through sixth	9.78	7.96
Seventh and eighth	8.92	3.82
Ninth through twelfth	13.15	11.20
Total Special Education, Nonpublic, Nonsectarian Schools	<u>35.40</u>	<u>25.96</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.20	0.20
Fourth through sixth	0.83	0.83
Seventh and eighth	0.52	0.52
Ninth through twelfth	1.36	1.36
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>2.91</u>	<u>2.91</u>
Community Day School		
Seventh and eighth	23.33	23.94
Ninth through twelfth	55.40	54.89
Total Community Day School	<u>78.73</u>	<u>78.83</u>
Total ADA	<u><u>20,029.39</u></u>	<u><u>20,001.26</u></u>

See accompanying note to supplementary information.



# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE (Continued) FOR THE YEAR ENDED JUNE 30, 2018

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	Final Report	
	Second Period Report	Annual Report
<b>WESTERN CENTER ACADEMY CHARTER</b>		
Regular ADA		
Fourth through sixth	124.83	125.05
Seventh and eighth	260.66	260.52
Ninth through twelfth	262.20	260.33
Total Regular ADA	<u>647.69</u>	<u>645.90</u>
<b>Classroom based ADA</b>		
Regular ADA		
Fourth through sixth	124.83	125.05
Seventh and eighth	260.66	260.52
Ninth through twelfth	262.20	260.33
Total Regular ADA	<u>647.69</u>	<u>645.90</u>

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	37,189	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,940	180	N/A	Complied
Grade 2		54,020	180	N/A	Complied
Grade 3		54,190	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,336	180	N/A	Complied
Grade 5		54,336	180	N/A	Complied
Grade 6		58,805	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		58,805	180	N/A	Complied
Grade 8		58,805	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	180	N/A	Complied
Grade 10		64,820	180	N/A	Complied
Grade 11		64,820	180	N/A	Complied
Grade 12		64,820	180	N/A	Complied

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME (Continued)  
FOR THE YEAR ENDED JUNE 30, 2018**

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**Western Center Academy**

<u>Grade Level</u>	1986-87	2017-18	<u>Number of Days</u>		<u>Status</u>
	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grades 6 - 8	54,000				
Grade 6		58,805	180	N/A	Complied
Grade 7		58,805	180	N/A	Complied
Grade 8		58,805	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	180	N/A	Complied
Grade 10		64,820	180	N/A	Complied
Grade 11		64,820	180	N/A	Complied
Grade 12		64,820	180	N/A	Complied

See accompanying note to supplementary information.

## HEMET UNIFIED SCHOOL DISTRICT

### RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>Cafeteria Fund</u>	<u>Enterprise Fund</u>
FUND BALANCE		
Balance, June 30, 2018, Unaudited Actuals	\$ 4,053,649	\$ 535,886
Decrease in:		
Deposits and investments	(565,713)	-
Increase in:		
Deferred outflows of resources related to pensions	-	4,025
Deferred inflows of resources related to pensions	-	(282,003)
Net OPEB liability	-	(1,001,074)
Balance, June 30, 2018, Audited Financial Statement	<u>\$ 3,487,936</u>	<u>\$ (743,166)</u>

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 <sup>1</sup>	2018	2017	2016
<b>GENERAL FUND<sup>3</sup></b>				
Revenues	\$ 283,437,304	\$ 263,820,731	\$ 254,930,891	\$ 242,096,929
Other sources and transfers in	5,508,854	5,860,848	4,704,548	1,669,730
Total Revenues and Other Sources	288,946,158	269,681,579	259,635,439	243,766,659
Expenditures	287,570,276	271,154,623	256,291,539	225,737,870
Other uses and transfers out	2,995,000	6,797,408	3,959,625	3,973,757
Total Expenditures and Other Uses	290,565,276	277,952,031	260,251,164	229,711,627
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ (1,619,118)</b>	<b>\$ (8,270,452)</b>	<b>\$ (615,725)</b>	<b>\$ 14,055,032</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 22,748,492</b>	<b>\$ 26,234,434</b>	<b>\$ 34,504,886</b>	<b>\$ 35,120,611</b>
<b>AVAILABLE RESERVES<sup>2</sup></b>	<b>\$ 14,529,600</b>	<b>\$ 13,898,000</b>	<b>\$ 13,015,000</b>	<b>\$ 16,637,577</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO LONG-TERM OBLIGATIONS<sup>4</sup></b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>7.43%</b>
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	<b>20,282</b>	<b>20,029</b>	<b>19,926</b>	<b>19,735</b>

The General Fund balance has decreased by \$8,886,177 over the past two years. The fiscal year 2018-2019 budget projects a further decrease of \$1,619,118 (6.17 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$2,765,260 over the past two years.

Average daily attendance has increased by 294 over the past two years. Additional growth of 253 ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Post Employment Benefits as required by GASB Statement No. 54.

<sup>4</sup> Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2018**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Western Center Academy (Charter No. 1144)	Yes

See accompanying note to supplementary information.

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**HEMET UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018**

	<b>Charter Schools Fund</b>	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>					
Deposits and investments	\$ 2,002,090	\$ 30,662	\$ 103,361	\$ 1,908,133	\$ 691,400
Receivables	184,457	1,650	335,032	1,600,453	1,722
Due from other funds	163,167	15,210	87	118,879	-
Stores inventories	-	-	-	497,872	-
<b>Total Assets</b>	<u>\$ 2,349,714</u>	<u>\$ 47,522</u>	<u>\$ 438,480</u>	<u>\$ 4,125,337</u>	<u>\$ 693,122</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 130,004	\$ 32,114	\$ 92,574	\$ 323,725	\$ 303,894
Due to other funds	546,400	15,408	252,334	266,295	-
Unearned revenue	-	-	4,000	47,381	-
<b>Total Liabilities</b>	<u>676,404</u>	<u>47,522</u>	<u>348,908</u>	<u>637,401</u>	<u>303,894</u>
<b>Fund Balances:</b>					
Nonspendable	-	-	-	502,942	-
Restricted	61,945	-	89,572	2,984,994	-
Committed	-	-	-	-	389,228
Assigned	1,611,365	-	-	-	-
<b>Total Fund Balances</b>	<u>1,673,310</u>	<u>-</u>	<u>89,572</u>	<u>3,487,936</u>	<u>389,228</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 2,349,714</u>	<u>\$ 47,522</u>	<u>\$ 438,480</u>	<u>\$ 4,125,337</u>	<u>\$ 693,122</u>

See accompanying note to supplementary information.



<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Capital Projects Fund for Blended Component Units</b>	<b>Debt Service Fund for Blended Component Units</b>	<b>Total Non-Major Governmental Funds</b>
\$ 5,700,696	\$ 4,226,430	\$ 456,671	\$ 5,131,568	\$ 397,800	\$ 20,648,811
38,050	22,247	2,073	-	-	2,185,684
-	-	-	-	-	297,343
-	-	-	-	-	497,872
<u>\$ 5,738,746</u>	<u>\$ 4,248,677</u>	<u>\$ 458,744</u>	<u>\$ 5,131,568</u>	<u>\$ 397,800</u>	<u>\$ 23,629,710</u>
\$ 115,633	\$ 90,556	\$ -	\$ -	\$ -	\$ 1,088,500
-	-	-	-	-	1,080,437
-	-	-	-	-	51,381
<u>115,633</u>	<u>90,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,220,318</u>
-	-	-	-	-	502,942
5,623,113	4,156,621	-	5,131,568	397,800	18,445,613
-	1,500	-	-	-	390,728
-	-	458,744	-	-	2,070,109
<u>5,623,113</u>	<u>4,158,121</u>	<u>458,744</u>	<u>5,131,568</u>	<u>397,800</u>	<u>21,409,392</u>
<u>\$ 5,738,746</u>	<u>\$ 4,248,677</u>	<u>\$ 458,744</u>	<u>\$ 5,131,568</u>	<u>\$ 397,800</u>	<u>\$ 23,629,710</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>REVENUES</b>					
Local Control Funding Formula	\$ 5,270,378	\$ -	\$ -	\$ -	\$ -
Federal sources	106	-	28,510	12,323,190	-
Other State sources	1,010,424	752,993	2,348,541	831,308	-
Other local sources	485,869	21,750	20,303	936,499	8,345
<b>Total Revenues</b>	<b>6,766,777</b>	<b>774,743</b>	<b>2,397,354</b>	<b>14,090,997</b>	<b>8,345</b>
<b>EXPENDITURES</b>					
Current					
Instruction	3,862,069	480,086	1,755,447	-	-
Instruction-related activities:					
Supervision of instruction	350	-	228,008	-	-
Instructional library, media and technology	-	9,125	-	-	-
School site administration	743,539	273,105	156,200	-	-
Pupil services:					
Food services	-	-	-	13,271,624	-
All other pupil services	219,325	4,182	10,809	-	-
Administration:					
Data processing	128	-	-	-	-
All other administration	201,477	39,551	111,189	604,996	-
Plant services	1,237,202	1,968	54,784	256,804	1,672,468
Ancillary services	96,885	-	-	-	-
Facility acquisition and construction	-	-	-	3,800	843,057
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
<b>Total Expenditures</b>	<b>6,360,975</b>	<b>808,017</b>	<b>2,316,437</b>	<b>14,137,224</b>	<b>2,515,525</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>405,802</b>	<b>(33,274)</b>	<b>80,917</b>	<b>(46,227)</b>	<b>(2,507,180)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	91,140	2,500,000
Transfers out	(379,416)	-	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>(379,416)</b>	<b>-</b>	<b>-</b>	<b>91,140</b>	<b>2,500,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>26,386</b>	<b>(33,274)</b>	<b>80,917</b>	<b>44,913</b>	<b>(7,180)</b>
<b>Fund Balances - Beginning</b>	<b>1,646,924</b>	<b>33,274</b>	<b>8,655</b>	<b>3,443,023</b>	<b>396,408</b>
<b>Fund Balances - Ending</b>	<b>\$ 1,673,310</b>	<b>\$ -</b>	<b>\$ 89,572</b>	<b>\$ 3,487,936</b>	<b>\$ 389,228</b>

See accompanying note to supplementary information.

<b>Building Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Capital Projects Fund for Blended Component Units</b>	<b>Debt Service Fund for Blended Component Units</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,270,378
-	-	-	-	-	-	12,351,806
-	-	-	-	-	-	4,943,266
2,587	1,049,370	78,694	9,073	559,217	5,399	3,177,106
<u>2,587</u>	<u>1,049,370</u>	<u>78,694</u>	<u>9,073</u>	<u>559,217</u>	<u>5,399</u>	<u>25,742,556</u>
-	-	-	-	-	-	6,097,602
-	-	-	-	-	-	228,358
-	-	-	-	-	-	9,125
-	-	-	-	-	-	1,172,844
-	-	-	-	-	-	13,271,624
-	-	-	-	-	-	234,316
-	-	-	-	-	-	128
-	131,598	-	-	-	-	1,088,811
-	-	-	-	-	-	3,223,226
-	-	-	-	-	-	96,885
1,163,083	340,373	1,730,758	-	-	-	4,081,071
-	-	-	-	-	1,840,000	1,840,000
-	-	-	-	-	1,878,430	1,878,430
<u>1,163,083</u>	<u>471,971</u>	<u>1,730,758</u>	<u>-</u>	<u>-</u>	<u>3,718,430</u>	<u>33,222,420</u>
<u>(1,160,496)</u>	<u>577,399</u>	<u>(1,652,064)</u>	<u>9,073</u>	<u>559,217</u>	<u>(3,713,031)</u>	<u>(7,479,864)</u>
-	1,029,229	-	495,000	-	3,711,268	7,826,637
-	-	-	(834,737)	(1,029,229)	-	(2,243,382)
-	<u>1,029,229</u>	-	<u>(339,737)</u>	<u>(1,029,229)</u>	<u>3,711,268</u>	<u>5,583,255</u>
(1,160,496)	1,606,628	(1,652,064)	(330,664)	(470,012)	(1,763)	(1,896,609)
1,160,496	4,016,485	5,810,185	789,408	5,601,580	399,563	23,306,001
<u>\$ -</u>	<u>\$ 5,623,113</u>	<u>\$ 4,158,121</u>	<u>\$ 458,744</u>	<u>\$ 5,131,568</u>	<u>\$ 397,800</u>	<u>\$ 21,409,392</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 30,666,008
Medi-Cal Billing Option	93.778	79,057
Total Schedule of Expenditures of Federal Awards		<u>\$ 30,745,065</u>

#### Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

#### Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

### **Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

### **Schedule of Charter Schools**

This schedule lists all charter schools chartered by the District, and displays information for each charter school on whether or not the charter school is included in the District audit.

### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance**

The Non-Major Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balances Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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***INDEPENDENT AUDITOR'S REPORTS***

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VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board  
Hemet Unified School District  
Hemet, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hemet Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hemet Unified School District's basic financial statements, and have issued our report thereon dated November 21, 2018.

***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hemet Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hemet Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hemet Unified School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hemet Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Hemet Unified School District in a separate letter dated November 21, 2018.

### **Purpose of This Report**

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
November 21, 2018





**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board  
Hemet Unified School District  
Hemet, California

**Report on Compliance for Each Major Federal Program**

We have audited Hemet Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hemet Unified School District's major Federal programs for the year ended June 30, 2018. Hemet Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the 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 Hemet Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Hemet Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Hemet Unified School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Hemet Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of Hemet Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hemet Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hemet Unified School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
November 21, 2018



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Hemet Unified School District  
Hemet, California

### **Report on State Compliance**

We have audited Hemet Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Hemet Unified School District's State government programs as noted below for the year ended June 30, 2018.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the Hemet Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Hemet Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Hemet Unified School District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, Hemet Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Hemet Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	Yes
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study – Course based Program; therefore, we did not perform procedures related to the Independent Study – Course Based Program.

The District does not have any non-classroom based Charter Schools, therefore, we did not perform any procedures for non-classroom based Charter School Programs.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
November 21, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**HEMET UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Title II, Part A, Supporting Effective Instruction</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 922,352</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**HEMET UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.



**HEMET UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**HEMET UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

# HEMET UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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The following finding represents an instance of noncompliance relating to State program laws and regulations. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

**2017-001      40000 – After School Education and Safety Program**

### **Criteria or Specific Requirements**

Compliance requirements, detailed in Education code Section 8483.7, mandate that schools maintain adequate source documents supporting the number of students served by the After School Program (the Program) as reported semi-annually to the California Department of Education (CDE).

### **Condition**

There appears to be inadequate documentation indicating actual student participation in the Program. Source documents used for recording attendance do not consistently agree with the records included in the total number of students served.

### **Questioned Costs**

There were no questioned costs associated with the condition identified.

### **Context**

The condition identified was determined through analysis of attendance records from two of the sites that operate the Program. Manual sign out rosters were reviewed for each child's sign out time in order to determine daily participation. The auditor selected four schools for the first semi-annual reporting period dated July 1, 2016 to December 31, 2016. The auditor reviewed a sample of manual sign out rosters for the month of September and noted nine exceptions in a sample size of 40 students.

### **Effect**

Conditions identified make the Program's ability to report an accurate number of students served to the State as required as identified in the State Audit Guide in the required semi-annual attendance reports difficult. Per Education Code Section 8483.7, the CDE may terminate a grant that does not comply with fiscal reporting, attendance reporting, or outcomes reporting requirements. The CDE may also withhold the grant allocation for the program if the prior year reporting is outstanding.

# HEMET UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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### **Cause**

It appears that the condition identified has materialized as a result of the absence of properly maintaining the standardized attendance recording and reporting procedures by those responsible for administering the program.

### **Recommendation**

The district may want to consider revising procedures used to take attendance. Revised procedures should incorporate standardized procedures that are necessary to record and report attendance related to the program that are accurate and consistent. The District should clearly communicate its expectation for attendance documentation to all program administrators in order to prevent future non-compliance issues..

### **Corrective Action Plan**

Hemet Unified School District has revised the attendance taking procedures to ensure accurate and consistent attendance for the After School Education and Safety Program. The steps taken by the District are by requiring timely attendance submissions and additional layers of review at the administration level. The District has clearly communicated the expectation for accurate attendance documentation to all program administrators and appropriate personnel to prevent future non-compliance.

### **Current Status**

Implemented



Governing Board  
Hemet Unified School District  
Hemet, California

In planning and performing our audit of the basic financial statements of Hemet Unified School District (the District) for the year ending June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2017, on the financial statements of Hemet Unified School District.

**CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS**

**ACACIA MIDDLE SCHOOL**

***Change Fund***

**Observation**

The site maintains a change fund for the student store or to be used during events. However, the change fund is not reported as an asset account on the balance sheet thereby understating the total assets. The change fund that is maintained by the school site is \$200. The current total on the change fund is listed as a liability account with a balance of \$60.

**Recommendation**

According to the policies and procedures outlined in the Fiscal Crisis and Management Assistance Team’s manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference, a change fund is normally checked out from the bookkeeper for individual fundraisers or activities and should be used solely for making change. Expenditures should not be made from this account under any circumstances. When the fundraiser is complete, the change fund should be deposited back into the bank account. If it is not deposited, it should be accounted for as an asset on the balance sheet.

***Inventory – Perpetual Inventory***

**Observation**

Perpetual Inventory is not being maintained. According to the policies and procedures outlined in the Fiscal Crisis and Management Assistance Team’s manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference, a physical inventory should be taken quarterly under supervision of the student store advisor.

The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.

### **Recommendation**

The student body should maintain a perpetual inventory of goods purchased and sold and should perform a physical inventory count at least quarterly. Perpetual inventory involves the continual updating of the inventory records. These updates typically include additions to and subtractions from inventory for such activities as purchased inventory and goods sold from inventory. This will allow the school site to know what they have on hand and will make it easier to compare the physical count to the amount in the software system.

