

*In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest evidenced by the Certificates is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest evidenced by the Certificates is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Special Counsel to the District, under existing statutes, interest on the Certificates is exempt from personal income taxes imposed by the State of California. See “Tax Matters” herein.*

**\$46,915,000**  
**CERTIFICATES OF PARTICIPATION**  
**(Los Angeles County Schools Pooled Financing Program)**  
**2021 Series A**  
**(Hacienda La Puente Unified School District)**

**Dated: Date of Delivery**

**Due: June 1, as shown on inside cover.**

The Certificates evidence the proportionate undivided interests of the Owners thereof in the Lease Payments (as defined herein) to be made pursuant to a Lease Agreement (as defined herein) by and between the Los Angeles County Schools Regionalized Business Services Corporation (the “Corporation”) and Hacienda La Puente Unified School District, as Lessee (the “Lessee” or the “District”), and a Trust Agreement, dated as of March 1, 2021, by and among the Corporation, the Lessee and The Bank of New York Mellon Trust Company, N.A., as Trustee (the “Trustee”). The Certificates are being executed and delivered to (i) finance the construction or installation of capital improvement projects and/or equipment, and (ii) pay delivery costs of the Certificates. See “PLAN OF FINANCE.” The Certificates will be delivered in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). Purchasers of the Certificates will not receive certificates representing their interests therein.

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

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

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

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

The scheduled payment of principal of and interest with respect to the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Municipal Corp. See “BOND INSURANCE” herein.



**MATURITY SCHEDULE**  
 On Inside Cover

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

*The Certificates are offered when, as and if executed, delivered and received by the Underwriter set forth below, subject to the approval as to their validity and enforceability by Hawkins Delafield & Wood LLP, Los Angeles, California, Special Counsel to the Corporation, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California. It is anticipated that the Certificates will be available through the facilities of DTC on or about March 16, 2021.*



Capital  
Markets

## MATURITY SCHEDULE

Base CUSIP\* Number: 40450P

<b><u>Maturity (June 1)</u></b>	<b><u>Principal Component</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP* Suffix</u></b>
2021	\$ 250,000	3.000%	0.170%	AX3
2022	1,215,000	3.000	0.180	AY1
2023	1,255,000	3.000	0.270	AZ8
2024	1,290,000	4.000	0.380	BA2
2025	1,340,000	4.000	0.510	BB0
2026	1,395,000	4.000	0.640	BC8
2027	1,450,000	4.000	0.770	BD6
2028	1,510,000	4.000	0.910	BE4
2029	1,570,000	4.000	1.040	BF1
2030	1,635,000	4.000	1.170	BG9
2031	1,700,000	4.000	1.270	BH7
2032	1,765,000	4.000	1.370 <sup>(1)</sup>	BJ3
2033	1,835,000	4.000	1.470 <sup>(1)</sup>	BK0
2034	1,910,000	4.000	1.580 <sup>(1)</sup>	BL8
2035	1,985,000	4.000	1.660 <sup>(1)</sup>	BM6
2036	2,065,000	4.000	1.710 <sup>(1)</sup>	BN4
2037	2,150,000	4.000	1.770 <sup>(1)</sup>	BP9
2038	2,235,000	4.000	1.840 <sup>(1)</sup>	BQ7
2039	2,325,000	4.000	1.900 <sup>(1)</sup>	BR5
2040	2,415,000	4.000	1.940 <sup>(1)</sup>	BS3

**\$13,620,000 - 4.000% Term Certificates due June 1, 2045 Yield 2.160%<sup>(1)</sup> CUSIP\* No. 40450PBT1**

---

\* CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company and are included solely for the convenience of the holders of the Certificates. Neither the District nor the Underwriter or its agents or counsel assume responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Certificates. The Lessee, the Corporation and the Underwriter does not take any responsibility for the accuracy of such CUSIP numbers.

<sup>(1)</sup> Yield to the first optional prepayment date of June 1, 2031.

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

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

The Underwriter have provided the following sentence for inclusion in this Official Statement. The Underwriter have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter do not guarantee the accuracy or completeness of such information.

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

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

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

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

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 “BOND INSURANCE” herein and “APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

**Board of Education**

Jeffrey De La Torre, President  
Dr. Joseph K. Chang, Vice President  
Christine H. Salazar, Clerk  
Anthony Duarte, Member  
Stephanie Serrano, Member

**Administration**

Dr. Alfonso Jimenez, Superintendent  
Annie Bui, Associate Superintendent – Business Services

**SPECIAL SERVICES**

**Program Sponsor**

Los Angeles County Office of Education

**Special Counsel**

Hawkins Delafield & Wood LLP  
Los Angeles, California

**Municipal Advisor**

Montague DeRose and Associates, LLC  
Westlake Village, California

**Underwriter's Counsel**

Norton Rose Fulbright US LLP  
Los Angeles, California

**Trustee**

The Bank of New York Mellon Trust Company, N.A.  
Los Angeles, California

## TABLE OF CONTENTS

	Page
INTRODUCTION .....	1
Changes Since Preliminary Official Statement.....	2
ESTIMATED USES OF PROCEEDS.....	2
PLAN OF FINANCE.....	2
THE CERTIFICATES .....	2
General Provisions .....	2
Optional Prepayment .....	3
Mandatory Prepayment From Net Insurance and Condemnation Proceeds .....	3
Mandatory Sinking Fund Prepayment .....	3
Selection of Certificates for Prepayment .....	4
Notice of Prepayment .....	4
Effect of Notice of Prepayment .....	5
Partial Payment of Certificates .....	5
Security for the Certificates .....	6
Debt Service Reserve Fund.....	8
Lease Payments.....	8
Limitations on Remedies Available to Owners of the Certificates.....	10
Certain Definitions.....	10
BOND INSURANCE .....	10
Bond Insurance Policy .....	10
Assured Guaranty Municipal Corp .....	10
INVESTMENT OF LESSEE FUNDS.....	12
THE CORPORATION .....	13
RISK FACTORS .....	13
Risks Related to COVID-19 .....	13
Not a Pledge of Taxes.....	16
Additional Obligations of the Lessee.....	16
No Acceleration Upon Default .....	16
Abatement.....	16
Earthquakes.....	17
No Liability by the Corporation to the Owners .....	17
Hazardous Substances.....	17
Natural Disasters in California.....	18
Bankruptcy.....	18
Municipal Bond Insurance Risk Factors.....	20
Future Initiatives .....	21
TAX MATTERS.....	21
CERTAIN LEGAL MATTERS.....	23

**TABLE OF CONTENTS**  
**(continued)**

	Page
ABSENCE OF LITIGATION .....	23
RATINGS .....	24
MUNICIPAL ADVISOR.....	24
UNDERWRITING .....	24
CONTINUING DISCLOSURE.....	25
MISCELLANEOUS .....	25
APPENDIX A – DISTRICT FINANCIAL INFORMATION.....	A-1
APPENDIX B – THE LEASED PROPERTY .....	B-1
APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS .....	C-1
APPENDIX D – BOOK-ENTRY SYSTEM .....	D-1
APPENDIX E – PROPOSED FORM OF SPECIAL COUNSEL OPINION.....	E-1
APPENDIX F – THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS .....	F-1
APPENDIX G – FORM OF CONTINUING DISCLOSURE CERTIFICATE .....	G-1
APPENDIX H – THE LESSEE’S FISCAL YEAR 2019-20 AUDITED FINANCIAL STATEMENTS .....	H-1
APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY .....	I-1

## SUMMARY STATEMENT

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

### **Purpose**

Proceeds from the sale of the Certificates in the aggregate principal amount of \$46,915,000 will be used to (i) finance the construction or installation of capital improvement projects and/or equipment for use by the Hacienda La Puente Unified School District (the “Lessee” or the “District”) and (ii) pay costs of delivery of the Certificates. Certain real property of the Lessee has been leased by the Lessee under the Lease Agreement (the “Lease Agreement”) from the Los Angeles County Schools Regionalized Business Services Corporation (the “Corporation”), as Lessor. For a detailed description of the Leased Property, see APPENDIX B – “THE LEASED PROPERTY” attached hereto.