### ***Revenue Potentials***

#### **Observation**

Revenue potential forms are not being used to document and control fundraising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

#### **Recommendation**

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.

### ***Cash Disbursements - Documentation***

#### **Observation**

6 of 6 disbursements were not adequately supported by proper receiving documentation. Receiving documentation ensures that the club/ASB received all of the items ordered. By initialing or signing an invoice, the bookkeeper knows that all the merchandise was received prior to paying for the order. The disbursements noted are as follows:

- Check numbers: 7857, 7865, 7884, 7895, 7903, & 7907, did not have proper receiving documentation.

#### **Recommendation**

The site should review the cash disbursement procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference. The manual explains that three signatures, one being a student representative, are required pursuant to California Educational Code Section 48933(5)(b) the designated receiver (this could be either the ASB bookkeeper or the club advisor) will open the shipment and compare the shipped items to the packing slip. After all the items have been compared to the packing slip, the receiver will sign the receiving copy of the purchase order. If the advisor is receiving the goods, the advisor should provide the ASB bookkeeper with a signed receiving report (copy of the purchase order) and the packing slip.

## **HAMILTON HIGH SCHOOL**

### *Student Store*

#### **Observation**

Daily sales reports are not generated by the student store.

#### **Recommendation**

Daily sales reports should be maintained and reconciled to deposits.

## **DIAMOND VALLEY MIDDLE SCHOOL**

### *Negative Balances*

#### **Observation**

In reviewing the financial statements for the student body accounts we noted that six had negative balances. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

#### **Recommendation**

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each groups best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the groups account.

## **PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS**

## **HAMILTON HIGH SCHOOL**

### *Prohibited Expenditures*

#### **Observation**

Auditor noted that Associated Student Body had prohibited disbursements in the amount of \$100.87 for disbursements.

#### **Recommendation**

Expenditure of ASB funds for the following items is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students, or are considered a District responsibility, or are a gift of public funds;

- Salaries or supplies that are the responsibility of the District.
  - Curriculum supplies, and office supplies and equipment.
  - Repair and maintenance of District-owned facilities and equipment

Because student body funds are to benefit students as a group and not individuals, awards and scholarships are generally discouraged.

**Current Status**

Implemented.

*Student Store*

**Observation**

Daily sales reports are not generated by the student store.

**Recommendation**

Daily sales reports should be maintained and reconciled to deposits.

**Current Status**

Not implemented, see current year observation and recommendations.

**DIAMOND VALLEY MIDDLE SCHOOL**

*Negative Balances*

**Observation**

In reviewing the financial statements for the student body accounts we noted that six had negative balances. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

**Recommendation**

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each groups best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the group's account.

*Current Status*

Not implemented, see current year observation and recommendations.

*Associated Student Body – Inventory*

**Observation**

Inventory dollar amount was calculated incorrectly, causing a misstatement of inventory on the balance sheet.



**Recommendation**

Supporting schedules and worksheets should be corrected to reflect the actual inventory amount on a regular basis.

**Current Status**

Implemented.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
November 21, 2018

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is executed and delivered by the Hemet Unified School District (the “District”) in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of the Hemet Unified 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 U.S. Bank National Association, as trustee (the “Trustee”), Hemet Unified School District School Facilities 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 nine months after the end of the District’s fiscal year (which shall be March 31 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 March 31, 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 average daily attendance in District schools on an aggregate basis for the last completed fiscal year;

(2) The adopted budget of the District for the then current fiscal year, or a summary thereof;

(3) Information regarding total assessed valuation (secured, unsecured and total) of taxable properties within the District for the then current fiscal year, if and to the extent made available by the County of Riverside (the “County”). If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report; and

(4) Information regarding ten taxpayers with the greatest combined ownership of taxable property in the District for the then current fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in 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 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 Riverside or in U.S. District Court in or nearest to the County of Riverside. 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

**HEMET UNIFIED 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: Hemet Unified School District  
Name of Issue: Hemet Unified 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: \_\_\_\_\_

**HEMET UNIFIED SCHOOL DISTRICT**

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

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**APPENDIX F**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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## 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

## APPENDIX G

### BOOK ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, premium, if any, and interest with respect to the Certificates to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to [www.dtcc.com](http://www.dtcc.com) <http://www.dtcc.com/is> presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (the "Certificates"). The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Certificates in the aggregate principal amount of such maturity, 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 is rated AA+ by Standard & Poor's. 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) and [www.dtc.org](http://www.dtc.org).

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 Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 prepayments, tenders, defaults, and proposed amendments to the Security 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 shall be sent to DTC. If less than all of the Certificates within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

9. A Certificate Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Certificates by causing the Direct Participant to transfer the Participant's interest in the Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-able entry credit of tendered Certificates to the Trustee's DTC account.

10. 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, physical Certificates are required to be printed and delivered.

11. 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.

AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE CERTIFICATES, THE TRUSTEE WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.



**APPENDIX H**  
**COUNTY INVESTMENT POLICY**

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**COUNTY OF RIVERSIDE  
OFFICE OF THE TREASURER-TAX-COLLECTOR  
STATEMENT OF INVESTMENT POLICY**

**INTRODUCTION**

The Treasurer's Statement of Investment Policy is presented annually to the County Investment Oversight Committee for review and to the Board of Supervisors for approval, pursuant to the requirements of Sections 53646(a) and 27133 of the California Government Code (Code Section). This policy will become effective immediately upon approval by the Board of Supervisors.

**SCOPE**

The Treasurer's Statement of Investment Policy is limited in scope to only those county, school, special districts and other fund assets actually deposited and residing in the County Treasury. It does not apply to bond funds or other assets belonging to the County of Riverside, or any affiliated public agency the assets of which reside outside of the County Treasury.

**FIDUCIARY RESPONSIBILITY**

Code Section 27000.3 declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a trustee and therefore a fiduciary subject to the prudent investor standard. This standard, as stated in Code Section 27000.3 requires that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors."

**PORTFOLIO OBJECTIVES**

The first and primary objective of the Treasurer's investment of public funds is to **safeguard investment principal**; second, to maintain sufficient **liquidity** within the portfolio to meet daily cash flow requirements; and third, to achieve a reasonable rate of return or **yield** on the portfolio consistent with these objectives. The portfolio shall be actively managed in a manner that is responsive to the public trust and consistent with State law.

**AUTHORITY**

Statutory authority for the Treasurer's investment and safekeeping functions are found in Code Sections 53601 and 53635 et. seq. The Treasurer's authority to make investments is to be renewed annually, pursuant to state law. It was last renewed by the Board of Supervisors on October 30, 2018 by County Ordinance No.767.22. Code Section 53607 effectively requires the legislative body to delegate investment authority of the County on an annual basis.

**AUTHORIZED INVESTMENTS**

Investments shall be restricted to those authorized in Code Sections 53601 and 53635 as amended

and as further restricted by this policy statement. All investments shall be governed by the restrictions shown in Schedule I which defines the type of investments authorized, maturity limitations, portfolio diversification, credit quality standards (two of the three nationally recognized ratings shall be used for corporate and municipal securities), and purchase restrictions that apply.

#### **STAFF AUTHORIZED TO MAKE INVESTMENTS**

Only the Treasurer-Tax Collector, Jon Christensen, Chief Investment Manager, Giovane Pizano, Deputy Investment Manager, Steve Faeth, and Assistant Investment Manager, Isela Licea, are authorized to make investments and to order the receipt and delivery of investment securities among custodial security clearance accounts.

#### **AUTHORIZED BROKER/DEALERS**

Securities transactions are limited solely to those noted on Schedule II of this policy.

#### **DAILY ACCOUNTABILITY AND CONTROL**

Except for emergencies or previous authorization by the Treasurer-Tax Collector, all investment transactions are to be conducted at the Treasurer-Tax Collector's office (if open and available to conduct business), documented, and reviewed by the Treasurer-Tax Collector. All investment transactions will be entered daily into the Treasurer's internal financial accounting system with copies to be filed on a timely basis. Portfolio income shall be reconciled daily against cash receipts and quarterly, prior to the distribution of earnings among those entities sharing in pooled fund investment income.

#### **SECURITY CUSTODY & DELIVERIES**

All securities, except for money market funds registered in the County's name and securities issued by the County or other local agencies shall be deposited for safekeeping with banks contracted to provide the County Treasurer with custodial security clearance services. These third party trust department arrangements provide the County with a perfected interest in, and ownership and control over, the securities held by the custodian on the County's behalf and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are **NOT** to be held in investment firm/broker dealer accounts. All security transactions are to be conducted on a "delivery versus payment basis." Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation. Securities issued by local agencies purchased directly shall be held in the Treasurer's vault. The security holdings shall be reconciled with the custodian holding records daily. The Treasurer's Fiscal Compliance unit will audit purchases daily for compliance, and audit holding records monthly.

#### **COMPETITIVE PRICING**

Investment transactions are to be made at current market value and competitively priced whenever possible. Competitive pricing does not necessarily require submission of bids, but does require adequate comparative analysis. The current technology utilized by the Treasury provides this information.

## **MATURITY LIMITATIONS**

No investment shall exceed a final maturity date of five years from the date of purchase unless it is authorized by the Board of Supervisors pursuant to Code Section 53601.

## **LIQUIDITY**

The portfolio shall maintain a weighted average days to maturity (WAM) of less than 541 days or 1.5 years. To provide sufficient liquidity to meet daily expenditure requirements, the portfolio shall maintain at least 40% of its total value in securities having maturities 1 year or less.

## **SECURITIES LENDING**

The Treasurer may engage in securities lending activity limited to 20% of the portfolio's book value on the date of transaction. Instruments involved in a securities lending program are restricted to those securities pursuant to Code Section 53601 and by the Treasurer's Statement of Investment Policy.

## **REVERSE REPURCHASE AGREEMENTS**

The Treasury shall not engage in any form of leverage for the purpose of enhancing portfolio yield. There shall be no entry into reverse repurchase agreements except for temporary and unanticipated cash flow requirements that would cause the Treasurer to sell securities at a principal loss. Any reverse repurchase agreements are restricted pursuant to Code Section 53601 and by the Treasurer's Statement of Investment Policy.

## **MITIGATING MARKET & CREDIT RISKS**

Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the: (1) credit quality standards issued by the nationally recognized rating agencies on the credit worthiness of each issuer of the security, (2) limiting the concentration of investment in any single firm as noted in Schedule I, (3) by limiting the duration of investment to the time frames noted in Schedule I, and (4) by maintaining the diversification and liquidity standards expressed within this policy.

## **TRADING & EARLY SALE OF SECURITIES**

All securities are to be purchased with the intent of holding them until maturity. However, in an effort to minimize market and credit risks, securities may be sold prior to maturity either at a profit or loss when economic circumstances, trend in short-term interest rates, or a deterioration in credit-worthiness of the issuer warrants a sale of the securities to either enhance overall portfolio yield or to minimize further erosion and loss of investment principal. Such sales should take into account the short and long term impacts on the portfolio. However, the sale of a security at a loss can only be made after first securing the approval of the Treasurer-Tax Collector.

## **PURCHASE OF WHEN ISSUED SECURITIES**

When issued (W.I.) purchases of securities and their subsequent sale prior to cash settlement are authorized as long as sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date.

## **PORTFOLIO REPORTS/AUDITING**

Portfolio reports required by Code Sections 53607 and 27133(e) shall be filed monthly with the Board of Supervisors, Investment Oversight Committee, Superintendent of Schools, Executive Officer, County Auditor Controller and interested parties. Consistent with Board Policy B-21 (County Investment Policy Statement), § III A, an outside compliance audit will be conducted annually. Outside audits will be conducted at least biennially by an independent auditing firm selected by the Board of Supervisors, per Board Minute Order No. 3.48. Reports are posted monthly on the Treasurer's website:

<http://www.countytreasurer.org/Treasurer/TreasurersPooledInvestmentFund/MonthlyReports.aspx>

## **SPECIFIC INVESTMENTS**

Specific investments for individual funds may be made in accordance with the Treasurer's Statement of Investment Policy, upon written request and approval of the responsible agency's governing board, and, approval of the Treasurer-Tax Collector. Investments outside of the policy may be made on behalf of such funds with approval of the governing Board and approval of the Treasurer-Tax Collector. All specific investments shall be memorialized by a Memorandum of Understanding. With the purchase of specific investments, the fund will be allocated the earnings and/or loss associated with those investments. The Treasurer-Tax Collector reserves the right to allocate a pro-rata charge for administrative costs to such funds.

## **PERFORMANCE EVALUATION**

Portfolio performance is monitored daily and evaluated monthly in comparison to the movement of the Treasurer's Institutional Money Market Index (TIMMI), or other suitable index. Over time, the portfolio rate of return should perform in relationship to such an index. Regular meetings are to be conducted with the investment staff to review the portfolio's performance, in keeping with this policy, and, current market conditions.

## **INVESTMENT OVERSIGHT COMMITTEE**

In accordance with Code Section 27130 et seq. of the Code, the Board of Supervisors has established an Investment Oversight Committee. The role of the Committee is advisory in nature. It has no input on day to day operations of the Treasury.

## **QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS**

Portfolio income, including gains and losses (if any), will be distributed quarterly in compliance with Sections 53684 and 53844 of the Code which give the Treasurer broad authority to apportion earnings and losses among those participants sharing in pooled investment income, and, except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the calendar quarter. Any subsequent adjustments of reported earnings by the Auditor-Controller will be first reviewed and approved by the Treasurer to assure compliance with Code Sections 53684 and 53844.

## **QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS**

Prior to the quarterly apportionment of pooled fund investment income, the County Treasurer is permitted, pursuant to Code Section 27013, to deduct from investment income before the distribution thereof, the actual cost of the investment, audit, deposit, handling and distribution of such income. Accordingly, in keeping with Code Sections 27013, 27133(f), and 27135, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: banking services, custodial safekeeping charges, the pro-rata annual cost of the salaries including fringe

benefits for the personnel in the Treasurer-Tax Collector's office engaged in the administration, investment, auditing, cashiering, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions. Costs are apportioned based upon average daily ending balances. Prior to gaining reimbursement for these costs, the Treasurer-Tax Collector shall annually prepare a proposed budget revenue estimate per Code Section 27013.

### **TREASURY OPERATIONS**

Treasury operations are to be conducted in the most efficient manner to reduce costs and assure the full investment of funds. The Treasurer will maintain a policy regarding outgoing wires and other electronic transfers. Requests for outgoing transfers which do not arrive on a timely basis may be delayed. The County Treasurer may institute a fee schedule to more equitably allocate costs that would otherwise be spread to all depositors.

### **POLICY CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY**

Should any agency solicit entry, the agency shall comply with the requirements of Section 53684 of the Code and adopt a resolution by the legislative or governing body of the local agency authorizing the deposit of excess funds into the County treasury for the purpose of investment by the County Treasurer. The resolution shall specify the amount of monies to be invested, the person authorized by the agency to coordinate the transaction, the anticipated time frame for deposits, the agency's willingness to be bound to the statutory 30-day written notice requirement for withdrawals, and acknowledging the Treasurer's ability to deduct pro-rata administrative charges permitted by Code Section 27013. Any solicitation for entry into the TPIF must have the County Treasurer's consent before the receipt of funds is authorized. The depositing entity will enter into a depository agreement with the Treasurer.

### **POLICY CRITERIA FOR VOLUNTARY PARTICIPANT WITHDRAWALS**

With the Treasury being required to maintain a 40% liquidity position at all times during the calendar year, it is anticipated that sufficient funds will be on hand to immediately meet on demand all participant withdrawals for the full dollar amounts requested without having to make any allowance or pro-rata adjustment based on the current market value of the portfolio. In addition, any withdrawal by a local agency for the purpose of investing or depositing those funds outside the Pool shall have the prior written approval of the County Treasurer.

The Treasurer's approval of the withdrawal request shall be based on the availability of funds; the circumstances prompting the request; the dollar volume of similar requests; the prevailing condition of the financial markets, and, an assessment of the effect of the proposed withdrawal on the stability and predictability of the investments in the county treasury.

### **POLICY ON RECEIPT OF HONORARIA, GIFTS AND GRATUITIES**

Neither the Treasurer-Tax Collector nor any member of his staff, shall accept any gift, gratuity or honoraria from financial advisors, brokers, dealers, bankers or other persons or firms conducting business with the County Treasurer which exceeds the limits established by the Fair Political Practices Commission (FPPC) and relevant portions of Code Section 27133. IOC members shall be subject to the limits included in the Board of Supervisors Policy B-21.

### **ETHICS & CONFLICTS OF INTEREST**

Officers and staff members involved in the investment process shall refrain from any personal

business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. In addition, the County Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, , Investment Manager, and Assistant Investment Manager are required to file annually the applicable financial disclosure statements as mandated by the FPPC and County policy.

**INVESTMENTS MADE FROM DEBT ISSUANCE PROCEEDS**

The proceeds of a borrowing may be specifically invested per Schedule I of this policy (with the exception of Collateralized Time Deposits and Local Agency Obligations) as well as competitively bid investments (see County of Riverside Office Of The Treasurer-Tax Collector Policy Governing Competitively Bid Investments, dated March 3, 2011).

No pooled fund investments made from the proceeds of a borrowing, the monies of which are deposited in the County Treasury, shall be invested for a period of time exceeding the maturity date of the borrowing. Nor shall any monies deposited with a bank trustee or fiscal agent for the ultimate purpose of retiring the borrowing be invested beyond the maturity date of the borrowing.

**POLICY ADOPTION & AMENDMENTS**

This policy statement will become effective following adoption by the Board of Supervisors, and, will remain in force until subsequently amended in writing by the Treasurer-Tax Collector and approved by the Board.