### **Security for the Certificates**

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

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

**Bond Insurance**

Concurrently with the execution and delivery of the Certificates, Assured Guaranty Municipal Corp. will issue its Municipal Bond Insurance Policy (the “Policy”) for the Certificates. The Policy guarantees the scheduled payment principal of and interest with respect to the Certificates when due as set forth in “APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.” See also “BOND INSURANCE” herein.

**Form of Certificates**

The Certificates will be sold and delivered in fully registered form in authorized denominations of \$5,000 or any integral multiple thereof.

**Prepayment**

The Certificates are subject to optional, extraordinary and mandatory prepayment, as described herein.

**The Lessee**

The Lessee is duly organized and existing as a unified school district located in Los Angeles County, California. See APPENDIX A – “DISTRICT FINANCIAL INFORMATION” attached hereto.

**The Trustee**

The Bank of New York Mellon Trust Company, N.A. will act as Trustee for the Certificates.

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



## OFFICIAL STATEMENT

**\$46,915,000**  
**CERTIFICATES OF PARTICIPATION**  
**(Los Angeles County Schools Pooled Financing Program)**  
**2021 Series A**  
**(Hacienda La Puente Unified School District)**

---

### INTRODUCTION

The purpose of this Official Statement, including the cover page, inside cover, Summary Statement, Table of Contents and Appendices (the “Official Statement”), is to provide certain information concerning the execution, sale and delivery of certain Certificates of Participation, in the aggregate principal amount of \$46,915,000 (the “Certificates”). The Hacienda La Puente Unified School District (the “Lessee” or the “District”) will execute a Site Lease, dated as of March 1, 2021 (the “Site Lease”), pursuant to which the Lessee will lease certain real property (the “Leased Property”) to the Corporation. The Certificates evidence and represent the proportionate undivided interest of the registered owners thereof (the “Owners”) in lease payments (the “Lease Payments”) to be made by the Lessee as the rental for the use and possession of the Leased Property to be leased from the Los Angeles County Schools Regionalized Business Services Corporation (the “Corporation”) pursuant to a Lease Agreement, by and between the Corporation and the Lessee, dated as of March 1, 2021 (the “Lease Agreement”). Pursuant to the Assignment Agreement, dated as of March 1, 2021, by and between the Corporation and the Trustee (the “Assignment Agreement”), the Corporation has assigned to the Trustee, for the benefit of the Owners, its rights under the Lease Agreement, including (i) its right to amounts payable by the Lessee under the Lease Agreement, (ii) its right to receive the proceeds of casualty and rental interruption insurance on the Leased Property and (iii) its right to enforce payment of amounts due upon default. The Certificates are being executed, sold and delivered pursuant to a Trust Agreement, dated as of March 1, 2021 (the “Trust Agreement”), by and among the Lessee, the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms used but not defined herein shall have the meanings set forth in the Trust Agreement. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The Certificates are being executed and delivered to (i) finance the construction or installation of capital improvement projects and/or equipment for use by the Lessee and (ii) pay costs of delivery in connection with the Certificates. The Leased Property consists of certain real property of the Lessee as described herein under APPENDIX B – “THE LEASED PROPERTY” attached hereto. The Leased Property has an annual fair market rental value of not less than the maximum annual Lease Payments.

The Lessee is required to pay to the Trustee, as assignee of the Corporation, the Lease Payments for use and possession of the Leased Property, which amounts are intended to be sufficient in both time and aggregate amount to pay, when due, the principal and interest payable with respect to the Certificates. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – Lease Payments.” In the Lease Agreement, the Lessee has covenanted that it will take such actions as may be necessary to include in its annual budgets all of the Lease Payments due in each fiscal year with respect to the Leased Property and to make the necessary annual appropriations therefor. **The obligation of the Lessee to make Lease Payments does not constitute an obligation of the Lessee for which the Lessee is obligated to pledge any form of taxation or for which the Lessee has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the Lessee to make Lease Payments constitutes an indebtedness of the Lessee, the Corporation, the County of Los Angeles, the State of California, or any of its political subdivisions within the meaning of any**

**constitutional or statutory debt limitation or restriction.** For certain financial information concerning the Lessee, see APPENDIX A – “DISTRICT FINANCIAL INFORMATION.”

### **Changes Since Preliminary Official Statement**

In addition to pricing-related information, this Official Statement contains the following change from the Preliminary Official Statement, dated February 16, 2021: the table titled “Table A-16 – Largest Local Secured Taxpayers” was removed from the list of required contents of the District’s Annual Report (defined herein) pursuant to Section 5(b) of the Continuing Disclosure Certificate. See APPENDIX G – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

### **ESTIMATED USES OF PROCEEDS**

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

<u>Sources</u>	
Principal Amount of Certificates	\$46,915,000.00
Original Issue Premium	<u>8,796,299.20</u>
<b>TOTAL SOURCES</b>	<b>\$55,711,299.20</b>
 <u>Uses</u>	
Project Fund	\$55,000,000.00
Costs of Delivery <sup>(1)</sup>	<u>711,299.20</u>
<b>TOTAL USES</b>	<b>\$55,711,299.20</b>

<sup>(1)</sup> Includes legal fees, Trustee fees, Underwriter’s discount (see the caption “UNDERWRITING” herein), insurance and reserve surety premiums, printing costs, rating agency fees and other miscellaneous costs of delivery.

### **PLAN OF FINANCE**

The net proceeds of sale of the Certificates are expected to be used to finance the construction or installation of capital improvement projects and/or equipment for use by the Lessee. The improvements are expected to include the Wedgeworth Elementary School project within the District. The Wedgeworth Elementary School project consists of four two-story buildings containing 47 K-8 classrooms, administration offices and other site improvements, such as playfields, shade structures, landscaping and walkways.

### **THE CERTIFICATES**

#### **General Provisions**

The Certificates will be executed, sold and delivered in the aggregate principal amount of \$46,915,000, will be dated their date of delivery, and will represent and evidence interest from such date, at the rates per annum set forth on the inside cover page hereof. The Certificates will be payable semiannually on June 1 and December 1, commencing on June 1, 2021 (each, a “Payment Date”). The Certificates will mature on June 1 in each of the designated years and in the principal amounts shown on the inside cover page hereof.

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

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

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

### **Optional Prepayment**

The Certificates maturing on or before June 1, 2031, are not subject to prepayment prior to their respective maturity dates. The Certificates maturing on and after June 1, 2032, may be prepaid before maturity, at the option of the Lessee, from moneys deposited into the Prepayment Fund as a result of the Lessee’s election to prepay Lease Payments, on any date on or after June 1, 2031, as a whole or in part at a prepayment price equal to the principal amount thereof together with interest accrued thereon to the date fixed for prepayment.

### **Mandatory Prepayment From Net Insurance and Condemnation Proceeds**

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

### **Mandatory Sinking Fund Prepayment**

The Certificates maturing on June 1, 2045, shall be subject to mandatory sinking fund prepayment prior to maturity at a prepayment price equal to the Principal Component of the Certificates to be prepaid, plus accrued interest with respect thereto to the prepayment date, on June 1 of each year, commencing June 1, 2041, in the Principal Components and on the prepayment dates as follows:

<u>Mandatory Sinking Fund Prepayment Date</u>	<u>Mandatory Sinking Fund Prepayment</u>
2041	\$2,515,000
2042	2,615,000
2043	2,720,000
2044	2,830,000
2045 <sup>(1)</sup>	2,940,000

<sup>(1)</sup>Maturity

### **Selection of Certificates for Prepayment**

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

### **Notice of Prepayment**

When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice of the prepayment of the affected Certificates. Such notice shall specify: (i) that the Certificates or a designated portion thereof are to be prepaid, (ii) the CUSIP numbers, numbers and dates of maturity of the Certificates to be prepaid, (iii) the date of prepayment, (iv) the prepayment price and (v) the place or places where prepayment will be made. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount together with interest accrued to said date to be prepaid with respect to the Certificates, and that from and after such date, the Interest Component shall cease to accrue and become payable.

Notice of such prepayment shall be given by first class mail, postage prepaid, to the Lessee, the Corporation and the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books not less than 20 days, but not more than 60 days, prior to the prepayment date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of the Certificates.

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

## **Effect of Notice of Prepayment**

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

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

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, and premium, if any, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, the Interest Component shall cease to accrue and become payable.

All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates to be so prepaid without liability for interest with respect thereto.

## **Partial Payment of Certificates**

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

## Security for the Certificates

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

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

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

The Lessee has covenanted under the Lease Agreement to make Lease Payments for the use and possession of the Leased Property and to take such action each year as may be necessary to include in its annual budget all of the Lease Payments due in such fiscal year and to appropriate annually an amount necessary to make the Lease Payments. Lease Payments received by the Trustee are to be used to make the payments of principal and interest with respect to the Certificates. Additional Payments payable by the Lessee under the Lease Agreement include amounts as shall be required for the payment of all administrative costs of the Corporation. Under California law, even though the Lease Agreement becomes effective as of the date of original execution of the Certificates, the obligation of the Lessee to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Reserve Fund and, in the case of termination of the Lease Agreement or partial prepayment of the Lease Payments, the Project Fund) must be abated in whole or in part if the Lessee does not have full use and possession of the Leased Property. See "RISK FACTORS – Abatement" herein.

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

The obligation of the Lessee to make Lease Payments and Additional Payments does not constitute an obligation of the Lessee for which the Lessee is obligated to pledge any tax revenues. **Neither the Certificates nor the obligation of the Lessee to make Lease Payments and Additional Payments constitutes an indebtedness of the Lessee, the Corporation, the County of Los Angeles,**

**the State of California or any of its political subdivisions within the meaning of the Constitution of the State of California or otherwise or a pledge of the faith and credit of the Lessee.**

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

*Insurance.* The Lease Agreement requires the Lessee to maintain insurance of the type and in the amounts set forth therein. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – Insurance” attached hereto. The Lease Agreement permits the Lessee to self-insure to meet insurance requirements (so long as the terms of the Lease Agreement are satisfied) except for rental interruption insurance. The Lease Agreement requires the Lessee to apply the proceeds of any insurance award either to replace or repair the portion of the Leased Property or to repay Certificates if certain certifications with respect to the adequacy of the proceeds to make repairs, and the timing thereof, cannot be made. The amount of Lease Payments will be abated and Lease Payments due under the Lease Agreement may be reduced during any period in which material damage or destruction to all or part of any component of the Leased Property substantially interferes with the Lessee’s use and possession thereof. Lease Payments may, however, be made from the proceeds of rental interruption insurance as described below. See “RISK FACTORS – Abatement” herein.

*Abatement.* Except to the extent of (i) amounts held by the Trustee in the Lease Payment Fund and the Reserve Fund, (ii) amounts received in respect of rental interruption insurance or liquidated damages, if any, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates during any period in which, by reason of material damage, destruction, title defect or condemnation there is substantial interference with the use and possession by the Lessee of any component of the Leased Property, Lease Payments due under the Lease Agreement with respect to such Leased Property shall be abated by the difference between the annual fair rental value of the facilities of the Leased Property with respect to which there is no such substantial interference, as set forth in a certification of the Lessee. Any abatement of Lease Payments pursuant to the Lease Agreement shall not be considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the date of such interference and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

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

## **Debt Service Reserve Fund**

The Reserve Fund established under the Trust Agreement shall be funded in an amount equal to the Reserve Fund Requirement with a reserve fund surety bond (the “Reserve Surety Bond”) issued by Assured Guaranty Municipal Corp., such amount, at any time, shall equal the least of: (i) ten percent (10%) of the net proceeds of the Outstanding Certificates; (ii) the maximum aggregate amount of the Lease Payments to be paid in any Certificate Year; or (iii) 125% of the average Lease Payments to be paid in the then-current or any future Certificate Year as certified in writing to the Trustee by the Lessee (the “Reserve Fund Requirement”). If the Lessee reduces the amount of Certificates Outstanding through optional or mandatory prepayment, the amounts under the Reserve Surety Bond may decrease proportionately. Amounts in the Reserve Fund or under the Reserve Surety Bond are to be used only for the payment of Lease Payments to the extent that funds in the Lease Payment Fund are insufficient therefor, *provided* that amounts in the Reserve Fund, if any, may be invested in Permitted Investments under the Trust Agreement.