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Jon Christensen  
County of Riverside  
Treasurer-Tax Collector

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12/04/2018



## SCHEDULE I

AUTHORIZED INVESTMENTS	DIVERSIFICATION (1)	PURCHASE RESTRICTIONS	MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
U.S. Treasury notes, bills, bonds or other certificates of indebtedness	100%	N/A	Maximum 5 years	N/A
Notes, participations, or obligations issued by the agencies of the federal government	100%	N/A	Maximum 5 years	N/A
Bonds, notes, warrants or certificates of indebtedness issued by the state of CA, or local agencies, or, the County of Riverside. Registered treasury notes or bonds of any of the other 49 United States per Government Code Section 53601 (d)	15% maximum	See Schedule VI	Maximum 4 years	Long term "AA-, Aa3, AA-" or better
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, and the International Finance Corporation	20%	Max 10% per issuer	Maximum 4 years	Long term "AA, Aa, AA" or better
Local Agency Investment Fund (LAIF)	\$50 million	Maximum \$50 million per LAIF	Daily Liquidity	N/A
Commercial Paper (CP)	40% maximum	See Schedule VI	Maximum 270 days	Short term "A-1,P-1,F-1" or better
Local Agency Obligations (LAO)	2.5% maximum	Board of Supervisors approval required. Issued by pool depositors only	Maximum 3 years	Non-rated, if in the opinion of the Treasurer, considered to be of investment grade or better
CalTRUST Short Term Fund (CLTR)	1% maximum	Board of Supervisors approval required	Daily liquidity	NR / Portfolio managed pursuant to California Government Code § 53601 & 53635
Negotiable CD's (NCD'S) issued by national or state chartered banks or a licensed branch of a foreign bank	25% maximum	See Schedule VI	Maximum 1 year	Short term "A-1,P-1,F-1" or better
Collateralized Time Deposits (TCD)	2% maximum	See Schedule IV	Maximum 1 year	N/A
Repurchase Agreements (REPO) with 102% collateral restricted to U. S. Treasuries, agencies, agency mortgages, CP, BA's	40% max, 25% in term repo over 7 days. No more than 20% w/one dealer in term repo	Repurchase agreements to be on file	Maximum 45 days	Short Term "A-1, P-1, F-1" or better If "A-2, P-2, F2" then overnight only
Reverse Repurchase Agreements on U. S. Treasury & federal agency securities in portfolio	10% maximum	For temporary cash Flow needs only.	Max 60 days with prior approval of Board of Supervisors	N/A
Medium Term Notes (MTNO) or Corporate Notes	20% maximum	See Schedule VI	Maximum 3 years	"AA, Aa2, AA" minimum if under 1 year
Interest bearing Checking Account	20%	N/A	Daily Liquidity	Fully collateralized
Money Market Mutual Funds (MMF) that invest in eligible securities meeting requirements of California Government Code	20% maximum	See Schedule V	Daily liquidity	Long Term "AAA" (2 of 3 nationally recognized rating services)

(1) Whichever is greater.

**AUTHORIZED BROKER/DEALERS  
SCHEDULE II**

The Treasurer is authorized to conduct investment security transactions with the broker/dealers which are designated by the Federal Reserve Bank as primary government dealers. Security transactions with firms, other than those appearing on this list, are prohibited.

1. Other authorized firms:

Union Bank  
Piper Jaffray & Co.  
SunTrust Bank  
FTN Financial  
InCapital  
Raymond James & Associates, Inc.  
Williams Capital Group

2. Direct purchases from major commercial paper issuers, money market mutual funds, banker's acceptance issuers, negotiable CD issuers, or savings and loan are authorized.
3. Incidental purchases of less than \$10 million may be made with other firms if in the opinion of the Treasurer, such transactions are deemed advantageous.

To ensure compliance with the County Treasurer's investment guidelines, each newly authorized primary government dealer and other authorized firms (as listed above in section 1, 2 and 3) will be supplied a complete copy of this Investment Policy document approved by the Board of Supervisors.

**POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS  
SCHEDULE III**

1. The County Treasurer has elected to limit security transactions as mentioned in Schedule II. Accordingly, the financial institution must confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses. The Treasurer is prohibited from the selection of 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 any candidate for those offices.
2. The County Treasurer's intent is to enter into long-term relationships. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
3. The firm must specify the types of securities it specializes in and will be made available for our account.
4. It is important that the firm provide related services that will enhance the account relationship which could include:
  - (a) An active secondary market for its securities.
  - (b) Internal credit research analysis on commercial paper, banker's acceptances and other securities it offers for sale.
  - (c) Be willing to trade securities for our portfolio.
  - (d) Be capable of providing market analysis, economic projections, and newsletters.
  - (e) Provide market education on new investment products, security spread relationships, graphs, etc.
5. The firm must be willing to provide us annual financial statements.
6. The County Treasurer is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank.
7. Without exception, all transactions are to be conducted on a delivery versus payment (DVP) basis.
8. The broker/dealer must have been in operation for more than 5 years, and, if requested, the firm must be willing to provide us a list of local government clients or other reference, particularly those client relationships established within the State of California.

**POLICY CRITERIA FOR COLLATERALIZED TIME DEPOSITS  
SCHEDULE IV**

Before the Treasury can place a time deposit with a local bank or savings and loan, the following criteria must be met:

1. The bank must provide us with an executed copy of the "Contract for Deposit of Moneys."
2. The interest rate on the Time Certificate of Deposit must be competitive with rates offered by other banks and savings and loans residing in Riverside County, as well as exceed that of U.S. Treasury Securities.
3. Investments less than the FDIC insurance limit will be sufficient without requiring any collateral to be pledged with the Federal Reserve to secure the public fund deposit.
4. Investments exceeding the FDIC insurance limit shall be fully collateralized by U.S. Treasury and Federal Agency securities having maturities five years or less. The County Treasurer must receive written confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged as collateral must have a current market value greater than the dollar amount of the deposit in keeping with the ratio requirements specified in Code Section 53652. Additionally, a statement of the collateral shall be provided on a monthly basis. A collateral waiver for the portion insured by the FDIC will be granted.
5. The County Treasurer must be given a current audited financial statement for the financial year just ended as well as the most recent quarterly statement of financial condition. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.
6. The County Treasurer will not place a public fund deposit for more than 10% of the present paid-in capital and surplus of the bank.
7. The County Treasurer must receive a certificate of deposit which specifically expresses the terms governing the transaction, deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc).
8. All time certificates must have a maturity date not exceeding one year from the date of the deposit, with interest payments based upon the stated interest rate.
9. The County Treasurer must receive a letter from an officer of the bank at the time the initial deposit is made, that there is no known pending financial disclosure or public announcement of an adverse financial event involving the bank or savings and loan, nor is there any knowledge that a conflict of interest situation exists between any County official and an officer or employee of the bank.
10. Time deposits will only be made with banks and savings and loans having branch office locations within Riverside County.

**POLICY CRITERIA FOR ENTERING INTO A MONEY MARKET FUND  
SCHEDULE V**

Shares of beneficial interest issued by diversified management companies, also known as mutual funds, invest in the securities and obligations authorized by Code Sections 53601.7(10). Approved mutual funds will be registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et. seq.) and shall meet the following criteria:

1. The fund must have a “AAA” ratings from two of the nationally recognized rating services: Moody’s, Fitch, Standard & Poor’s.
2. The fund’s prospectus cannot allow hedging strategies, options or futures.
3. The fund must provide a current prospectus before participation in the fund and provide copies of their portfolio reports and shall provide at least at month-end, a complete listing of securities within the fund’s portfolio.

**POLICY CRITERIA  
CORPORATE AND MUNICIPAL SECURITIES  
SCHEDULE VI**

**Corporate Criteria.** Money market securities will be first restricted by short-term ratings and then further restricted by long term credit ratings. The long term credit ratings, including the outlook of the parent company will be used. Money market securities consist of negotiable certificates of deposit (NCDs), bankers acceptances, and commercial paper. Medium term securities will be restricted by the long term ratings of the legal issuer. Concentration limit restrictions will make no distinction between medium term notes and money market securities.

No short term negative credit watch or long-term negative outlook by 2 of 3 nationally recognized rating services except for entities participating in government guaranteed programs. Credit Category 1 and Category 2 with negative credit watch or long-term negative outlook, by more than one nationally recognized rating service is permitted as Category 3 and Category 4 respectively.

**Municipal Criteria.** Minimum of A or A2 or A, underlying credit rating for selecting insured municipal securities and a maximum of 5% exposure to any one insurer (direct purchases and indirect commitments).

**Liquidity Provider Restrictions.** Maximum of 5% exposure to any one institution (direct purchases and indirect commitments).

Category	Short-Term Ratings	Long-Term Ratings	Restrictions
<b>1</b>	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1+)	AAA/Aaa/AAA	<b>Corp.</b> Maximum of 5% per issuer with no more than 2% greater than 1 year final maturity and no more than 1% greater than 2 year final maturity.  <b>Muni.</b> Maximum of 5% per issuer with no more than 2% greater than 13 month final maturity.
<b>2</b>	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1)	AA+/Aa1/AA+, AA/Aa2/AA	<b>Corp.</b> Maximum of 4% per issuer with no more than 1% greater than 1 year final maturity. No more than 13 month final maturity.  <b>Muni.</b> Maximum of 5% per issuer with no more than 1% greater than 13 month final maturity. For the State of California debt only maximum of 2% greater than 13 month final maturity.
<b>3</b>	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1)	AA-/Aa3/AA-	<b>Corp.</b> Maximum of 3% per issuer with no more than 1.5% greater than 90 days. No more than 270 days final maturity.  <b>Muni.</b> Maximum of 5% per issuer. No more than 13 month final maturity. For the State of California Debt only, maximum of 2% greater than 13 month final maturity.
<b>4</b>	A-1/P-1/F-1 (SP-1/MIG1/F-1)	A/A2/A or better.	<b>Corp.</b> No Asset Backed programs. Maximum of 2% per issuer with no more than 1% greater than 7 days. No more than 45 days maximum maturity.  <b>Muni.</b> For the State of California Debt only, maximum of 3% with no more than 2% greater than 1 year final maturity.

**Rating Agency Comparison Table**

Short-Term Scale

<b>S&amp;P</b>	<b>A-1+, A-1</b>
<b>Moody's</b>	<b>P-1</b>
<b>Fitch</b>	<b>F-1+, F-1</b>

Long-Term Scale

<b>S&amp;P</b>	<b>AAA, AA+, AA, AA-, A+, A</b>
<b>Moody's</b>	<b>Aaa, Aa1, Aa2, Aa3, A1, A2</b>
<b>Fitch</b>	<b>AAA, AA+, AA, AA-, A+, A</b>

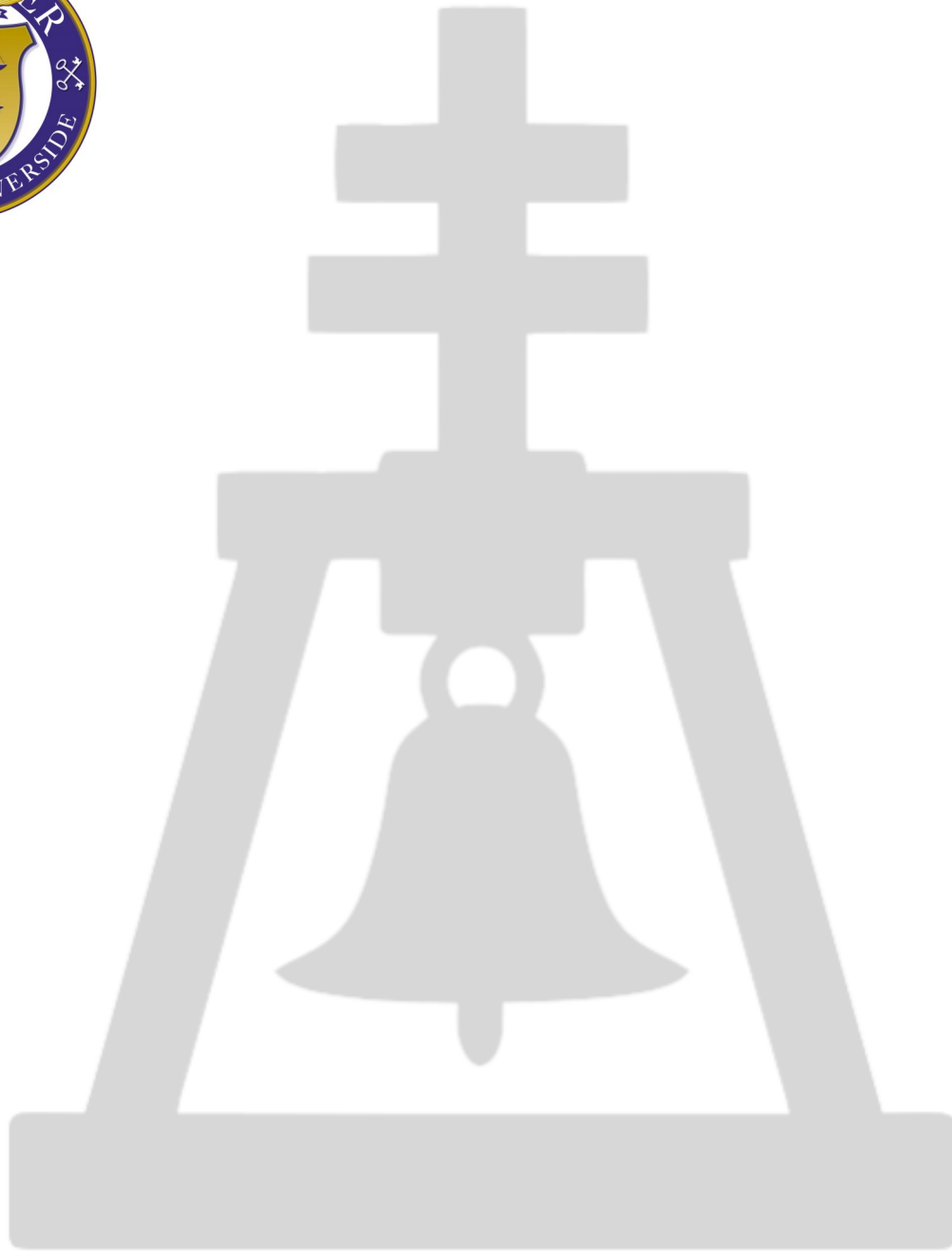
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**APPENDIX I**

**COUNTY OF RIVERSIDE POOLED INVESTMENT FUND MONTHLY REPORT**

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# County of Riverside

Treasurer's Pooled Investment Fund

September 2019

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2 | Treasurer's Pooled Investment Fund

3 | Economy

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6 | Portfolio Data

8 | Compliance Report

9 | Month End Holdings

A photograph of Jerome Powell, Chair of the Federal Reserve Board, speaking at a podium. He is wearing a dark suit, a white shirt, and a purple tie. He has grey hair and is wearing glasses. The background is a dark blue curtain. The text is overlaid in yellow on the image.

See the digital copy of our monthly TPIF report at [countytreasurer.org](http://countytreasurer.org) to view video of the Federal Open Market Committee's September 18 press conference.

**JEROME POWELL**  
Chair, Federal Reserve Board

Federal Reserve Chair Jerome Powell during the September 18 FOMC press conference. Digital Image. Federal Reserve Board. <https://www.youtube.com/user/FedReserveBoard>

# Treasurer's Pooled Investment Fund

## Monthly Commentary

### An Abundance of Uncertainty

News of the Federal Reserve (FED) rate cut in September was pushed to the back pages as geopolitical events and domestic politics dominated headlines. The 2-year Treasury was 1.63% at month end, the lowest since October 2017. Back then, three straight quarters of above 3% real GDP growth and tax reform fostered expectations for higher rates. Growth of real GDP fell to 2% in 2Q19. Now, investors expect slower economic growth to lead to more rate cuts.

The FED cut rates in September, while in the Middle East a drone attack on Saudi Arabia caused one of the world's largest oil processing facilities to shut down. According to Saudi Aramco, the closure impacted about 5% of the world's daily oil production, but is estimated to be fully restored by the end of September.

Europe continues to lead to a messy divorce as the U.K.'s Brexit deadline approaches on October 31, and riots in Hong Kong continue to disrupt the trading hub, crimping long-term investment decisions.

On the U.S.-China trade front, additional tariffs took effect in September, and more are expected on December 15. Talks, however, are scheduled to resume on October 10. September was capped off with a political firestorm over the Ukrainian 'presidential phone call' scandal.

Empowered by a tight labor market and low inflation, consumers were able to shake off tariff-related concerns to keep consumer spending in expansionary territory in August. The rate of nonfarm payrolls continued to slow down in August from 2018 levels, adding 130k jobs. However, initial jobless claims and the unemployment rate suggest that the labor market remains at its tightest in half a century.

Industrial data for August was mixed. On one hand, the FED's industrial production index beat consensus expectations for production, manufacturing, and capacity utilization. On the other, the PMI manufacturing index showed flat growth, highlighted by a 10-year low in export orders, while the ISM manufacturing index showed the sector contracted in August.

Data published in September suggest that the national housing market remains firm. The number of new home sales in August brought the three-month average up to 703k, the highest since October 2007. Existing home sales grew at an annual pace of 5.490 million, the best showing of 2019. Nationwide, home price growth continued to trend down towards 2.0% Y/Y in July. In Riverside County, data from CoreLogic shows house prices grew 3.9% Y/Y in August, up from 3.4% Y/Y in July.

In the Eurozone, manufacturing activity could be a canary in the coalmine for an impending recession. Eurozone manufacturing PMI data fell from 47.0 in July to 45.6 in August, the steepest contraction since October 2012.