## **Lease Payments**

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

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

*[Remainder of page intentionally left blank.]*



**SCHEDULE OF CERTIFICATE PAYMENTS**

<u>Payment Dates</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total</u>
June 1, 2021	\$ 250,000.00	\$ 385,291.67	\$ 635,291.67
December 1, 2021	--	920,950.00	920,950.00
June 1, 2022	1,215,000.00	920,950.00	2,135,950.00
December 1, 2022	--	902,725.00	902,725.00
June 1, 2023	1,255,000.00	902,725.00	2,157,725.00
December 1, 2023	--	883,900.00	883,900.00
June 1, 2024	1,290,000.00	883,900.00	2,173,900.00
December 1, 2024	--	858,100.00	858,100.00
June 1, 2025	1,340,000.00	858,100.00	2,198,100.00
December 1, 2025	--	831,300.00	831,300.00
June 1, 2026	1,395,000.00	831,300.00	2,226,300.00
December 1, 2026	--	803,400.00	803,400.00
June 1, 2027	1,450,000.00	803,400.00	2,253,400.00
December 1, 2027	--	774,400.00	774,400.00
June 1, 2028	1,510,000.00	774,400.00	2,284,400.00
December 1, 2028	--	744,200.00	744,200.00
June 1, 2029	1,570,000.00	744,200.00	2,314,200.00
December 1, 2029	--	712,800.00	712,800.00
June 1, 2030	1,635,000.00	712,800.00	2,347,800.00
December 1, 2030	--	680,100.00	680,100.00
June 1, 2031	1,700,000.00	680,100.00	2,380,100.00
December 1, 2031	--	646,100.00	646,100.00
June 1, 2032	1,765,000.00	646,100.00	2,411,100.00
December 1, 2032	--	610,800.00	610,800.00
June 1, 2033	1,835,000.00	610,800.00	2,445,800.00
December 1, 2033	--	574,100.00	574,100.00
June 1, 2034	1,910,000.00	574,100.00	2,484,100.00
December 1, 2034	--	535,900.00	535,900.00
June 1, 2035	1,985,000.00	535,900.00	2,520,900.00
December 1, 2035	--	496,200.00	496,200.00
June 1, 2036	2,065,000.00	496,200.00	2,561,200.00
December 1, 2036	--	454,900.00	454,900.00
June 1, 2037	2,150,000.00	454,900.00	2,604,900.00
December 1, 2037	--	411,900.00	411,900.00
June 1, 2038	2,235,000.00	411,900.00	2,646,900.00
December 1, 2038	--	367,200.00	367,200.00
June 1, 2039	2,325,000.00	367,200.00	2,692,200.00
December 1, 2039	--	320,700.00	320,700.00
June 1, 2040	2,415,000.00	320,700.00	2,735,700.00
December 1, 2040	--	272,400.00	272,400.00
June 1, 2041	2,515,000.00	272,400.00	2,787,400.00
December 1, 2041	--	222,100.00	222,100.00
June 1, 2042	2,615,000.00	222,100.00	2,837,100.00
December 1, 2042	--	169,800.00	169,800.00
June 1, 2043	2,720,000.00	169,800.00	2,889,800.00
December 1, 2043	--	115,400.00	115,400.00
June 1, 2044	2,830,000.00	115,400.00	2,945,400.00
December 1, 2044	--	58,800.00	58,800.00
June 1, 2045	2,940,000.00	58,800.00	2,998,800.00
	<hr/>	<hr/>	<hr/>
	\$46,915,000.00	\$27,121,641.67	\$74,036,641.67

## **Limitations on Remedies Available to Owners of the Certificates**

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

## **Certain Definitions**

Capitalized terms used but not defined herein shall have the meanings set forth in APPENDIX C "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Certificates, Assured Guaranty Municipal Corp. ("AGM") will issue the Policy. The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as set forth in "APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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 international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. 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 October 29, 2020, 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.

On July 16, 2020, 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 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.

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, 2020.

*Capitalization of AGM.*

At December 31, 2020:

- The policyholders' surplus of AGM was approximately \$2,864 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$940 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,112 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc ("AGE UK") and Assured Guaranty (Europe) SA ("AGE SA"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE UK and AGE SA 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 document 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, 2020 (filed by AGL with the SEC on February 26, 2021).

All 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 “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 “BOND INSURANCE”.

**INVESTMENT OF LESSEE FUNDS**

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

**THE CORPORATION**

The Corporation is a nonprofit public benefit corporation organized under the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was formed in September 1985 to provide services necessary and appropriate for the establishment, operation and maintenance of regionalized business services and programs for public schools, community colleges and the Los Angeles County Board of Education. These programs and services are to (i) foster cost containment, cost reduction, revenue enhancement and efficiency measures, (ii) improve technical and management skills of school business personnel and (iii) provide financial assistance to public schools, community colleges, related entities and the Los Angeles County Board of Education by acquiring and financing land and equipment, acquiring and constructing various public facilities and leasing facilities, land and equipment.

None of the net earnings, if any, of the Corporation inure to the benefit of any private individual or any director, officer or member thereof, or any firm or other entity with the exception of public schools, community college districts and the Los Angeles County Board of Education.

The Corporation is governed by a board of directors consisting of five members appointed by the Los Angeles County Board of Education or its designee. Each member of the board of directors is elected for a two-year term.

## **RISK FACTORS**

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

### **Risks Related to COVID-19**

**Background.** The outbreak of the respiratory disease caused by a new strain of coronavirus (“COVID-19”) has been declared a Pandemic by the World Health Organization, a National Emergency by President Trump (the “President”) and a State of Emergency by California State Governor Newsom (the “Governor”). The emergency has resulted in tremendous volatility in the financial markets in the United States and globally, and the likely onset of a U.S. and global recession. The District cannot predict the extent or duration of the outbreak or what impact it may have on the District’s financial condition or operations.

**Federal Response.** The President’s declaration of a National Emergency on March 13, 2020 made available more than \$50 billion in federal resources to combat the spread of the virus. A multibillion-dollar Coronavirus relief package was signed into law by the President on March 18, 2020 providing for Medicaid expansion, unemployment benefits and paid emergency leave during the crisis. In an effort to calm the markets, the Federal Reserve lowered its benchmark interest rate to nearly zero, introduced a large bond-buying program and established emergency lending programs to banks and money market mutual funds.

**CARES Act and CRRSA.** In response to COVID-19, the U.S. Congress passed the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), which was signed into law on March 27, 2020. The CARES Act appropriates over \$2 trillion to (i) provide cash payments to individuals, (ii) expand unemployment assistance and eligibility, (iii) provide emergency grants and loans for small businesses, (iv) provide loans and other assistance to corporations, including the airline industry, (v) provide funding for hospitals and community health centers, (vi) expand funding for safety net programs, including child nutrition programs and (vii) provide aid to state and local governments. The CARES Act includes \$13.2 billion in direct funding for elementary and secondary school emergency relief. California will receive approximately \$1.65 billion, with 10 percent set aside for emergencies designated by the California Department of Education. School district distribution is based on a district’s share of federal Title I funding which uses a formula based primarily on the number of students whose family income is below the federal poverty threshold of \$26,200 for a family of four and who receive Temporary Assistance for Needy Families. The District’s Fiscal Year 2019-20 allocation of CARES Act funding is approximately \$4,872,400 (or 0.272% of local education agency (LEA) Statewide funding). The Coronavirus Response and Relief Supplemental Appropriations (“CRRSA”) Act includes approximately \$6.8 billion in California funding, which requires 90% - \$6.12 billion – be distributed to LEAs in proportion to the amount of Title I, Part A funds that each LEA received in fiscal year 2020.

**State Response.** On March 15, 2020, the Governor ordered the closing of California bars and nightclubs, the cancellation of gatherings of more than 250 and confirmed continued funding for school districts that close under certain conditions. On March 16, 2020, the State legislature passed \$1.1 billion in general purpose spending authority for emergency funds to respond to the coronavirus crisis. On March 19, 2020, Governor Newsom issued Executive Order N-33-20, a blanket shelter-in-place order, ordering all California residents to stay home except for certain necessities and other essential purposes, which is in effect until further notice.

On March 17, 2020, the Governor signed Senate Bill 117 (“SB 117”) as urgency legislation effective immediately. For purposes of school district funding for fiscal year 2019-20, SB 117 limits the average daily attendance reported to the California Department of Education to include the full school months from July 1, 2019, to February 29, 2020. This condensed ADA period applies to school districts that comply with Executive Order N-26-20, which provides that school districts that initiate a school closure to address COVID-19 will continue to receive State funding to support certain enumerated school functions during the period of closure. SB 117 further states the intent of the State Legislature that a school district’s employees and contractors are paid during the period of a school closure due to COVID-19. SB 117 also waives instructional time penalties that would otherwise accrue, as long as the school district superintendent, county superintendent or charter school administrator certify that the closure due to COVID-19 caused the school district to fall below applicable instructional time requirements. SB 117 also included \$100 million in additional funding to school districts for certain costs incurred as a result of COVID-19. The District expects to receive \$302,392 from such SB 117 State Funding.

On August 28, 2020, the Governor released a revised system of guidelines for reopening - Blueprint for a Safer Economy (“Blueprint”). Blueprint assigns each of the State’s 58 counties into four color-coded tiers - purple, red, orange and yellow - in descending order of severity, based on the number of new daily cases of COVID-19 and the percentage of positive tests. Counties must remain in a tier for at least three weeks before advancing to the next one. To move forward, a county must meet the next tier’s criteria for two consecutive weeks. If a county’s case rate and positivity rate fall into different tiers, the county remains in the stricter tier. Schools can reopen for limited in-person instruction once their county has been in the red tier (daily new cases of 4-7 per 100,000 people and 5-8% positive tests) for at least two weeks. Implementation of the Guidelines as part of a phased reopening will depend on local conditions, including the level of COVID-19 infections and hospitalization rates for a minimum of 14 days, testing resources of the District and County, and preparedness of the County’s healthcare system. Counties in the purple tier can reopen schools if the local health department provides a waiver. The District is currently operating the 2020-21 school year through distance learning consistent with State guidance and legislation.

On December 3, 2020, the California Department of Health announced a Regional Stay at Home Order (the “Regional Stay at Home Order”), as supplemented on December 6, 2020, which superseded and modified the four-tier color coded classification. The supplemental order clarified retail operations and went into effect immediately. The Regional Stay at Home Order prohibited private gatherings of any size, closed sector operations except for critical infrastructure and retail, and required 100% masking (with certain exceptions as indicated within guidance for use of face coverings) and physical distancing in all others. The Regional Stay at Home Order was triggered and went into effect for a given region at 11:59 PM the day after such region announced that its Intensive Care Unit (“ICU”) capacity dropped below 15%. State health officials tracked the state by five regions: Northern California, Bay Area, Greater Sacramento, San Joaquin Valley and Southern California. Regions remained in the Regional Stay at Home Order status for at least three weeks once triggered. Counties were eligible to come off the Regional Stay at Home Order after three weeks if their hospital ICU capacity projected four weeks out reached 15%. The Regional Stay at Home Order did not modify existing state guidance regarding K-12 schools. The Regional Stay at Home Order ended on January 25, 2021. Counties have returned to their

appropriate color-coded tier under the Blueprint. The County is currently assigned the purple tier under the Blueprint.

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, the economic impacts and actions that may be taken by governmental authorities to contain the outbreak or to treat its impacts are uncertain and cannot be predicted. Additional information with respect to events surrounding the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to: the Governor's office (<http://www.gov.ca.gov>) and the California Department of Public Health (<https://covid19.ca.gov/>). *The District has not incorporated by reference the information on such websites, and the District does not assume any responsibility for the accuracy of the information on such websites.*

**Impacts on the District.** The District is currently receiving guidance on COVID-19 from County health officials, the Los Angeles County Office of Education (the "Office of Education") and the California Department of Education ("CDE") which is monitoring the COVID-19 situation in accordance with COVID-19 guidelines for schools published by the Centers for Disease Control and Prevention.

In accordance with the Governor's announcement, the District may not reopen for in-person classroom instruction if the County appears on the State's COVID-19 watch list for 14 consecutive days. The County is assigned the purple tier. As a result, the District opened the 2020-21 school year instruction through distance learning. The District may not reopen for in-person learning until such time as the County is out of the purple tier for two weeks. The District will continue to evaluate the State's school reopening guidelines and will consult with local health officials and the State's school reopening guidelines in implementing the District's plans for the 2020-21 academic year. The District is unable to predict at this time whether new proposals will be enacted or in what form they may take, or whether any new requirements related to reducing the spread of COVID-19 will further impact their finances or operations. Additional information with respect to events surrounding the outbreak of COVID-19 and responses thereto can be found on Federal, State and local government websites, including but not limited to the CDC (<https://www.cdc.gov>), the Governor's office (<http://www.gov.ca.gov>), the California Department of Public Health (<http://cdph.ca.gov>). *The District has not incorporated by reference the information on such websites and do not assume any responsibility for the accuracy of the information on such websites.*

As discussed below under "APPENDIX A – DISTRICT FINANCIAL INFORMATION -- State Funding of Education – Local Control Funding Formula – Local Control Accountability Plan," the District receives much of their revenues from LCFF sources which are comprised of local property taxes and State moneys. As the State experiences a decline in revenue as a consequence of the impacts of COVID-19, there will be a resulting decline in revenue available for funding school districts. In addition, there may be unknown consequences of the COVID-19 emergency, which the District is unable to forecast. The District cannot predict the extent or duration of the outbreak, the overall impact it may have on the District's financial condition, operations, nor the impact of COVID-19 on the assessed values of property within the boundaries of the District and the economy in general. Any financial information, including projections, forecasts and budgets presented herein may not account for the potential or wide-ranging effects of COVID-19.

### **Not a Pledge of Taxes**

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

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

### **Additional Obligations of the Lessee**

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

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

### **No Acceleration Upon Default**

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

### **Abatement**

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

The amount of Lease Payments due under the Lease Agreement shall be abated during any period in which by reason of damage, destruction, eminent domain or otherwise there is substantial interference with the use and possession of the Leased Property. Such abatement will end with the substantial completion or replacement, repair or reconstruction of the Leased Property. The Reserve Fund will be funded in an amount equal to the Reserve Fund Requirement under the Reserve Surety Bond, and such funds may be used by the Trustee to make payments with respect to the Certificates in the event amounts received by the Trustee are insufficient to pay principal and interest represented by the Certificates as such amounts become due. If damage or destruction or eminent domain proceedings with respect to the Leased Property result in abatement of Lease Payments and the resulting Lease Payments, together with



moneys in the Reserve Fund under the Reserve Surety Bond (and in the event of damage or destruction, together with rental interruption proceeds, if any), are insufficient to make all payments of principal and interest represented by the Certificates during the period that the Leased Property is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made and no remedy is available to the Trustee or the Owners, under the Lease Agreement or Trust Agreement, for nonpayment under such circumstances. See “THE CERTIFICATES – Security for the Certificates –*Abatement*” herein.