Confronted with low inflation and softness in job growth, exports, fixed income investment, manufacturing activity, and global economic growth, Federal Reserve (FED) officials elected to cut rates to 1.75-2.00% on September 18. FED officials are likely to cut rates by another 25bps before the end of the year to help stave off a recession.

The Treasury bond market saw yields rise slightly in September, as investors eased off a bit on further rate cut expectations. The 2-year treasury began the month with a yield of 1.47% and ended at 1.63%. The 5-year treasury began the month with a yield of 1.35% and ended at 1.55%. The FED cut short-term interest rates by 25 bps. The inversion of the Treasury yield curve continued, with the 3-month Treasury bill (1.88%) out-yielding the 10-year Treasury note (1.68%) by 20 basis points.

**Jon Christensen**  
Treasurer-Tax Collector

## Capital Markets Team

**Jon Christensen**  
Treasurer-Tax Collector

**Giovane Pizano**  
Chief Investment Manager

**Steve Faeth**  
Senior Investment Manager

**Isela Licea**  
Assistant Investment Manager

**Jake Nieto**  
Administrative Services Analyst

## Treasurer's Statement

The Treasurer's Pooled Investment Fund is comprised of contributions from the county, schools, special districts, and other discretionary depositors throughout the County of Riverside. The primary objective of the treasurer shall be to **safeguard the principal** of the funds under the Treasurer's control, meet the **liquidity needs** of the depositor, and to maximize a **return on the funds** within the given parameters.

The Treasurer-Tax Collector and the Capital Markets team are committed to maintaining the highest credit ratings. The Treasurer's Pooled Investment Fund is currently rated **Aaa-bf** by **Moody's Investor Service** and **AAAf/S1** by **Fitch Ratings**, two of the nation's most trusted bond credit rating services.

Since its inception, the Treasurer's Pooled Investment Fund has been in **full compliance** with the Treasurer's Statement of Investment Policy, which is more restrictive than California Government Code 53646.

## 6-Month Pool Performance

	Month End Market Value (\$)*	Month End Book Value (\$)	Paper Gain or Loss (\$)	Paper Gain or Loss (%)	Book Yield (%)	WAM (Yrs)
<b>Sep-19</b>	6,351,986,977.01	6,333,085,946.48	18,901,030.53	0.30%	2.13	1.10
<b>Aug-19</b>	6,417,639,034.28	6,389,269,000.29	28,370,033.99	0.44%	2.23	1.13
<b>Jul-19</b>	6,570,927,735.30	6,550,099,863.71	20,827,871.59	0.32%	2.29	1.13
<b>Jun-19</b>	6,838,812,308.82	6,811,213,591.28	27,598,717.54	0.41%	2.32	1.06
<b>May-19</b>	7,583,793,753.68	7,563,023,912.99	20,769,840.69	0.27%	2.35	1.09
<b>Apr-19</b>	8,177,376,431.91	8,168,198,799.92	9,177,631.99	0.11%	2.36	1.09

\*Market values do not include accrued interest.

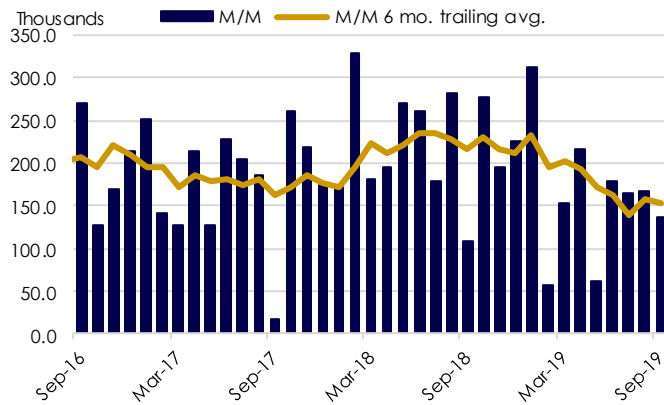
# Economy

## National Economy

The U.S. labor market remains tight as real average hourly earnings climb higher and unemployment insurance claims stay at the lowest in half a century. [FRED; 10/08/2019]

- Job growth has slowed down this year. Through the first eight months, nonfarm payroll growth fell from 234k per month in 2018 to 164k per month in 2019. [FRED; 10/08/2019]
- Despite vehicle sales trending above 17mn in August, growth in durable goods orders was flat Y/Y, indicating an overall slowdown in manufacturing. [FRED; 10/08/2019]

### U.S. Nonfarm Payrolls

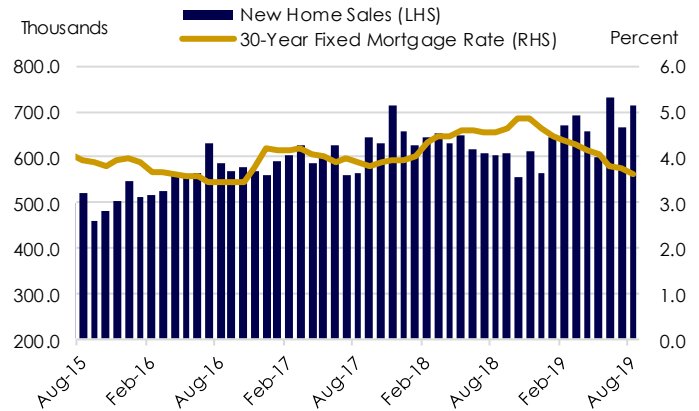


## State Economy

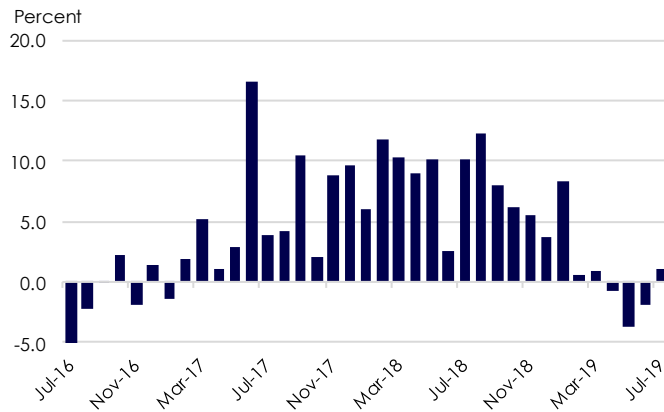
California's unemployment rate fell to 4.1% in August, the lowest since data was made available in 1976. [FRED; 10/08/2019]

- Job growth in CA and the Inland Empire grew around 2.0% Y/Y in August, mirroring national trends. [FRED; 10/08/2019]
- Despite lower mortgage rates, home sales in Southern California were the lowest since 2015 and home prices were unmoved Y/Y in August. [LA Times; 10/08/2019].
- CA has "fallen behind in home production relative to population growth and future needs." [UCLA Anderson; 10/09/2019]

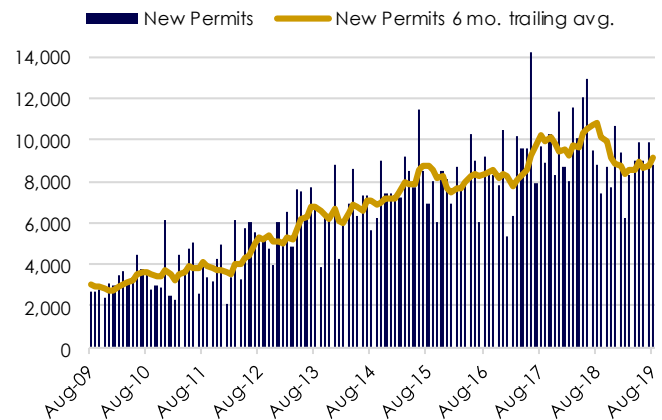
### U.S. New Home Sales SAAR



### U.S. Durable Goods Orders Y/Y



### CA Monthly New Residential Building Permits



## Key Economic Indicators

Release Date	Indicator	Actual	Consensus	Prior Year
09/26/2019	Real GDP - Q/Q Change - SAAR - 2Q19 (3rd estimate)	<b>2.0%</b>	2.0%	3.5%
09/06/2019	Unemployment Rate - Seasonally Adjusted	<b>3.7%</b>	3.7%	3.8%
09/06/2019	Non-Farm Payrolls - M/M Change - Thousands	<b>130</b>	163	282
09/12/2019	CPI - Y/Y Change	<b>1.7%</b>	1.7%	2.7%
09/12/2019	CPI Ex Food and Energy - Y/Y Change	<b>2.4%</b>	2.3%	2.2%
09/05/2019	ISM Non-Manufacturing Index (> 50 indicates growth)	<b>56.4</b>	54.0	58.8
09/25/2019	New Home Sales - SAAR - Thousands	<b>713</b>	662	604
09/05/2019	Factory Orders - M/M Change	<b>1.4%</b>	1.0%	-0.3%
09/27/2019	Durable Goods Orders - New Orders - M/M Change	<b>0.2%</b>	-1.2%	4.2%

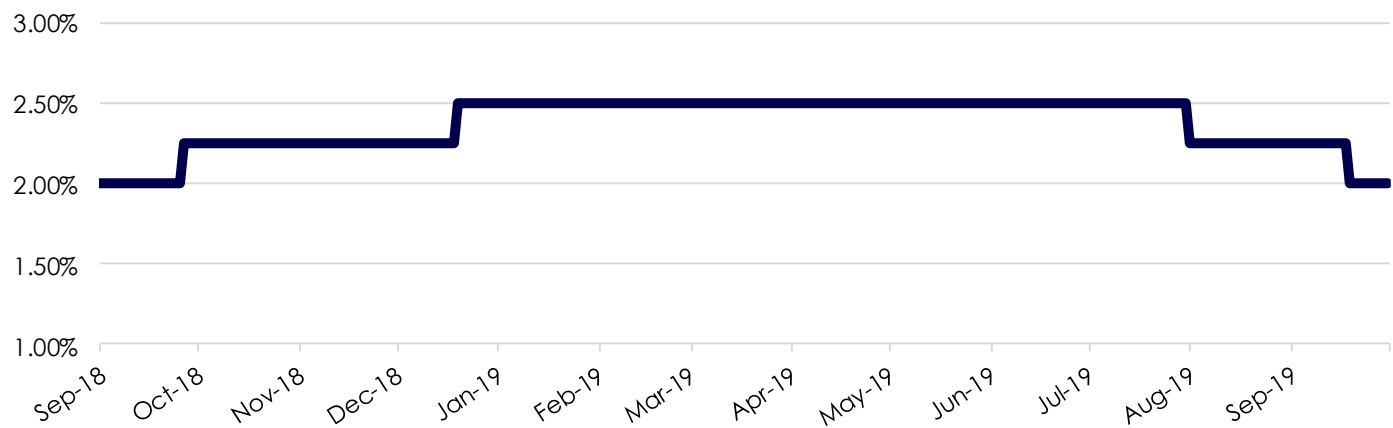
\*Note: 'Prior Year' displays final estimates of indicator values from the equivalent period of the prior year.

# Market Data

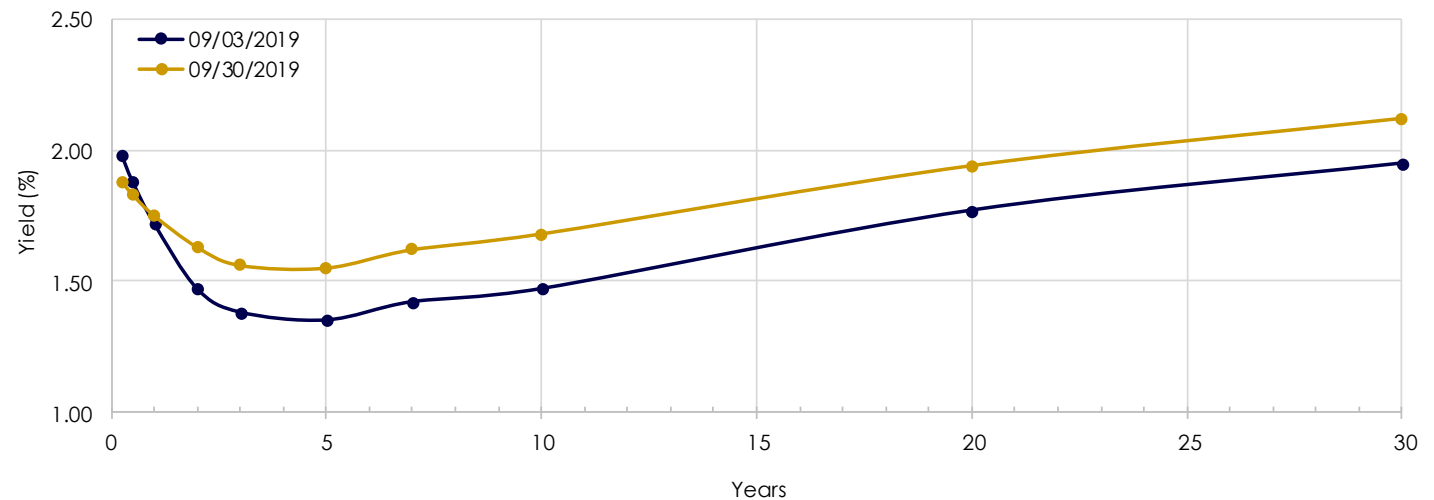
## FOMC Meeting 09/18/2019

- The FOMC stated that data received since their last meeting in July “indicates that the labor market remains strong and that economic activity has been rising at a moderate rate.”
- The Federal Open Market Committee lowered the Fed Funds Target Rate to 1.75—2.00% from 2.00—2.25%.
- The FOMC stated in their September 18 press release that “sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective as the most likely outcomes, but uncertainties about this outlook remain.”

## Fed Funds Target Rate (Upper Limit)



## U.S. Treasury Curve

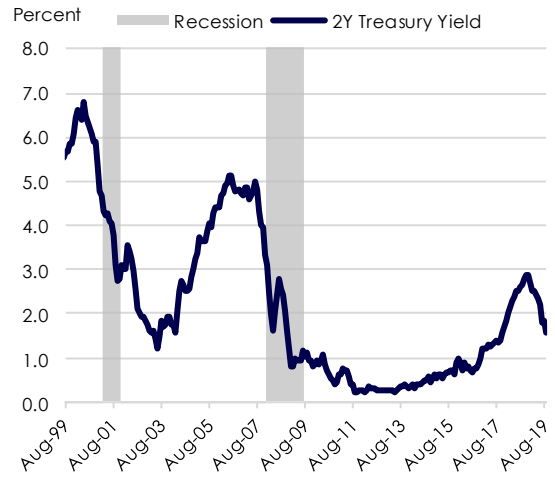
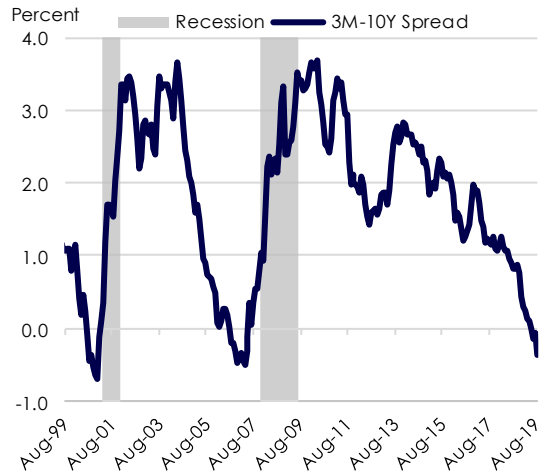


Treasury Curve Differentials	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr	30 Yr
09/30/2019 - 09/03/2019	-0.10	-0.05	0.03	0.16	0.18	0.20	0.21	0.17
09/30/2019	1.88	1.83	1.75	1.63	1.56	1.55	1.68	2.12
09/03/2019	1.98	1.88	1.72	1.47	1.38	1.35	1.47	1.95

The US Treasury Curve and its values are subject to frequent change and will be updated monthly with each issued TPIF report.

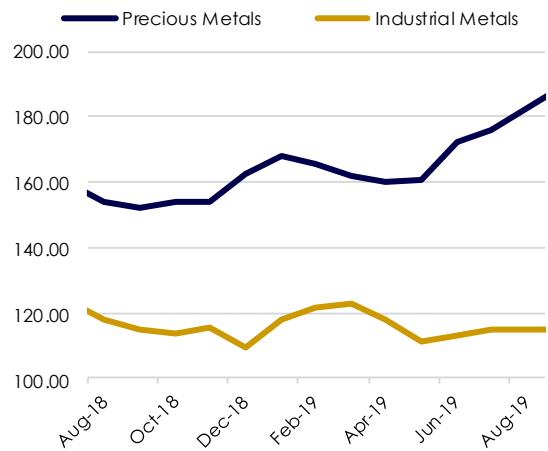
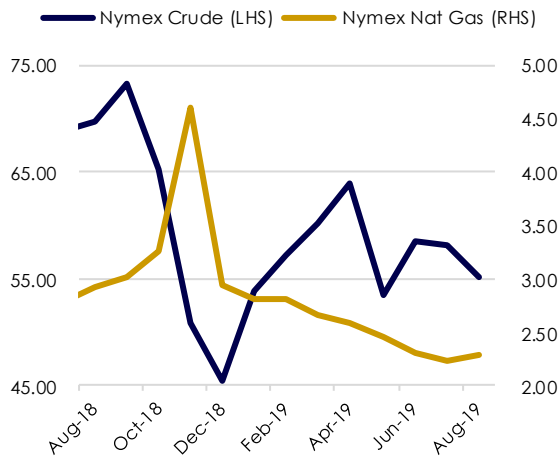
# Market Data cont'd

## U.S. Treasuries

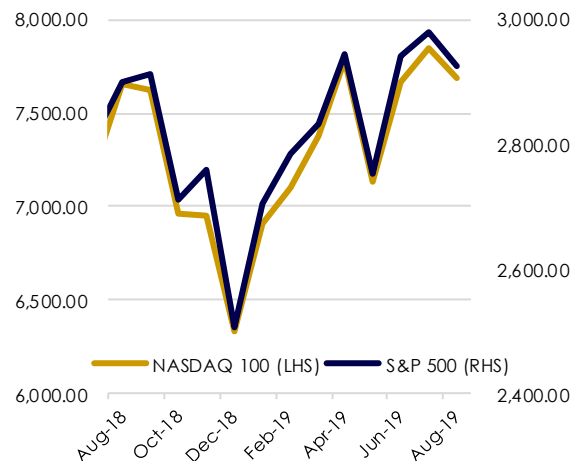
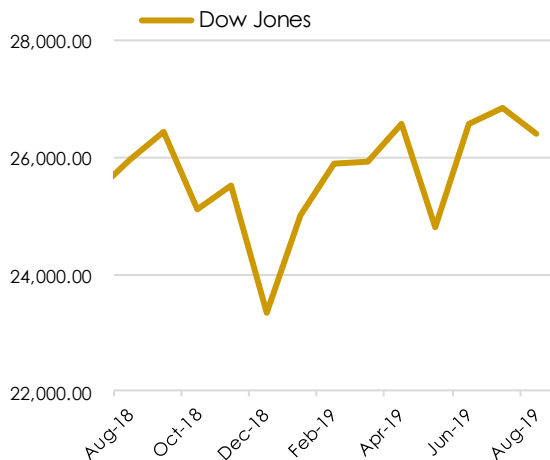


\*Note: Shaded areas indicate U.S. recessions.