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

### **Earthquakes**

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

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

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

### **Hazardous Substances**

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

### **Natural Disasters in California**

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

In addition, wildfires have occurred in recent years in different regions of the State. However, serious and significant property damage has resulted in other areas of the State due to fire damage. In

2018, several laws were enacted addressing issues related to increased wildfire risk in the State, including forest management, mutual aid for fire departments, emergency alerts and safety mandates.

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

The Lessee can make no prediction on the impact of any droughts, wildfires or other natural disasters upon economic activity within its boundaries or the extent to which there will be a material adverse impact on its finances, the majority of which come from State Aid. Depending on their severity, wildfires, droughts and other natural disasters could result in a loss of use of the Leased Property by the District and an abatement of Base Rental Payments under the Lease Agreement.

## **Bankruptcy**

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Municipal Bond Insurance Risk Factors**

In the event of default of the payment of principal or interest with respect to the Certificates when all or some becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional prepayment or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the District which is recovered by the District from the certificate holder as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the provider of the Policy (the “Insurer”) at such time and in such amounts as would have been due absence such prepayment by the District unless the Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Insurer without appropriate consent. The Insurer may direct and must consent to any remedies and the Insurer's consent may be required in connection with amendments to any applicable legal documents.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the moneys received pursuant to the applicable financing documents. In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates.

The long-term ratings on the Certificates are dependent in part on the financial strength of the Insurer and its claim 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 of the ratings on the Certificates insured by the Insurer 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.

The obligations of the Insurer are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the Lessee 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 pay principal and interest with respect to the Certificates and the claims paying ability of the Insurer, particularly over the life of the investment. See “BOND INSURANCE” herein for further information provided by AGM and the Policy, which includes further instructions for obtaining current financial information concerning AGM.

## **Future Initiatives**

Article XIII A, Article XIII B and Propositions 98, 218, 39 and 46 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. See APPENDIX A – “DISTRICT FINANCIAL INFORMATION” for a description of Article XIII A, Article XIII B and Propositions 98, 218, 39 and 46. From time to time, other initiative measures could be adopted, further affecting the Lessee’s revenues or their ability to expend revenues.

## TAX MATTERS

***Opinion of Special Counsel.*** In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest evidenced by the Certificates is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest evidenced by the Certificates is not treated as a preference item in calculating the alternative minimum tax under the Code. In rendering its opinion, Special Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District in connection with the Certificates, and Special Counsel has assumed compliance by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest evidenced by the Certificates from gross income under Section 103 of the Code.

In addition, in the opinion of Special Counsel to the District, under existing statutes, interest evidenced by the Certificates is exempt from personal income taxes imposed by the State of California.

Special Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the Certificates, or the ownership or disposition thereof, except as stated above. Special Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Special Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Special Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest evidenced by the Certificates.

***Certain Ongoing Federal Tax Requirements and Covenants.*** The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Certificates in order that interest evidenced by the Certificates be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Certificates, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest evidenced by the Certificates to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The District has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest evidenced by the Certificates from gross income under Section 103 of the Code.

***Certain Collateral Federal Tax Consequences.*** The following is a brief discussion of certain collateral federal income tax matters with respect to the Certificates. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Certificate. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Certificates.

Prospective owners of the Certificates should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have

incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest evidenced by the Certificates may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

**Original Issue Discount.** “Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Certificate (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a Certificate with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Certificates. In general, the issue price for each maturity of Certificates is expected to be the initial public offering price set forth on the cover page of the Official Statement. Special Counsel further is of the opinion that, for any Certificates having OID (a “Discount Certificate”), OID that has accrued and is properly allocable to the owners of the Discount Certificates under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest evidenced by the Certificates.

In general, under Section 1288 of the Code, OID on a Discount Certificate accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Certificate. An owner’s adjusted basis in a Discount Certificate is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Certificate. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Certificate even though there will not be a corresponding cash payment.

Owners of Discount Certificates should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Certificates.

**Certificate Premium.** In general, if an owner acquires a Certificate for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts on the Certificate after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “certificate premium” on that Premium Certificate (a “Premium Certificate”). In general, under Section 171 of the Code, an owner of a Premium Certificate must amortize the certificate premium over the remaining term of the Premium Certificate, based on the owner’s yield over the remaining term of the Premium Certificate determined based on constant yield principles (in certain cases involving a Premium Certificate callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Certificate). An owner of a Premium Certificate must amortize the certificate premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the certificate premium allocable to that period. In the case of a tax-exempt Premium Certificate, if the certificate premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Certificate may realize a taxable gain upon disposition of the Premium Certificate even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Certificates should consult their own tax advisors regarding the treatment of certificate premium for federal income tax purposes, including various special rules relating thereto,

and state and local tax consequences, in connection with the acquisition, ownership, amortization of certificate premium on, sale, exchange, or other disposition of Premium Certificates.

**Information Reporting and Backup Withholding.** Information reporting requirements apply to interest paid on tax-exempt obligations, including the Certificates. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Certificate through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest evidenced by the Certificates from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

**Miscellaneous.** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest evidenced by the Certificates under federal or state law or otherwise prevent beneficial owners of the Certificates from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Certificates.

Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, execution and delivery of the Certificates will be subject to the final approving opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Special Counsel to the Corporation, substantially in the form contained in Appendix E. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Los Angeles, California.

## **ABSENCE OF LITIGATION**

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

## **RATINGS**

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), is expected to assign a rating of “AA” to the Certificates, based on the understanding that AGM will deliver its Policy with respect to the Certificates at the time of delivery of the Certificates. In addition, S&P has assigned an underlying rating of “A+” to the Certificates. Such ratings reflect only the view of S&P and

an explanation of the significance of such ratings may be obtained as follows: S&P at Municipal Finance Department, 55 Water Street, New York, New York 10041, tel. (212) 208-8000. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

### **MUNICIPAL ADVISOR**

Montague DeRose and Associates, LLC is employed as Municipal Advisor to the District in connection with the execution a delivery of the Certificates. The Municipal Advisor's compensation for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Montague DeRose and Associates, LLC, in its capacity as Municipal Advisor, does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies. The Municipal Advisor to the District has provided the following sentence for inclusion in this Official Statement: The Municipal Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Municipal Advisor does not guarantee the accuracy or completeness of such information.

### **UNDERWRITING**

The Certificates are to be purchased by RBC Capital Markets, LLC (the "Underwriter") at a price of \$55,476,724.20, reflecting an Underwriter's discount of \$234,575.00 plus an original issue premium of \$8,796,299.20. The certificate purchase agreement relating to the Certificates provides that all Certificates will be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said certificate purchase agreement, the approval of certain legal matters by Special Counsel and certain other conditions.

The Underwriter has provided the following information for inclusion in this Official Statement: The Underwriter and their affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its affiliates may engage in transactions for its own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Lessee. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Lessee. The Underwriter and its affiliates may make a market in credit default swaps with respect to municipal securities in the future.

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

### **CONTINUING DISCLOSURE**

The Lessee has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the Lessee (the "Annual Report") for each fiscal year by not later than the March 15 following the end of the Lessee's fiscal year (currently



ending June 30) commencing with the Annual Report for Fiscal Year 2020-21 (which is due no later than April 1, 2022), and to provide notices of the occurrence of certain Listed Events. The Lessee will provide or cause to be provided the Annual Report and these notices to the Municipal Securities Rulemaking Board through the EMMA System or in the manner prescribed by the SEC. The specific nature of the information to be contained in the Annual Report and a notice of a Listed Event is set forth in Appendix G – “Form of Continuing Disclosure Certificate” attached hereto. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “Rule”).