## Commodities



## Stocks



\* Values listed for commodities and stocks are in US dollars and are as of the final business day of each month.

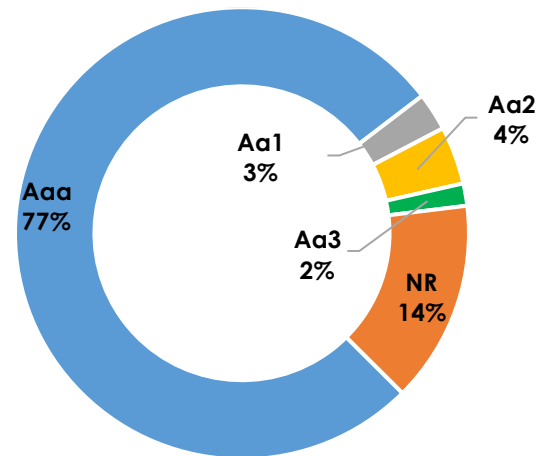


# Portfolio Data

The County of Riverside's Treasurer's Pooled Investment Fund is currently rated **AAA-bf** by **Moody's Investor Service** and **AAAf/S1** by **Fitch Ratings**.

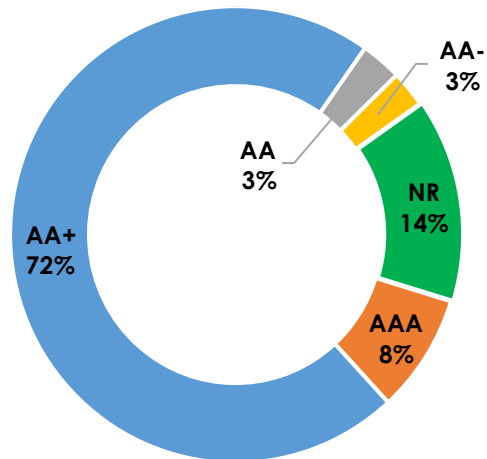
## Moody's Asset Rating (000's)

	Book	MKT/Book	% Book	Yield
<b>Aaa</b>	4,882,583.56	100.31%	77.06%	2.09%
<b>Aa1</b>	171,944.05	100.53%	2.72%	2.27%
<b>Aa2</b>	262,517.51	100.73%	4.15%	2.36%
<b>Aa3</b>	101,056.12	100.00%	1.60%	2.80%
<b>NR</b>	915,084.70	100.08%	14.47%	2.20%
<b>Totals:</b>	<b>6,333,185.95</b>	<b>100.30%</b>	<b>100.00%</b>	<b>2.13%</b>



## S&P Asset Rating (000's)

	Book	MKT/Book	% Book	Yield
<b>AAA</b>	533,641.31	100.42%	8.43%	2.08%
<b>AA+</b>	4,535,693.68	100.31%	71.62%	2.10%
<b>AA</b>	184,788.40	100.99%	2.92%	2.53%
<b>AA-</b>	163,877.86	100.04%	2.59%	2.49%
<b>NR</b>	915,084.70	100.08%	14.45%	2.20%
<b>Totals:</b>	<b>6,333,085.95</b>	<b>100.30%</b>	<b>100.00%</b>	<b>2.13%</b>



## 12-Month Projected Cash Flow

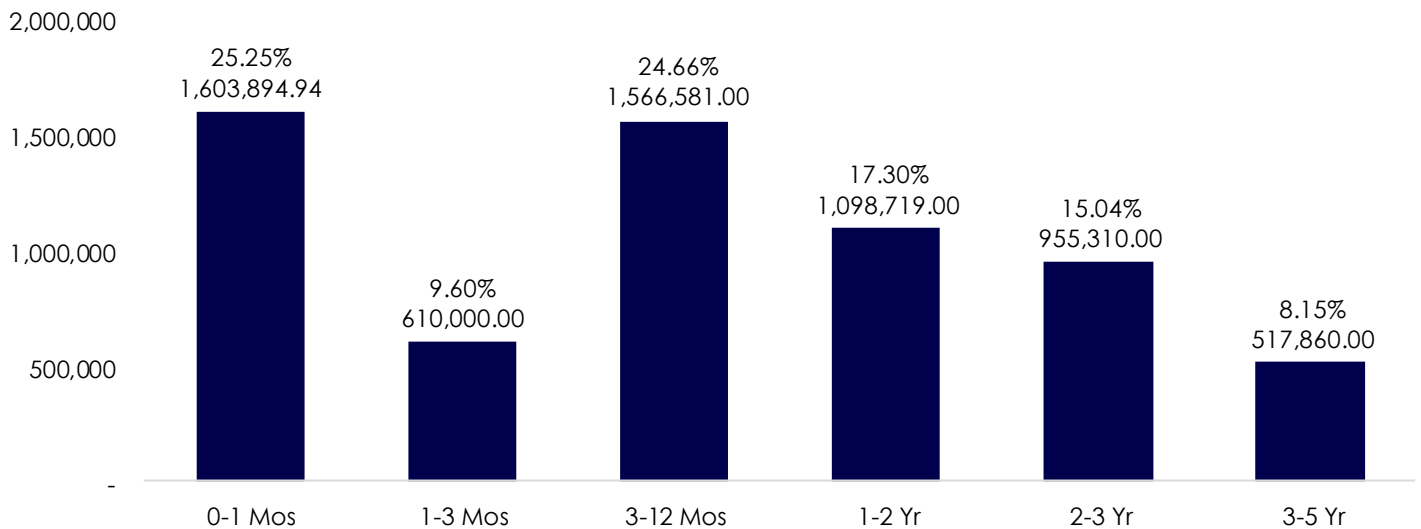
Month	Monthly Receipts	Monthly Disbursements	Difference	Required Matured Investments	Balance	Actual Investments Maturing	Available to Invest > 1 Year
10/2019					70.99		
10/2019	1,100.00	1,300.00	(200.00)	129.01	-	1,703.89	
11/2019	1,300.00	1,200.00	100.00		100.00	490.00	
12/2019	2,375.13	1,200.00	1,175.13		1,275.13	20.00	
01/2020	1,100.00	2,200.00	(1,100.00)		175.13	640.75	
02/2020	1,100.00	1,500.00	(400.00)	224.87	-	140.33	
03/2020	1,350.00	1,200.00	150.00		150.00	108.29	
04/2020	1,350.00	1,200.00	150.00		300.00	170.65	
05/2020	1,700.00	1,700.00	-		300.00	87.66	
06/2020	1,000.00	1,736.13	(736.13)	436.13	-	80.43	
07/2020	1,177.22	1,435.00	(257.78)	257.78	-	106.83	
08/2020	1,000.00	1,300.00	(300.00)	300.00	-	106.65	
09/2020	1,030.00	1,300.00	(270.00)	270.00	-	140.00	
<b>TOTALS</b>	<b>15,582.35</b>	<b>17,271.13</b>	<b>(1,688.78)</b>	<b>1,617.79</b>	<b>2,371.25</b>	<b>3,795.48</b>	<b>4,715.30</b>
				<b>25.55%</b>		<b>59.93%</b>	<b>74.45%</b>

\* Values listed in Cash Flow Table are in millions of USD.

Based on historic and current financial conditions within the County, the Pool is expected to maintain sufficient liquidity of funds to cover County expenses for the next twelve months.

# Portfolio Data cont'd

## Asset Maturity Distribution (Par Value, 000's)

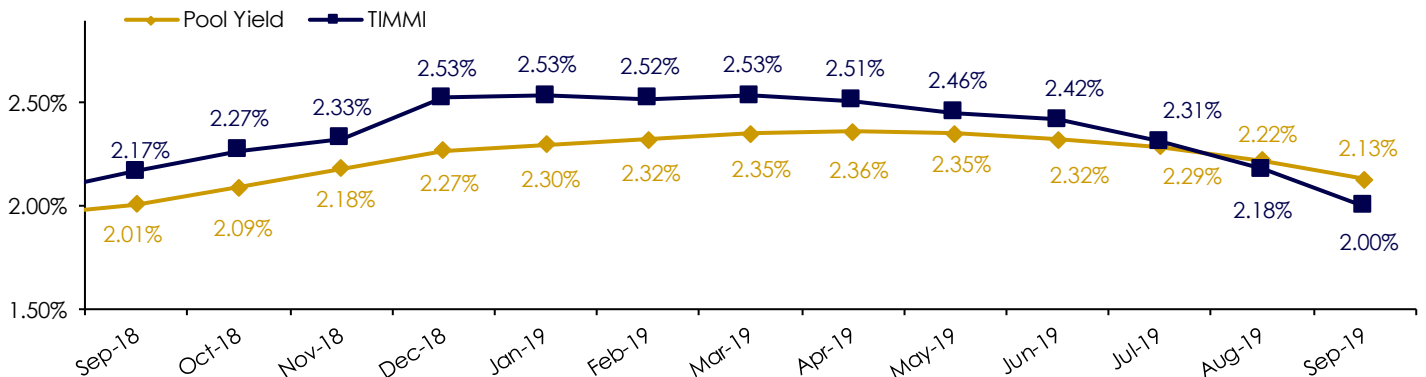


## Asset Allocation (000's)

Assets	Scheduled Book	Scheduled Market	Mkt/Book	Yield	WAL (Yr.)	Mat (Yr.)
TREAS	450,553.39	454,185.05	100.81%	2.41%	0.34	0.34
AGENCIES	3,713,946.71	3,723,203.97	100.25%	2.06%	1.08	1.71
MMKT	383,000.00	383,000.00	100.00%	1.92%	0.00	0.00
CASH	760,000.00	760,000.00	100.00%	2.17%	0.00	0.00
CALTRUST FND	4,023.98	4,023.98	100.00%	2.27%	0.00	0.00
COMM PAPER	670,020.85	673,322.34	100.49%	2.14%	0.18	0.18
NCDS	-	-	0.00%	0.00%	-	-
MEDIUM TERM NOTES	184,951.53	187,662.14	101.47%	2.65%	0.58	0.61
MUNI	166,509.50	166,509.50	100.00%	2.58%	1.47	1.47
LOCAL AGCY OBLIG	80.00	80.00	100.00%	2.73%	0.71	0.71
<b>Totals:</b>	<b>6,333,085.95</b>	<b>6,351,986.98</b>	<b>100.30%</b>	<b>2.13%</b>	<b>0.73</b>	<b>1.10</b>

\* For details on the Pool's composition see Month End Portfolio Holdings, pages 9 to 13.

## TIMMI



The Treasurer's Institutional Money Market Index (TIMMI) is a composite index of four AAA rated prime institutional money market funds. Their average yield is compared to the yield of the Treasurer's Pooled Investment Fund in the above graph.

# Compliance Report

## Compliance Status: Full Compliance

The Treasurer's Pooled Investment Fund was in full compliance with the County of Riverside's Treasurer's Statement of Investment Policy. The County's Statement of Investment Policy is more restrictive than California Government Code 53646. The County's Investment Policy is reviewed annually by the County of Riverside's Oversight Committee and approved by the Board of Supervisors.

Investment Category	GOVERNMENT CODE			COUNTY INVESTMENT POLICY			Actual %
	Maximum Remaining Maturity	Authorized % Limit	S&P/ Moody's	Maximum Remaining Maturity	Authorized % Limit	S&P/ Moody's	
<b>MUNICIPAL BONDS (MUNI)</b>	5 YEARS	NO LIMIT	NA	4 YEARS	15%	AA-/Aa3/AA-	<b>2.63%</b>
<b>U.S. TREASURIES</b>	5 YEARS	NO LIMIT	NA	5 YEARS	100%	NA	<b>7.11%</b>
<b>LOCAL AGENCY OBLIGATIONS (LAO)</b>	5 YEARS	NO LIMIT	NA	3 YEARS	2.50%	INVESTMENT GRADE	<b>&lt;0.01%</b>
<b>FEDERAL AGENCIES</b>	5 YEARS	NO LIMIT	AAA	5 YEARS	100%	NA	<b>58.64%</b>
<b>COMMERCIAL PAPER (CP)</b>	270 DAYS	40%	A1/P1	270 DAYS	40%	A1/P1/F1	<b>10.58%</b>
<b>CERTIFICATE &amp; TIME DEPOSITS (NCD &amp; TCD)</b>	5 YEARS	30%	NA	1 YEAR	25% Combined	A1/P1/F1	<b>0.00%</b>
<b>INT'L BANK FOR RECONSTRUCTION AND DEVELOPMENT AND INT'L FINANCE CORPORATION</b>	NA	NA	NA	4 YEARS	20%	AA/Aa/AA	<b>0.00%</b>
<b>REPURCHASE AGREEMENTS (REPO)</b>	1 YEARS	NO LIMIT	NA	45 DAYS	40% max, 25% in term repo over 7 days	A1/P1/F1	<b>0.00%</b>
<b>REVERSE REPOS</b>	92 DAYS	20%	NA	60 DAYS	10%	NA	<b>0.00%</b>
<b>MEDIUM TERM NOTES (MTNO)</b>	5 YEARS	30%	A	3 YEARS	20%	AA/Aa2/AA	<b>2.92%</b>
<b>CALTRUST SHORT TERM FUND</b>	NA	NA	NA	DAILY LIQUIDITY	1.00%	NA	<b>0.06%</b>
<b>MONEY MARKET MUTUAL FUNDS (MMF)</b>	60 DAYS <sup>(1)</sup>	20%	AAA/Aaa <sup>(2)</sup>	DAILY LIQUIDITY	20%	AAA by 2 Of 3 RATINGS AGC.	<b>6.05%</b>
<b>LOCAL AGENCY INVESTMENT FUND (LAIF)</b>	NA	NA	NA	DAILY LIQUIDITY	Max \$50 million	NA	<b>0.00%</b>
<b>CASH/DEPOSIT ACCOUNT</b>	NA	NA	NA	NA	NA	NA	<b>12.00%</b>

<sup>1</sup> Money Market Mutual Funds maturity may be interpreted as a weighted average maturity not exceeding 60 days.

<sup>2</sup> Or must have an investment advisor with no fewer than 5 years experience and with assets under management of \$500,000,000 USD.

**THIS COMPLETES THE REPORT REQUIREMENTS OF CALIFORNIA GOVERNMENT CODE 53646.**

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
<b>Fund: 1 POOL FUND</b>											
<b>1060: MMKT ACCTS-A/365-6</b>											
FRGX	FIDELITY GOV	10/01/2019	1.955	1.955	169,000,000.00	169,000,000.00	100.000000	169,000,000.00	0.00	.003	.003
GOFXX	FEDERATED GOV	10/01/2019	1.885	1.885	131,000,000.00	131,000,000.00	100.000000	131,000,000.00	0.00	.003	.003
WFFXX	WELLS FARGO GOV	10/01/2019	1.901	1.901	77,000,000.00	77,000,000.00	100.000000	77,000,000.00	0.00	.003	.003
FGTXX	GOLDMAN SACHS GOV	10/01/2019	1.830	1.830	6,000,000.00	6,000,000.00	100.000000	6,000,000.00	0.00	.003	.003
			<b>1.918</b>	<b>1.918</b>	<b>383,000,000.00</b>	<b>383,000,000.00</b>	<b>100.000000</b>	<b>383,000,000.00</b>	<b>0.00</b>	<b>.003</b>	<b>.003</b>
<b>1065: CLTR-A/365-6</b>											
CLTR	CALTRUST SHT TERM FUND	10/01/2019	2.280	2.268	4,015,944.14	4,023,976.03	100.200000	4,023,976.03	0.00	.003	.003
			<b>2.280</b>	<b>2.268</b>	<b>4,015,944.14</b>	<b>4,023,976.03</b>	<b>100.200000</b>	<b>4,023,976.03</b>	<b>0.00</b>	<b>.003</b>	<b>.003</b>
<b>1080: MGD RATE-A/365-6</b>											
CASH	BANK OF THE WEST	10/01/2019	2.190	2.190	300,000,000.00	300,000,000.00	100.000000	300,000,000.00	0.00	.003	.003
			<b>2.190</b>	<b>2.190</b>	<b>300,000,000.00</b>	<b>300,000,000.00</b>	<b>100.000000</b>	<b>300,000,000.00</b>	<b>0.00</b>	<b>.003</b>	<b>.003</b>
<b>1170: MGD RATE-A/360</b>											
CASH	PACIFIC PREMIER BANK	10/01/2019	2.090	2.090	40,000,000.00	40,000,000.00	100.000000	40,000,000.00	0.00	.003	.003
CASH	FIRST REPUBLIC BANK	10/01/2019	2.200	2.200	300,000,000.00	300,000,000.00	100.000000	300,000,000.00	0.00	.003	.003
CASH	UB MANAGED RATE	10/01/2019	2.090	2.090	120,000,000.00	120,000,000.00	100.000000	120,000,000.00	0.00	.003	.003
			<b>2.162</b>	<b>2.162</b>	<b>460,000,000.00</b>	<b>460,000,000.00</b>	<b>100.000000</b>	<b>460,000,000.00</b>	<b>0.00</b>	<b>.003</b>	<b>.003</b>
<b>1175: LAO-SINKING FND-A/360</b>											
LAO	US DIST COURTHOUSE	06/15/2020	2.727	2.727	80,000.00	80,000.00	100.000000	80,000.00	0.00	.198	.710
			<b>2.727</b>	<b>2.727</b>	<b>80,000.00</b>	<b>80,000.00</b>	<b>100.000000</b>	<b>80,000.00</b>	<b>0.00</b>	<b>.198</b>	<b>.710</b>
<b>1300: U.S. TREASURY BILL</b>											
912796TC3	U.S. TREASURY BILL	01/23/2020	2.022	2.042	25,000,000.00	24,744,504.86	99.432000	24,858,000.00	113,495.14	.309	.315
912796TE9	U.S. TREASURY BILL	02/06/2020	1.951	1.970	25,000,000.00	24,753,415.28	99.363000	24,840,750.00	87,334.72	.346	.353
			<b>1.986</b>	<b>2.006</b>	<b>50,000,000.00</b>	<b>49,497,920.14</b>	<b>99.397500</b>	<b>49,698,750.00</b>	<b>200,829.86</b>	<b>.327</b>	<b>.334</b>
<b>1310: U.S. TREASURY BOND</b>											
912828U32	U.S. TREASURY BOND	11/15/2019	1.000	2.628	75,000,000.00	73,939,453.13	99.871000	74,903,250.00	963,796.87	.124	.126
912828TV2	U.S. TREASURY BOND	10/31/2019	1.250	2.606	50,000,000.00	49,449,218.75	99.731000	49,965,500.00	516,281.25	.084	.085
912828F62	U.S. TREASURY BOND	10/31/2019	1.500	2.557	50,000,000.00	49,611,328.13	99.951000	49,975,500.00	364,171.87	.084	.085
912828T59	U.S. TREASURY BOND	10/15/2019	1.000	2.529	45,000,000.00	44,569,335.94	99.958000	44,981,100.00	411,764.06	.041	.041
912828U32	U.S. TREASURY BOND	11/15/2019	1.000	2.534	40,000,000.00	39,565,625.00	99.871000	39,948,400.00	382,775.00	.124	.126
912828U32	U.S. TREASURY BOND	11/15/2019	1.000	2.524	35,000,000.00	34,652,734.38	99.871000	34,954,850.00	302,115.62	.124	.126
912828UL2	U.S. TREASURY BOND	01/31/2020	1.375	2.462	50,000,000.00	49,539,062.50	99.813000	49,906,500.00	367,437.50	.333	.337
912828W63	U.S. TREASURY BOND	03/15/2020	1.625	2.449	15,000,000.00	14,889,257.81	99.887000	14,983,050.00	93,792.19	.452	.458
912828YC8	U.S. TREASURY BOND	08/31/2021	1.500	1.601	15,000,000.00	14,970,703.13	99.707000	14,956,050.00	-14,653.13	1.879	1.921
912828YC8	U.S. TREASURY BOND	08/31/2021	1.500	1.727	15,000,000.00	14,934,960.94	99.707000	14,956,050.00	21,089.06	1.878	1.921
912828YC8	U.S. TREASURY BOND	08/31/2021	1.500	1.731	15,000,000.00	14,933,789.06	99.707000	14,956,050.00	22,260.94	1.878	1.921
			<b>1.218</b>	<b>2.456</b>	<b>405,000,000.00</b>	<b>401,055,468.77</b>	<b>99.873160</b>	<b>404,486,300.00</b>	<b>3,430,831.23</b>	<b>.337</b>	<b>.344</b>
<b>1400: FHLMC-DISC NOTE</b>											
313396RPO	FHLMC DISC NTE	01/09/2020	1.860	1.875	40,000,000.00	39,749,530.00	99.486000	39,794,400.00	44,870.00	.271	.277
			<b>1.860</b>	<b>1.875</b>	<b>40,000,000.00</b>	<b>39,749,530.00</b>	<b>99.486000</b>	<b>39,794,400.00</b>	<b>44,870.00</b>	<b>.271</b>	<b>.277</b>
<b>1420: FHLMC-Fxd-Q 30/360</b>											
3134GTF5	FHLMC 1YrNc9MoE	04/08/2020	2.460	2.475	25,000,000.00	24,996,250.00	100.140000	25,035,000.00	38,750.00	.514	.523
			<b>2.460</b>	<b>2.475</b>	<b>25,000,000.00</b>	<b>24,996,250.00</b>	<b>100.140000</b>	<b>25,035,000.00</b>	<b>38,750.00</b>	<b>.514</b>	<b>.523</b>
<b>1425: FHLMC-Fxd-S 30/360</b>											
3134G8TG4	FHLMC 3.5YrNc6MoE	10/11/2019	1.500	1.500	15,000,000.00	15,000,000.00	99.981000	14,997,150.00	-2,850.00	.030	.030
3134GABZ6	FHLMC 3.5YrNc1YrE	02/25/2020	1.250	1.250	10,000,000.00	10,000,000.00	99.738000	9,973,800.00	-26,200.00	.403	.405
3134GAVF8	FHLMC 3.5YrNc1YrE	05/08/2020	1.200	1.200	15,000,000.00	15,000,000.00	99.593000	14,938,950.00	-61,050.00	.599	.605
3134GAXZ2	FHLMC 4YrNc6MoE	11/25/2020	1.370	1.370	25,000,000.00	25,000,000.00	99.501000	24,875,250.00	-124,750.00	1.135	1.156
3134GAYK4	FHLMC 4YrNc1YrE	11/30/2020	1.440	1.440	10,000,000.00	10,000,000.00	99.578000	9,957,800.00	-42,200.00	1.148	1.170
3134GBK35	FHLMC 3YrNc3MoB	09/29/2020	1.800	1.800	15,000,000.00	15,000,000.00	99.874000	14,981,100.00	-18,900.00	.984	1.000
3137EAE5	FHLMC 2.75Yr	01/17/2020	1.500	1.602	25,000,000.00	24,942,750.00	99.878000	24,969,500.00	26,750.00	.296	.299
3134GBTX0	FHLMC 2.75YrNc2MoB	06/29/2020	1.750	1.780	20,000,000.00	19,983,860.00	99.827000	19,965,400.00	-18,460.00	.736	.748
3134G9W37	FHLMC 2.5YrNc3MoB	08/10/2020	1.450	2.421	10,000,000.00	9,769,000.00	99.665000	9,966,500.00	197,500.00	.847	.863
3134GSMF9	FHLMC 5YrNc3YrE	05/26/2023	3.000	1.500	15,000,000.00	15,000,000.00	101.805000	15,270,750.00	270,750.00	3.404	3.655
3134GSQL2	FHLMC 5YrNc2YrE	06/29/2023	3.100	3.100	5,000,000.00	5,000,000.00	100.971000	5,048,550.00	48,550.00	3.486	3.748
3134GSB53	FHLMC 3YrNc1YrE	10/29/2021	3.100	3.100	5,000,000.00	5,000,000.00	100.097000	5,004,850.00	4,850.00	1.975	2.082
3134GSA96	FHLMC 3YrNc1YrE	11/15/2021	3.150	3.150	10,000,000.00	10,000,000.00	100.153000	10,015,300.00	15,300.00	2.017	2.129
3134GSA96	FHLMC 3YrNc1YrE	11/15/2021	3.150	3.150	5,000,000.00	5,000,000.00	100.153000	5,007,650.00	7,650.00	2.017	2.129
3134GSA96	FHLMC 3YrNc1YrE	11/15/2021	3.150	3.150	5,000,000.00	5,000,000.00	100.153000	5,007,650.00	7,650.00	2.017	2.129
3134GSD44	FHLMC 3YrNc1YrE	11/26/2021	3.150	3.150	25,000,000.00	25,000,000.00	100.196000	25,049,000.00	49,000.00	2.047	2.159
3134GSC45	FHLMC 3YrNc1YrE	11/26/2021	3.160	3.160	10,000,000.00	10,000,000.00	100.201000	10,020,100.00	20,100.00	2.047	2.159
3134GBXV9	FHLMC 1.6YrNc1Yr	07/13/2020	1.850	2.870	15,000,000.00	14,758,950.00	99.953000	14,992,950.00	234,000.00	.770	.786
3134GTCF6	FHLMC 3.5YrNc6MoQ	10/17/2022	2.625	2.625	25,000,000.00	25,000,000.00	100.025000	25,006,250.00	6,250.00	2.876	3.049
3134GTHV8	FHLMC 5YrNc6MoE	04/22/2024	2.570	2.570	15,000,000.00	15,000,000.00	100.037000	15,005,550.00	5,550.00	4.231	4.564
3134GTHH9	FHLMC 2.75YrNc9MoE	01/24/2022	2.500	2.500	5,000,000.00	5,000,000.00	100.196000	5,009,800.00	9,800.00	2.240	2.321
3134GTEB5	FHLMC 5YrNc1YrE	04/24/2024	2.625	2.625	15,000,000.00	15,000,000.00	100.407000	15,061,050.00	61,050.00	4.230	4.570
3134GTGX5	FHLMC 5YrNc1YrE	04/24/2024	2.610	2.610	15,000,000.00	15,000,000.00	100.383000	15,057,450.00	57,450.00	4.231	4.570
3134GTGX5	FHLMC 5YrNc1YrE	04/24/2024	2.610	2.610	15,000,000.00	15,000,000.00	100.383000	15,057,450.00	57,450.00	4.231	4.570
3134GTKG7	FHLMC 5YrNc2YrB	05/03/2024	2.600	2.600	10,000,000.00	10,000,000.00	101.221000	10,122,100.00	122,100.00	4.257	4.595
3134GTSF1	FHLMC 3YrNc1YrE	06/10/2022	2.400	2.400	5,000,000.00	5,000,000.00	100.273000	5,013,650.00	13,650.00	2.576	2.696
3134GTTX1	FHLMC 5YrNc6MoE	06/20/2024	2.250	2.250	15,000,000.00	15,000,000.00	100.056000	15,008,400.00	8,400.00	4.429	4.726
3134GTYT4	FHLMC 1YrNc1YrE	07/01/2024	2.125	2.125	15,000,000.00	15,000,000.00	100.192000	15,028,800.00	28,800.00	4.475	4.756
3134GTYT4	FHLMC 1YrNc1YrE	07/01/2024	2.125	2.125	15,000,000.00	15,000,000.00	100.192000	15,028,800.00	28,800.00	4.475	4.756
3134GTY56	FHLMC 3YrNc1YrE	07/01/2022	2.000	2.000	15,000,000.00	15,000,000.00	100.180000	15,027,000.00	27,000.00	2.653	2.753
3134GTYP2	FHLMC 2.75YrNc9MoE	04/01/2022	2.000	2.000	15,000,000.00	15,000,000.00	100.045000	15,006,750.00	6,750.00	2.417	2.504
3134GTYT4	FHLMC 5YrNc1YrE	07/01/20									