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

The Lessee has retained Montague DeRose and Associates, LLC to assist it in preparing and filing annual reports and notices of listed events required under its existing continuing disclosure obligations, as well as the undertaking entered into in connection with the Certificates.

### **MISCELLANEOUS**

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

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

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX A

### DISTRICT FINANCIAL INFORMATION

#### District General Information

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

#### General Information

Unless indicated otherwise, the following financial, statistical and demographic data has been provided by Hacienda La Puente Unified School District (“Hacienda La Puente” or the “District”). Hacienda La Puente, established on July 1, 1970, is comprised of an area of approximately 20 square miles, located in Los Angeles County (the “County”). The District serves students in the diverse communities of the City of Industry, Hacienda Heights, La Puente and portions of Valinda and West Covina. The District currently operates seventeen (17) elementary schools, spanning the years from transitional kindergarten through grades 5. In addition, it operates six (6) K-8 schools, four (4) middle schools, four (4) comprehensive high schools, one (1) alternative high school, and child development and adult education programs.

#### *District Governance; Senior Management*

The District is governed by a five-member Board of Education (the “District Board”) elected by voters within the District to serve alternating four-year terms. The chief executive officer of the District, appointed by the District Board to manage the day-to-day operations of the District, is the Superintendent (the “Superintendent”). Dr. Alfonso Jimenez currently serves as the Superintendent. Brief biographical information for Superintendent Brawley and other senior management of the District is set forth below.

Superintendent Dr. Alfonso Jimenez. Dr. Jimenez began his career as a teacher in the Long Beach Unified School District and served as an Assistant Principal, Principal, Director of Curriculum & Instruction, and Assistant Superintendent in multiple districts before his current role. His work as a principal was honored by California Business for Educational Excellence for increasing student achievement consistently for three consecutive years in all student sub-groups. He holds an Ed.D. in Educational Leadership from the University of Southern California, where his research culminated in a dissertation titled, Superintendent Communication Strategies and Experiences That Promote Trust and Positive Relationships with the School Board during the Entry Period: A Case Study. He earned a B.S. in Physiology with a minor in Chemistry from CSU Long Beach and an M.S. in Administration from Pepperdine University.

Associate Superintendent of Business Services Annie Bui. Mrs. Bui was appointed Associate Superintendent of Business Services of the District in December 2013. Prior to her appointment as Associate Superintendent, she served as the Director of Fiscal Services at the District. Mrs. Bui has over 25 years of experience in various areas of business services including positions with public entities, school districts and the private sector.

## DISTRICT FINANCIAL INFORMATION

**General.** State law requires that each school district maintain a balanced budget in each fiscal year, and that each district project beginning balances, revenues, expenditures, and ending balances for two subsequent years in order to provide, based upon the available information, that the district can project a positive, qualified or negative certification. See “ – State Financial Accountability and Oversight Provisions—Interim Reporting Requirements” below.

The California Department of Education (“CDE”) imposes a uniform budgeting and accounting format for school districts. Under current law, the District Board must file with the county superintendent of schools a budget by June 30 immediately prior to each fiscal year (referred to herein as the “Adopted Budget”). After approval of the Adopted Budget, the District’s administration may submit budget revisions to the District Board during the fiscal year.

School districts in the State must also conduct a review of their budgets according to certain standards and criteria established by the CDE. A written explanation must be provided for any element in a budget that does not meet the established standards and criteria. The school district superintendent or designee must certify that such a review has been conducted and the certification, together with the budget review checklist and a written narrative, must accompany the budget when it is submitted to the school district’s county office of education. The balanced budget requirement makes appropriation reductions necessary to offset any revenue shortfalls, unless sufficient balances exist to cover the shortfall.

Furthermore, county offices of education are required to review school district budgets, complete the budget review checklist and conduct an analysis of any budget item that does not meet the established standards and criteria. In addition, county offices of education are required to determine whether the adopted budget will allow the school district to meet its financial obligations during the fiscal year and is consistent with a financial plan that will enable the school district to satisfy its multiyear financial commitments. Pursuant to the Education Code, on or before August 15 of each year, the county superintendent of schools must approve, conditionally approve, or disapprove the adopted budget for each school district. The Education Code directs the county superintendent of schools to disapprove any school district budget if it determines that the budget does not include expenditures necessary to implement a Local Control Accountability Plan (the “LCAP”) or an annual update to the LCAP. See “State Funding of Education – Local Control Funding Formula – Local Control Accountability Plan” herein.

In the event that the county office of education disapproves the school district’s budget, the county superintendent will submit to the governing board of the school district on or before August 15 of such year recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can conditionally approve that budget. In addition, school districts must make available for public review any revisions to revenues and expenditures that it has made to its budget to reflect the funding made available by the State Budget Act (defined herein) not later than 45 days after the enactment of the State Budget Act. If the county superintendent of schools disapproves a revised budget, he or she will call for the formation of a budget review committee. By November 30 of each year, every school district must have an adopted and approved budget, or the county superintendent of schools will impose one and report such school district to the State Legislature and the State Department of Public Finance.

**Fiscal Year 2020-21 District Budget.** The District Board adopted its budget for Fiscal Year 2020-21 on June 25, 2020 (the “Fiscal Year 2020-21 District Adopted Budget”) and submitted the Fiscal Year 2020-21 District Adopted Budget to the LACOE in a timely manner for review.. See “District

Financial Information – State Funding of Education – Local Control Funding Formula – General” and “ – Local Control Accountability Plan” herein.

The Fiscal Year 2020-21 District Adopted Budget projects a General Fund beginning balance of \$71.4 million, revenues of \$220.8 million, total estimated expenditures of \$235.8 million, net other financing uses (*i.e.*, transfers out) of \$(100,000) and an ending balance of \$56.3 million. The Fiscal Year 2020-21 District Adopted Budget projects that its General Fund ending balance of \$56.3 million will consist of approximately \$1.2 million of nonspendable funds, \$7 million for the mandatory Reserve for Economic Uncertainty, \$31.7 million of restricted funds and \$16.2 million of assigned ending balances.

The following Table A-1 sets forth the District’s Adopted Budgets for the District General Fund for Fiscal Years 2016-17 through 2020-21, and the District’s General Fund actual amounts for Fiscal Years 2015-16 through 2018-19. The beginning balance for each fiscal year reflects the estimated ending balance for the prior fiscal year based upon information as of the budget adoption date. Accordingly, the budgeted ending balance for a fiscal year and the subsequent budgeted beginning balance in the following Table A-1 may differ from the actual ending balance and actual beginning balance set forth in Table A-2 “Statement of Revenues, Expenditures and District General Fund Balances” herein. See “ – Significant Accounting Policies, System of Accounts and Audited Financial Statements” herein for financial results for Fiscal Years 2014-15 through 2018-19.