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
3134G5H2	FHLMC 2YrNc6MoO	09/09/2021	1.860	1.860	25,000,000.00	25,000,000.00	99.994000	24,998,500.00	-1,500.00	1.897	1.945
3134G6N8	FHLMC 5YrNc6MoQ	09/12/2024	2.125	2.125	25,000,000.00	25,000,000.00	99.902000	24,975,500.00	-24,500.00	4.670	4.956
3134G5P4	FHLMC 3YrNc4MoO	09/13/2022	1.860	1.860	50,000,000.00	50,000,000.00	99.472000	49,736,000.00	-264,000.00	2.858	2.956
			<b>2.150</b>	<b>2.190</b>	<b>768,000,000.00</b>	<b>767,439,640.00</b>	<b>100.016809</b>	<b>768,129,090.00</b>	<b>689,450.00</b>	<b>2.569</b>	<b>2.710</b>
<b>1465: FHLMC-STEP%-S30/360</b>											
3134G7S77	FHLMC 5YrNc6MoB	10/29/2020	2.000	2.000	15,000,000.00	15,000,000.00	99.993000	14,998,950.00	-1,050.00	1.062	1.082
3134G8KU2	FHLMC 5YrNc6MoB	02/26/2021	2.000	2.000	10,000,000.00	10,000,000.00	99.977000	9,997,700.00	-2,300.00	1.382	1.411
3134G9JX6	FHLMC 5YrNc3MoB	06/09/2021	1.750	1.750	15,000,000.00	15,000,000.00	99.769000	14,965,350.00	-34,650.00	1.653	1.693
3134G9JW8	FHLMC 5YrNc3MoB	05/25/2021	1.625	1.625	20,000,000.00	20,000,000.00	99.798000	19,959,600.00	-40,400.00	1.617	1.652
3134G9NU7	FHLMC 5YrNc3MoB	06/16/2021	2.000	2.010	15,000,000.00	14,997,000.00	100.027000	15,004,050.00	7,050.00	1.672	1.712
3134G9UM7	FHLMC 5YrNc3MoB	06/30/2021	1.625	1.625	15,000,000.00	15,000,000.00	99.815000	14,972,250.00	-27,750.00	1.714	1.751
3134G9VA2	FHLMC 5YrNc6MoB	06/30/2021	1.700	1.700	15,000,000.00	15,000,000.00	99.943000	14,991,450.00	-8,550.00	1.716	1.751
3134G9UX3	FHLMC 5YrNc3MoB	06/30/2021	2.000	2.000	10,000,000.00	10,000,000.00	99.940000	9,994,000.00	-6,000.00	1.711	1.751
3134G9XA0	FHLMC 5YrNc6MoB	07/13/2021	2.000	2.000	15,000,000.00	15,000,000.00	100.009000	15,001,350.00	1,350.00	1.750	1.786
3134G9S40	FHLMC 4YrNc6MoB	07/27/2020	1.750	1.750	15,000,000.00	15,000,000.00	99.887000	14,983,050.00	-16,950.00	.815	.825
3134G9R66	FHLMC 5YrNc3MoB	08/10/2021	1.500	1.500	15,000,000.00	15,000,000.00	99.599000	14,939,850.00	-60,150.00	1.829	1.863
3134G9S57	FHLMC 4YrNc6MoB	08/10/2020	1.750	1.750	15,000,000.00	15,000,000.00	99.817000	14,972,550.00	-27,450.00	.851	.863
3134G9T23	FHLMC 5YrNc3MoB	08/10/2021	1.750	1.750	10,000,000.00	10,000,000.00	99.894000	9,989,400.00	-10,600.00	1.826	1.863
3134G9U47	FHLMC 5YrNc3MoB	08/25/2021	1.625	1.625	15,000,000.00	15,000,000.00	99.795000	14,969,250.00	-30,750.00	1.865	1.904
3134G9S53	FHLMC 5YrNc3MoB	08/25/2021	1.500	1.500	10,000,000.00	10,000,000.00	99.757000	9,975,700.00	-24,300.00	1.867	1.904
3134G96A0	FHLMC 5YrNc3MoB	08/25/2021	1.625	1.625	15,000,000.00	15,000,000.00	99.699000	14,954,850.00	-45,150.00	1.867	1.904
3134GAEB6	FHLMC 4.25YrNc3MoB	12/08/2020	1.750	1.750	20,000,000.00	20,000,000.00	99.801000	19,960,200.00	-39,800.00	1.169	1.192
3134GAEG5	FHLMC 5YrNc6MoB	08/24/2021	2.000	2.000	20,000,000.00	20,000,000.00	100.013000	20,002,600.00	2,600.00	1.863	1.901
3134GADP6	FHLMC 5YrNc3MoB	09/13/2021	1.625	1.625	16,500,000.00	16,500,000.00	99.773000	16,462,545.00	-37,455.00	1.915	1.956
3134GAEI7	FHLMC 5YrNc3MoB	09/30/2021	1.625	1.625	20,000,000.00	20,000,000.00	99.716000	19,943,200.00	-56,800.00	1.962	2.003
3134GAKY9	FHLMC 5YrNc3MoB	09/30/2021	1.750	1.750	15,000,000.00	15,000,000.00	99.892000	14,983,800.00	-16,200.00	1.961	2.003
3134GANB6	FHLMC 5YrNc6MoB	09/30/2021	1.750	1.750	15,000,000.00	15,000,000.00	99.905000	14,985,750.00	-14,250.00	1.963	2.003
3134GAPM0	FHLMC 5YrNc3MoB	10/25/2021	1.500	1.500	10,000,000.00	10,000,000.00	99.778000	9,977,800.00	-22,200.00	2.020	2.071
3134GAPM0	FHLMC 5YrNc3MoB	10/25/2021	1.500	1.500	6,705,000.00	6,705,000.00	99.778000	6,690,114.90	-14,885.10	2.020	2.071
3134GAPA6	FHLMC 5YrNc3MoB	10/27/2020	1.500	1.500	10,000,000.00	10,000,000.00	99.964000	9,996,400.00	-3,600.00	1.058	1.077
3134GAQV9	FHLMC 5YrNc6MoB	10/27/2021	1.400	1.400	15,000,000.00	15,000,000.00	99.635000	14,945,250.00	-54,750.00	2.026	2.077
3134GAQV9	FHLMC 5YrNc6MoB	10/27/2021	1.400	1.400	15,000,000.00	15,000,000.00	99.635000	14,945,250.00	-54,750.00	2.026	2.077
3134GARL0	FHLMC 5YrNc6MoB	10/28/2021	1.500	1.500	10,000,000.00	10,000,000.00	99.925000	9,992,500.00	-7,500.00	2.032	2.079
3134GASF2	FHLMC 5YrNc3MoB	10/27/2021	1.500	1.500	15,000,000.00	15,000,000.00	99.669000	14,950,350.00	-49,650.00	2.023	2.077
3134GASF2	FHLMC 5YrNc3MoB	10/27/2021	1.500	1.500	15,000,000.00	15,000,000.00	99.669000	14,950,350.00	-49,650.00	2.023	2.077
3134GATA2	FHLMC 5YrNc3MoB	10/27/2021	1.500	1.500	10,000,000.00	10,000,000.00	99.867000	9,986,700.00	-13,300.00	2.025	2.077
3134GATB0	FHLMC 5YrNc3MoB	11/10/2021	1.550	1.550	17,000,000.00	17,000,000.00	99.608000	16,933,360.00	-66,640.00	2.057	2.115
3134GATA2	FHLMC 5YrNc3MoB	10/27/2021	1.500	1.500	14,000,000.00	14,000,000.00	99.867000	13,981,380.00	-18,620.00	2.025	2.077
3134GAUA0	FHLMC 5YrNc3MoB	11/30/2021	1.500	1.500	4,500,000.00	4,500,000.00	99.409000	4,473,405.00	-26,595.00	2.114	2.170
3134GAYF5	FHLMC 5YrNc3MoB	11/26/2021	1.550	1.550	20,000,000.00	20,000,000.00	99.596000	19,919,200.00	-80,800.00	2.101	2.159
3134GAYG3	FHLMC 5YrNc3MoB	12/09/2021	1.750	1.750	10,000,000.00	10,000,000.00	99.966000	9,996,600.00	-3,400.00	2.136	2.195
3134GAYR9	FHLMC 5YrNc3MoB	12/09/2021	1.650	1.650	20,000,000.00	20,000,000.00	100.010000	20,002,000.00	2,000.00	2.133	2.195
3134GAA87	FHLMC 5YrNc3MoB	12/30/2021	1.900	1.900	10,000,000.00	10,000,000.00	99.987000	9,998,700.00	-1,300.00	2.183	2.252
3134GAA87	FHLMC 5YrNc3MoB	12/30/2021	1.900	1.900	10,000,000.00	10,000,000.00	99.987000	9,998,700.00	-1,300.00	2.183	2.252
3134G7S77	FHLMC 3.5Yr	10/29/2020	2.000	2.153	7,125,000.00	7,108,968.75	99.993000	7,124,501.25	15,532.50	1.061	1.082
3134GBHN5	FHLMC 3YrNc3MoB	04/27/2020	2.000	2.000	10,000,000.00	10,000,000.00	99.986000	9,998,600.00	-1,400.00	.566	.575
3134GBKC5	FHLMC 3YrNc3MoB	04/27/2020	2.000	2.000	20,000,000.00	20,000,000.00	99.931000	19,986,200.00	-13,800.00	.566	.575
3134GBMP4	FHLMC 3YrNc3MoB	05/22/2020	2.000	2.000	10,000,000.00	10,000,000.00	100.008000	10,000,800.00	800.00	.634	.644
3134GBPJ5	FHLMC 3YrNc6MoB	05/22/2020	1.900	1.900	20,000,000.00	20,000,000.00	99.994000	19,998,800.00	-1,200.00	.634	.644
3134GBSE3	FHLMC 4YrNc6MoB	02/24/2021	1.875	1.875	15,000,000.00	15,000,000.00	100.027000	15,004,050.00	4,050.00	1.375	1.405
3134GBSD5	FHLMC 3YrNc6MoB	11/24/2020	1.875	1.875	15,000,000.00	15,000,000.00	100.000000	15,000,000.00	0.00	1.128	1.153
3134GBTD4	FHLMC 5YrNc3MoB	06/29/2022	2.050	2.050	20,000,000.00	20,000,000.00	100.080000	20,016,000.00	16,000.00	2.645	2.748
3134GBTE2	FHLMC 5YrNc6MoB	06/22/2022	2.000	2.000	15,000,000.00	15,000,000.00	100.032000	15,004,800.00	4,800.00	2.628	2.729
3134GBYK2	FHLMC 5YrNc3MoB	07/05/2022	2.000	2.000	20,000,000.00	20,000,000.00	100.003000	20,000,600.00	600.00	2.664	2.764
3134GBWD0	FHLMC 3.5YrNc3MoB	01/20/2021	2.000	2.000	10,000,000.00	10,000,000.00	100.015000	10,001,500.00	1,500.00	1.282	1.310
3134GBWS7	FHLMC 5YrNc3MoB	07/27/2022	2.050	2.050	20,000,000.00	20,000,000.00	100.016000	20,003,200.00	3,200.00	2.722	2.825
3134GBYN6	FHLMC 5YrNc3MoB	07/27/2022	2.100	2.100	20,000,000.00	20,000,000.00	100.027000	20,005,400.00	5,400.00	2.720	2.825
3134G92T3	FHLMC 5YrNc3MoB	08/08/2023	1.500	2.399	5,000,000.00	4,790,170.00	99.193000	4,959,650.00	169,480.00	3.706	3.858
3134GBZQ8	FHLMC 5YrNc2MoB	07/27/2022	2.250	2.732	3,000,000.00	2,946,600.00	100.023000	3,000,690.00	54,090.00	2.705	2.825
			<b>1.763</b>	<b>1.773</b>	<b>753,830,000.00</b>	<b>753,547,738.75</b>	<b>99.870037</b>	<b>752,850,296.15</b>	<b>-697,442.60</b>	<b>1.786</b>	<b>1.833</b>
<b>1525: FNMA-Fxd-S 30/360</b>											
3136G3RL1	FNMA 3.5YrNc6MoB	12/16/2019	1.500	1.500	5,000,000.00	5,000,000.00	99.936000	4,996,800.00	-3,200.00	.209	.211
3136G3WC5	FNMA 4YrNc6MoE	07/13/2020	1.350	1.350	10,000,000.00	10,000,000.00	99.564000	9,956,400.00	-43,600.00	.778	.786
3135G0R39	FNMA 3Yr	10/24/2019	1.000	1.091	10,000,000.00	9,973,200.00	99.940000	9,994,000.00	20,800.00	.065	.066
3136G4GU1	FNMA 3YrNc6MoB	11/25/2019	1.400	1.400	10,000,000.00	10,000,000.00	99.907000	9,990,700.00	-9,300.00	.152	.153
3135G0T60	FNMA 3Yr	07/30/2020	1.500	1.604	10,000,000.00	9,969,700.00	99.728000	9,972,800.00	3,100.00	.823	.833
3135G0S46	FNMA 2.16Yr2MoB	01/27/2020	1.650	1.800	5,000,000.00	4,983,850.00	99.889000	4,994,450.00	10,600.00	.323	.326
3135G0A78	FNMA 2Yr	01/21/2020	1.625	1.911	15,000,000.00	14,910,900.00	99.913000	14,986,95			

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
			1.975	1.983	260,000,000.00	258,881,112.70	99.712962	259,253,700.00	372,587.30	.152	.155
<b>1725: FHBL-Fxd-S 30/360</b>											
3130A7PV1	FHBL 5Yr	04/05/2021	1.375	1.390	5,000,000.00	4,996,350.00	99.462000	4,973,100.00	-23,250.00	1.483	1.515
3130A7PU3	FHBL 4Yr	04/06/2020	1.200	1.210	10,000,000.00	9,996,000.00	99.677000	9,967,700.00	-28,300.00	.511	.518
3130ABYZ3	FHBL 2.5YrNc9MoE	05/22/2020	1.600	1.600	5,000,000.00	5,000,000.00	99.849000	4,992,450.00	-7,550.00	.635	.644
3130AC2C7	FHBL 3YrNc1YrE	08/28/2020	2.000	1.790	10,000,000.00	10,061,000.00	100.162000	10,016,200.00	-44,800.00	.904	.912
3130ABZE9	FHBL 3YrNc1YrE	08/28/2020	1.650	1.650	5,000,000.00	5,000,000.00	99.849000	4,992,450.00	-7,550.00	.905	.912
3130ABY34	FHBL 2.5Yr	05/29/2020	1.613	1.813	10,000,000.00	9,950,500.00	99.853000	9,985,300.00	34,800.00	.654	.663
3130ACBD5	FHBL 2.58YrNc1MoB	06/29/2020	1.650	1.861	5,350,000.00	5,321,270.50	99.942000	5,346,897.00	25,626.50	.736	.748
313379Q69	FHBL 4.5 Yr	06/10/2022	2.125	2.182	7,975,000.00	7,955,620.75	101.267000	8,076,043.25	120,422.50	2.588	2.696
3130ADFV7	FHBL 3Yr	01/25/2021	2.200	2.212	15,000,000.00	14,994,900.00	100.551000	15,082,650.00	87,750.00	1.289	1.323
3130A0XD7	FHBL 3Yr	03/12/2021	2.375	2.484	10,000,000.00	9,968,000.00	100.852000	10,085,200.00	117,200.00	1.415	1.449
3130A0XD7	FHBL 3Yr	03/12/2021	2.375	2.489	10,000,000.00	9,966,500.00	100.852000	10,085,200.00	118,700.00	1.415	1.449
313378WG2	FHBL 4.08Yr	03/11/2022	2.500	2.619	10,000,000.00	9,954,700.00	102.060000	10,206,000.00	251,300.00	2.355	2.447
313382AX1	FHBL 4.9Yr	03/10/2023	2.125	2.716	11,750,000.00	11,432,397.50	101.745000	11,955,037.50	522,640.00	3.290	3.444
3130AE6U9	FHBL 3Yr	05/07/2021	2.700	2.725	7,650,000.00	7,644,492.00	101.612000	7,773,318.00	128,826.00	1.542	1.603
3130AE6U9	FHBL 3Yr	05/07/2021	2.700	2.703	10,000,000.00	9,999,100.00	101.612000	10,161,200.00	162,100.00	1.542	1.603
3130A9M40	FHBL 4.17Yr	09/29/2022	1.650	2.929	15,730,000.00	14,940,354.00	99.184000	15,601,643.20	661,289.20	2.893	3.000
3130ABR54	FHBL 4.9YrNc1Mo	07/28/2023	1.800	2.965	3,700,000.00	3,504,196.00	99.532000	3,682,684.00	178,488.00	3.648	3.827
3130AFCU9	FHBL 3YrNc1YrE	11/26/2021	3.125	3.150	10,000,000.00	9,992,900.00	100.161000	10,016,100.00	23,200.00	2.048	2.159
3130A8CK7	FHBL 4.5Yr	06/09/2023	2.050	3.147	10,000,000.00	9,540,100.00	100.001000	10,000,100.00	460,000.00	3.494	3.693
3130ADUJ9	FHBL 11Mo	03/30/2020	2.375	2.429	47,210,000.00	47,186,395.00	100.252000	47,328,969.20	142,574.20	.492	.499
313378WG2	FHBL 2.91Yr	03/11/2022	2.500	2.308	30,000,000.00	30,158,100.00	102.060000	30,618,000.00	459,900.00	2.359	2.447
3130AGT70	FHBL 1YrNc3MoB	07/29/2020	2.200	2.200	25,000,000.00	25,000,000.00	99.958000	24,989,500.00	-10,500.00	.816	.830
3130AGUE3	FHBL 1YrNc3MoQ	08/05/2020	2.200	2.200	25,000,000.00	25,000,000.00	100.060000	25,001,500.00	1,500.00	.833	.849
3130AGWF8	FHBL 1YrNc3MoQ	08/14/2020	2.060	2.060	25,000,000.00	25,000,000.00	100.004000	25,001,000.00	1,000.00	.858	.874
3130AGWJ0	FHBL 1.08YrNc3MoQ	09/11/2020	2.100	2.100	25,000,000.00	25,000,000.00	100.003000	25,000,750.00	750.00	.932	.951
3130AGZE8	FHBL 1.4YrNc3MoQ	02/26/2021	2.050	2.050	25,000,000.00	25,000,000.00	99.773000	24,943,250.00	-56,750.00	1.377	1.411
3130AH2K8	FHBL 1YrNc3MoQ	09/10/2020	2.050	2.060	25,000,000.00	24,997,500.00	100.002000	25,000,500.00	3,000.00	.930	.948
3130AGZ57	FHBL 2.16YrNc2MoB	11/26/2021	2.125	2.135	25,000,000.00	24,995,000.00	99.954000	24,988,500.00	-6,500.00	2.108	2.159
3130AHSD1	FHBL 2YrNc6MoB	09/23/2021	2.050	2.050	25,000,000.00	25,000,000.00	100.020000	25,005,000.00	5,000.00	1.931	1.984
3130AGYJ8	FHBL 2.9YrNc5MoB	08/26/2022	2.000	2.021	25,000,000.00	24,985,000.00	99.978000	24,994,500.00	9,500.00	2.805	2.907
			2.145	2.243	474,365,000.00	472,540,375.75	100.317423	475,870,742.15	3,330,366.40	1.521	1.569
<b>1765: FHBL-STEP%-S 30/360</b>											
3130A9DH1	FHBL 5YrNc3MoB	09/30/2021	2.000	2.000	15,000,000.00	15,000,000.00	100.004000	15,000,600.00	600.00	1.960	2.003
3130A9DA6	FHBL 5YrNc3MoB	09/30/2021	2.000	2.000	15,000,000.00	15,000,000.00	99.999000	14,999,850.00	-150.00	1.960	2.003
3130AA2T4	FHBL 5YrNc6MoB	12/09/2021	1.600	1.600	10,000,000.00	10,000,000.00	99.821000	9,982,100.00	-17,900.00	2.135	2.195
3130AA2T4	FHBL 5YrNc6MoB	12/09/2021	1.600	1.600	10,000,000.00	10,000,000.00	99.821000	9,982,100.00	-17,900.00	2.135	2.195
3130AA5A2	FHBL 5YrNc1YrB	12/08/2021	1.700	1.700	15,000,000.00	15,000,000.00	99.993000	14,998,950.00	-1,050.00	2.129	2.192
3130ABGV1	FHBL 5YrNc6MoB	07/26/2022	2.000	2.000	15,000,000.00	15,000,000.00	100.019000	15,002,850.00	2,850.00	2.722	2.822
3130ABVZ6	FHBL 5YrNc6MoB	02/09/2022	2.000	2.000	20,000,000.00	20,000,000.00	100.043000	20,008,600.00	8,600.00	2.292	2.364
3130ABZW9	FHBL 5YrNc3MoB	08/24/2022	2.000	2.000	10,000,000.00	10,000,000.00	100.024000	10,002,400.00	2,400.00	2.799	2.901
3130AC6H2	FHBL 5YrNc3MoB	08/24/2022	2.000	2.000	15,000,000.00	15,000,000.00	100.025000	15,003,750.00	3,750.00	2.799	2.901
3130AC4T8	FHBL 5YrNc3MoB	05/24/2022	2.000	2.000	20,000,000.00	20,000,000.00	100.061000	20,012,200.00	12,200.00	2.558	2.649
3130A9TV3	FHBL 3.4YrNc2MoB	11/08/2021	1.500	2.799	10,000,000.00	9,690,500.00	99.852000	9,985,200.00	294,700.00	2.048	2.110
3130AA5Y0	FHBL 4.16YrNc2MoB	11/25/2022	1.750	2.436	5,100,000.00	4,967,400.00	99.832000	5,091,432.00	124,032.00	3.043	3.156
			1.883	1.972	160,100,000.00	159,657,900.00	99.981282	160,070,032.00	412,132.00	2.356	2.431
<b>1767: FHBL-Var-M A/360</b>											
3130A9FU0	FHBL 4Yr	09/22/2020	2.196	2.196	10,000,000.00	10,000,000.00	100.124000	10,012,400.00	12,400.00	.973	.981
3130A9FM8	FHBL 4Yr	09/22/2020	2.196	2.196	15,000,000.00	15,000,000.00	100.124000	15,018,600.00	18,600.00	.973	.981
3130A9FR7	FHBL 4Yr	09/28/2020	2.194	2.194	10,000,000.00	10,000,000.00	100.121000	10,012,100.00	12,100.00	.995	.997
3130A9FR7	FHBL 4Yr	09/28/2020	2.194	2.194	15,000,000.00	15,000,000.00	100.121000	15,018,150.00	18,150.00	.995	.997
			2.195	2.195	50,000,000.00	50,000,000.00	100.122500	50,061,250.00	61,250.00	.984	.989
<b>1770: FHBL-Var-Q A/360</b>											
3130A8NF6	FHBL 3Yr	07/01/2020	2.444	2.444	25,000,000.00	25,000,000.00	100.196000	25,049,000.00	49,000.00	.745	.753
			2.444	2.444	25,000,000.00	25,000,000.00	100.196000	25,049,000.00	49,000.00	.745	.753
<b>1900: FFCB-DISC NOTE</b>											
313312R19	FFCB DISC NTE	01/13/2020	1.850	1.862	50,000,000.00	49,676,250.00	99.466000	49,733,000.00	56,750.00	.282	.288
			1.850	1.862	50,000,000.00	49,676,250.00	99.466000	49,733,000.00	56,750.00	.282	.288
<b>1925: FFCB-Fxd-S 30/360</b>											
3133EF5D5	FFCB 4YrNc1YrA	04/27/2020	1.420	1.420	7,700,000.00	7,700,000.00	99.770000	7,682,290.00	-17,710.00	.567	.575
3133EGSA4	FFCB 4YrNc1YrA	08/24/2020	1.320	1.320	10,000,000.00	10,000,000.00	99.569000	9,956,900.00	-43,100.00	.891	.901
3133EGVK8	FFCB 4YrNc1YrA	09/21/2020	1.350	1.350	10,000,000.00	10,000,000.00	99.566000	9,956,600.00	-43,400.00	.965	.978
3133EGX88	FFCB 4YrNc1YrA	10/13/2020	1.340	1.340	15,000,000.00	15,000,000.00	99.551000	14,932,650.00	-67,350.00	1.019	1.038
3133EGC94	FFCB 4YrNc3MoA	11/02/2020	1.380	1.380	10,000,000.00	10,000,000.00	99.266000	9,926,600.00	-73,400.00	1.071	1.093
3133EGR49	FFCB 4YrNc1YrA	12/07/2020	1.770	1.770	10,000,000.00	10,000,000.00	99.978000	9,997,800.00	-2,200.00	1.163	1.189
3133EHAJ2	FFCB 3YrNc1YrE	02/27/2020	1.710	1.710	10,000,000.00	10,000,000.00	99.956000	9,995,600.00	-4,400.00	.407	.411
3133EHRK1	FFCB 2.5Yr	01/17/2020	1.520	1.520	10,000,000.00	10,000,000.00	99.907000	9,990,700.00	-9,300.00	.296	.299
3133EHUL5	FFCB 3Yr	08/10/2020	1.550	1.550	5,000,000.00	5,000,000.00	99.780000	4,989,000.00	-11,000.00	.851	.863
3133EHZN6	FFCB 3Yr	03/20/2020	1.450	1.511	20,000,000.00	19,970,400.00	99.826000	19,965,200.00	-5,200.00	.467	.471
3133EHJ95	FFCB 3Yr	10/26/2020	1.750	1.760	20,000,000.00	19,994,000.00	99.889000	19,977,800.00	-16,200.00	1.050	1.074
3133EHP98	FFCB 2Yr	11/06/2019	1.600	1.667	25,000,000.00	24,967,247.50	99.979000	24,994,750.00	27,502.50	.100	.101
3133EH6X6	FFCB 4Yr	01/12/2022	2.200	2.365	10,000,000.00	9,938,000.00	101.149000	10,114,900.00	176,900.00	2.203	2.288

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
3133EKM94	FFCB 4YrNc1YrA	09/11/2023	1.900	1.900	10,000,000.00	10,000,000.00	99.867000	9,986,700.00	-13,300.00	3.782	3.951
			<b>2.027</b>	<b>2.137</b>	<b>417,715,000.00</b>	<b>416,047,282.10</b>	<b>100.297982</b>	<b>418,959,713.70</b>	<b>2,912,431.60</b>	<b>1.752</b>	<b>1.833</b>
<b>1930: FFCB-Var-M A/360</b>											
3133EDXQ0	FFCB 5Yr	10/10/2019	2.119	2.119	15,000,000.00	15,000,000.00	100.006000	15,000,900.00	900.00	.027	.027
3133EDXQ0	FFCB 5Yr	10/10/2019	2.119	2.119	25,000,000.00	25,000,000.00	100.006000	25,001,500.00	1,500.00	.027	.027
3133EDXQ0	FFCB 5Yr	10/10/2019	2.119	2.412	10,000,000.00	9,997,560.00	100.006000	10,000,600.00	3,040.00	.027	.027
3133EF156	FFCB 4Yr	04/01/2020	2.335	2.335	25,000,000.00	25,000,000.00	100.082000	25,020,500.00	20,500.00	.501	.504
3133EF229	FFCB 4Yr	04/13/2020	2.281	2.281	50,000,000.00	50,000,000.00	100.092000	50,046,000.00	46,000.00	.534	.537
3133EGCE3	FFCB 5Yr	05/25/2021	2.288	2.288	10,000,000.00	10,000,000.00	100.348000	10,034,800.00	34,800.00	1.640	1.652
3133EGCE3	FFCB 5Yr	05/25/2021	2.288	2.288	10,000,000.00	10,000,000.00	100.348000	10,034,800.00	34,800.00	1.640	1.652
3133EGYA7	FFCB 3Yr	10/11/2019	2.230	2.230	15,000,000.00	15,000,000.00	100.008000	15,001,200.00	1,200.00	.030	.030
3133EGZ57	FFCB 3Yr	10/24/2019	2.217	2.217	15,000,000.00	15,000,000.00	100.021000	15,003,150.00	3,150.00	.066	.066
3133EGF67	FFCB 3Yr	11/14/2019	2.198	2.198	15,000,000.00	15,000,000.00	100.035000	15,005,250.00	5,250.00	.122	.123
3133EGF67	FFCB 3Yr	11/14/2019	2.198	2.198	15,000,000.00	15,000,000.00	100.035000	15,005,250.00	5,250.00	.122	.123
3133EG4C6	FFCB 3.9Yr	01/18/2022	2.281	1.874	15,000,000.00	15,139,095.00	100.162000	15,024,300.00	-114,795.00	2.248	2.304
3133EJG1	FFCB 5Yr	02/21/2023	2.116	2.116	15,000,000.00	15,000,000.00	99.473000	14,920,950.00	-79,050.00	3.290	3.397
3133EJJE0	FFCB 3.5Yr	10/04/2021	2.107	2.107	15,000,000.00	15,000,000.00	99.830000	14,974,500.00	-25,500.00	1.967	2.014
			<b>2.217</b>	<b>2.205</b>	<b>250,000,000.00</b>	<b>250,136,655.00</b>	<b>100.029480</b>	<b>250,073,700.00</b>	<b>-62,955.00</b>	<b>.764</b>	<b>.778</b>
<b>1936: FFCB-Var-SOFR-Q A/360</b>											
3133EKT63	FFCB 2Yr	09/24/2021	1.960	1.960	15,000,000.00	15,000,000.00	100.020000	15,003,000.00	3,000.00	1.939	1.986
			<b>1.960</b>	<b>1.960</b>	<b>15,000,000.00</b>	<b>15,000,000.00</b>	<b>100.020000</b>	<b>15,003,000.00</b>	<b>3,000.00</b>	<b>1.939</b>	<b>1.986</b>
<b>1950: FMAC-Fxd-S 30/360</b>											
3132XOC74	FAMCA 2.08Yr	02/03/2020	1.970	1.970	15,000,000.00	15,000,000.00	99.988000	14,998,200.00	-1,800.00	.342	.345
3132XO2Y6	FAMCA 1.58Yr	01/02/2020	2.530	2.530	20,000,000.00	20,000,000.00	100.126000	20,025,200.00	25,200.00	.254	.258
3132X03B5	FAMCA 4.9Yr	06/30/2023	2.850	2.964	10,000,000.00	9,947,900.00	104.077000	10,407,700.00	459,800.00	3.506	3.751
3132X04F5	FAMCA 2.91Yr	07/23/2021	2.840	2.864	10,000,000.00	9,993,300.00	101.793000	10,179,300.00	186,000.00	1.747	1.814
31422BBR0	FAMCA 1.16Yr	03/16/2020	2.640	2.640	15,000,000.00	15,000,000.00	100.299000	15,044,850.00	44,850.00	.454	.460
31422BEP1	FAMCA 1.08Yr	05/29/2020	2.430	2.430	25,000,000.00	25,000,000.00	100.300000	25,075,000.00	75,000.00	.650	.663
			<b>2.499</b>	<b>2.516</b>	<b>95,000,000.00</b>	<b>94,941,200.00</b>	<b>100.768684</b>	<b>95,730,250.00</b>	<b>789,050.00</b>	<b>.915</b>	<b>.955</b>
<b>1965: FMAC-Var-M A/360</b>											
3132XOAT8	FAMCA 2.5 Yr	06/02/2020	2.240	1.899	25,000,000.00	25,063,500.00	100.003000	25,000,750.00	-62,750.00	.668	.674
3132XOS77	FAMCA 3Yr	04/23/2021	2.068	2.068	25,000,000.00	25,000,000.00	99.966000	24,991,500.00	-8,500.00	1.538	1.564
3132XOU90	FAMCA 3Yr	05/10/2021	2.069	2.069	10,000,000.00	10,000,000.00	99.911000	9,991,100.00	-8,900.00	1.583	1.611
			<b>2.140</b>	<b>1.998</b>	<b>60,000,000.00</b>	<b>60,063,500.00</b>	<b>99.972250</b>	<b>59,983,350.00</b>	<b>-80,150.00</b>	<b>1.183</b>	<b>1.201</b>
<b>2350: MUNIS-S 30/360</b>											
882723A33	TEXAS STATE	10/01/2019	1.497	1.497	5,000,000.00	5,000,000.00	100.000000	5,000,000.00	0.00	.003	.003
419792JH0	HAWAII STATE	04/01/2020	1.660	1.660	5,055,000.00	5,055,000.00	100.000000	5,055,000.00	0.00	.495	.504
76222RUM2	RHODE ISLAND STATE	05/01/2020	1.625	1.520	2,660,000.00	2,670,719.80	100.403000	2,670,719.80	0.00	.578	.586
3733845L6	GEORGIA STATE	07/01/2020	3.000	1.370	6,825,000.00	7,254,770.25	106.297000	7,254,770.25	0.00	.740	.753
419792NE2	HAWAII STATE	10/01/2019	1.151	1.101	2,250,000.00	2,253,262.50	100.145000	2,253,262.50	0.00	.003	.003
419792NF9	HAWAII STATE	10/01/2020	1.370	1.319	2,250,000.00	2,254,320.00	100.192000	2,254,320.00	0.00	.986	1.005
13063DAC2	STATE OF CALIFORNIA	04/01/2021	2.625	2.011	14,400,000.00	14,688,720.00	102.005000	14,688,720.00	0.00	1.450	1.504
76222RWT5	RHODE ISLAND ST & PROV PLANT	04/01/2020	2.750	2.451	3,065,000.00	3,082,378.55	100.567000	3,082,378.55	0.00	.490	.504
76222RWU2	RHODE ISLAND ST & PROV PLANT	04/01/2021	2.750	2.551	3,150,000.00	3,167,766.00	100.564000	3,167,766.00	0.00	1.444	1.504
13063DGA0	STATE OF CALIFORNIA	04/01/2021	2.800	2.799	16,000,000.00	16,000,640.00	100.004000	16,000,640.00	0.00	1.442	1.504
13063DAC2	STATE OF CALIFORNIA	04/01/2021	2.625	2.850	1,795,000.00	1,784,301.80	99.404000	1,784,301.80	0.00	1.444	1.504
13063DAD0	STATE OF CALIFORNIA	04/01/2022	2.367	2.960	1,500,000.00	1,468,800.00	97.920000	1,468,800.00	0.00	2.380	2.504
544351MM8	CITY OF LOS ANGELES	09/01/2021	4.000	2.919	8,915,000.00	9,200,993.20	103.208000	9,200,993.20	0.00	1.835	1.923
13063DAD0	STATE OF CALIFORNIA	04/01/2022	2.367	3.120	17,695,000.00	17,256,340.95	97.521000	17,256,340.95	0.00	2.378	2.504
13063DAD0	STATE OF CALIFORNIA	04/01/2022	2.367	3.290	25,000,000.00	24,275,250.00	97.101000	24,275,250.00	0.00	2.376	2.504
13063DGA0	STATE OF CALIFORNIA	04/01/2021	2.800	2.680	10,825,000.00	10,852,170.75	100.251000	10,852,170.75	0.00	1.442	1.504
419792YK6	STATE OF HAWAII	01/01/2021	3.250	2.733	12,745,000.00	12,864,165.75	100.935000	12,864,165.75	0.00	1.217	1.258
419792YL4	STATE OF HAWAII	01/01/2022	2.770	2.770	3,500,000.00	3,500,000.00	100.000000	3,500,000.00	0.00	2.163	2.258
419792YJ9	STATE OF HAWAII	01/01/2020	2.650	2.650	7,500,000.00	7,500,000.00	100.000000	7,500,000.00	0.00	.251	.255
13063CSQ4	STATE OF CALIFORNIA	04/01/2020	1.800	2.501	14,830,000.00	14,729,897.50	99.325000	14,729,897.50	0.00	.492	.504
368079HQ5	GAVILAN CMNTY CLG GO	08/01/2020	2.470	2.470	1,650,000.00	1,650,000.00	100.000000	1,650,000.00	0.00	.820	.838
			<b>2.539</b>	<b>2.583</b>	<b>166,610,000.00</b>	<b>166,509,497.05</b>	<b>99.939678</b>	<b>166,509,497.05</b>	<b>0.00</b>	<b>1.400</b>	<b>1.462</b>
<b>3020: COMMERCIAL PAPER</b>											
16677KY80	CHEVRON	11/08/2019	2.440	2.478	100,000,000.00	98,468,222.22	99.778333	99,778,333.33	1,310,111.11	.104	.107
03785EY65	APPLE	11/06/2019	2.510	2.549	25,000,000.00	24,620,013.89	99.790000	24,947,500.00	327,486.11	.099	.101
03785DAF3	APPLE	01/15/2020	2.430	2.470	30,000,000.00	29,518,050.00	99.387556	29,816,266.67	298,216.67	.286	.293
30229BXP7	EXXON MOBIL	10/23/2019	2.200	2.215	25,000,000.00	24,825,833.25	99.871667	24,967,916.67	142,083.42	.062	.063
63763PA90	NATL SEC CLEARING CORP	01/09/2020	2.100	2.124	25,000,000.00	24,721,458.33	99.422222	24,855,555.56	134,097.23	.271	.277
30229BXP7	EXXON MOBIL	10/23/2019	2.190	2.204	25,000,000.00	24,838,791.67	99.871667	24,967,916.67	129,125.00	.062	.063
03785EX90	APPLE	10/09/2019	2.140	2.151	35,000,000.00	34,827,313.89	99.953333	34,983,666.67	156,352.78	.024	.025
93114FX74	WAL-MART STORES INC	10/07/2019	2.150	2.160	15,000,000.00	14,928,333.33	99.965000	14,994,750.00	66,416.67	.019	.019
30229BHX5	EXXON MOBIL	10/17/2019	2.130	2.139	12,600,000.00	12,545,578.50	99.906667	12,588,240.00	42,661.50	.046	.047
63763QXN2	NATL SEC CLEARING CORP	10/22/2019	2.100	2.110	15,000,000.00	14,931,750.00	99.877500	14,981,625.00	49,875.00	.059	.060
63763QX93	NATL SEC CLEARING CORP	10/09/2019	2.100	2.108	25,000,000.00	24,909,583.33	99.953333	24,988,333.33	78,750.00	.024	.025
63763PAD1	NATL SEC CLEARING CORP	01/13/2020	1.950	1.966	50,000,000.00	49,585,625.00	99.399111	49,699,555.56	113,930.56	.282	.288
63763PAF6	NATL SEC CLEARING CORP	01/15/2020	1.950	1.967	25,000,000.00	24,790,104.17	99.387556	24,846,888.89	56,784.72	.287	.293
03785DAQ9	APPLE	01/24/2020	1.980	1.998	55,000,000.00	54,506,925.00	99.335556	54,634,555.56	127,630.56	.311	.318
63763PAF6	NATL SEC CLEARING CORP	01/15/2020	1.950	1.966	35,000,000.00	34,709,937.50	99.387556	34,785,644.44	75,706.94	.287	.293
63763PAQ2	NATL SEC CLEARING CORP	01/24/2020	1.910	1.925	15,000,000.00	14,879,829.17	99				

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
478160BS2	JOHNSON & JOHNSON	03/01/2021	1.650	2.625	12,969,000.00	12,617,410.41	99.797000	12,942,672.93	325,262.52	1.389	1.419
594918AY0	MICROSOFT CORP	02/12/2020	1.850	2.691	16,880,000.00	16,654,820.80	99.916000	16,865,820.80	211,000.00	.365	.370
931142DY6	WALMART	10/09/2019	1.750	2.824	25,000,000.00	24,752,750.00	99.990000	24,997,500.00	244,750.00	.024	.025
931142DY6	WALMART	10/09/2019	1.750	2.838	22,029,000.00	21,812,234.64	99.990000	22,026,797.10	214,562.46	.024	.025
478160BS2	JOHNSON & JOHNSON	03/01/2021	1.650	3.149	10,295,000.00	9,955,059.10	99.797000	10,274,101.15	319,042.05	1.385	1.419
594918BG8	MICROSOFT CORP	11/03/2020	2.000	2.912	10,100,000.00	9,929,411.00	100.166000	10,116,766.00	187,355.00	1.061	1.096
			<b>1.815</b>	<b>2.648</b>	<b>187,720,000.00</b>	<b>184,951,528.73</b>	<b>99.969179</b>	<b>187,662,143.42</b>	<b>2,710,614.69</b>	<b>.597</b>	<b>.611</b>
	<b>Total Fund</b>		<b>2.003</b>	<b>2.132</b>	<b>6,352,364,944.14</b>	<b>6,333,085,946.48</b>	<b>99.994050</b>	<b>6,351,986,977.01</b>	<b>18,901,030.53</b>	<b>1.062</b>	<b>1.103</b>





The Mission Inn, Downtown Riverside. Digital Image. *The Mission Inn*. <http://www.missioninn.com/about-en.html>.



COUNTY OF RIVERSIDE  
TREASURER-TAX COLLECTOR  
CAPITAL MARKETS

COUNTY ADMINISTRATIVE CENTER  
4080 LEMON STREET,  
4TH FLOOR,  
RIVERSIDE, CA 92502-2205

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