*[Remainder of page intentionally left blank.]*

**TABLE A-1**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**District Budgets for Fiscal Years 2016-17 through 2020-21**  
**for the District General Fund<sup>(1)(2)</sup>**

	Fiscal Year 2016-17		Fiscal Year 2017-18		Fiscal Year 2018-19		Fiscal Year 2019-20		Fiscal Year 2020-21
	<u>Budget</u>	<u>Actual<sup>(3)</sup></u>	<u>Budget</u>	<u>Actual<sup>(3)</sup></u>	<u>Budget</u>	<u>Actuals<sup>(3)</sup></u>	<u>Budget</u>	<u>Actuals<sup>(3)</sup></u>	<u>Budget</u>
<b>Revenue:</b>									
LCFF/Revenue Limit Revenues <sup>(4)</sup>	\$179,161,262	\$178,740,495	\$180,570,198	\$182,747,604	\$187,358,258	\$186,218,445	\$191,682,548	\$ 190,077,518	\$173,478,091
Federal	11,432,121	11,163,314	11,311,692	11,121,037	10,215,867	11,211,300	11,531,325	10,765,015	12,964,511
Other State	27,344,373	37,404,236	32,353,807	33,464,134	34,770,115	47,488,111	30,824,731	38,480,729	33,507,422
Other Local	<u>1,967,446</u>	<u>3,460,205</u>	<u>1,800,000</u>	<u>6,642,390</u>	<u>808,129</u>	<u>5,485,267</u>	<u>867,943</u>	<u>5,765,506</u>	<u>926,207</u>
<b>Total Revenue</b>	<u>219,905,202</u>	<u>230,768,250</u>	<u>226,035,697</u>	<u>233,975,165</u>	<u>233,152,369</u>	<u>250,403,123</u>	<u>234,906,547</u>	<u>245,088,768</u>	<u>220,876,231</u>
<b>Expenditures:</b>									
Certificated Salaries	101,639,558	98,402,204	98,684,641	96,052,048	99,861,055	98,850,842	101,764,769	109,264,907	103,627,862
Classified Salaries	33,163,294	34,245,708	34,351,654	31,942,501	34,484,531	33,245,623	36,348,902	34,762,914	33,220,995
Employee Benefits	49,499,237	54,205,938	59,890,030	53,008,275	59,854,896	66,480,502	62,632,850	62,379,036	64,220,919
Books and Supplies	12,360,068	11,071,661	12,808,092	7,458,426	13,737,533	11,421,741	14,739,323	6,269,959	12,301,595
Services & Other Operating Expenses	22,017,977	24,344,306	20,126,593	19,901,676	22,813,134	20,320,824	25,198,041	19,473,540	21,609,586
Capital Outlay	11,186,310	5,547,870	5,209,862	5,842,382	4,209,531	7,567,126	5,261,500	1,560,660	1,395,652
Other Outgo:									
Intergovernmental Transfers									
Excl. Transfers of Indirect Costs	2,500,000	3,091,035	3,167,000	2,910,190	(1,179,270)	(799,464)	845,100	818,031	1,200,000
Transfers of Indirect Costs	(2,012,802)	(1,792,484)	--	--	--	--	(2,168,471)	(1,842,537)	(1,757,371)
Debt Service	<u>1,618,379</u>	<u>1,753,594</u>	<u>1,480,379</u>	<u>1,785,048</u>	<u>388,557</u>	<u>413,530</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Total Expenditures</b>	<u>231,972,021</u>	<u>230,869,832</u>	<u>235,718,251</u>	<u>218,900,546</u>	<u>234,169,967</u>	<u>237,500,724</u>	<u>244,622,014</u>	<u>232,703,857</u>	<u>235,819,238</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(12,066,819)	(101,582)	(9,682,554)	15,074,619	(1,017,598)	12,902,399	(9,715,467)	12,384,911	(14,943,007)
<b>Total Other Financing Sources/(Uses)</b>	(3,751,489)	(3,751,489)	(3,751,489)	(7,400,000)	3,751,489	(7,495,287)	(2,100,000)	(7,500,287)	(100,000)
<b>Net Increase (Decrease) in Fund Balance</b>	(15,818,308)	(3,853,071)	(13,434,043)	7,674,619	2,733,891	5,407,112	(11,815,467)	4,884,624	(15,043,007)
<b>Beginning Fund Balance, July 1</b>	69,479,619	69,479,619	65,626,548	65,626,548	73,301,167	73,301,167	78,708,279	78,708,279	71,414,233
<b>Ending Balance, June 30</b>	\$53,661,311	\$65,626,548	\$52,192,505	\$73,301,167	\$76,035,058	\$78,708,279	\$66,892,812	\$83,592,903	\$56,371,226

(1) Totals may not equal sum of component parts due to rounding.

(2) Includes the restricted and unrestricted portions of the General Fund.

(3) Actual amounts do not equal amounts reported in the District's statement of Revenues, Expenditures and Changes, as set forth for in Table A-2, due to various accounting adjustments.

(4) See State Funding of Education – Local Control Funding Formula” and “ – Prior Revenue Limit Funding” herein.

Sources: Hacienda La Puente Unified School District Audited Financial Statements for Fiscal Years 2016-17 through 2018-19, the District's Budget for Fiscal Year 2020-21.

## ***State Financial Accountability and Oversight Provisions***

***Interim Reporting Requirements.*** State law grants to each county superintendent of schools certain oversight with respect to the budget development process and interim financial reporting of public school districts. Pursuant to the Education Code, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the two subsequent fiscal years. A positive certification is assigned to any school district that, based on then-current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that, based on then-current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district, based on then-current projections, which may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. In the event that a school district is certified as qualified or negative, the county superintendent of schools is required to report to the State Superintendent of Public Instruction on the financial condition of the school district and the proposed remedial actions and to take all actions that are necessary to ensure that the school district meets its financial obligations. The county office of education reviews the interim reports and certifications made by school districts and may change certification to qualified or negative if necessary. If a school district has a qualified or negative certification report in any year, the school district may not issue non-voter-approved debt instruments in that fiscal year or in the next succeeding fiscal year unless the county office of education, using criteria from the State Superintendent of Public Instruction, determines repayment is probable.

The District filed a positive certification in connection with its last interim report, being the First Interim Report for Fiscal Year 2020-21. The Second Interim Report for Fiscal Year 2020-21 will be submitted in March 2021.

## ***Significant Accounting Policies, System of Accounts and Audited Financial Statements***

The CDE imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual. The District uses fund accounting and maintains governmental funds, proprietary funds and fiduciary funds. The General Fund is the chief operating fund of the District. For a description of the other major funds of the District, see the description thereof contained in Appendix H – “THE LESSEE’S FISCAL YEAR 2019-20 AUDITED FINANCIAL STATEMENTS” attached hereto. Note 1 to such audited financial statements sets forth significant accounting policies that the District follows.

The District is required to file its audited financial statements for the preceding fiscal year with the State Controller’s Office, the CDE and the County Superintendent of Schools by December 15 of each year. The audited financial information included in this Official Statement, including the audited financial statements for Fiscal Year 2019-20 (the “Fiscal Year 2019-20 Audited Financial Statements”) attached as Appendix H hereto, were prepared by the District using information from the annual financial statements which are prepared for the District and audited by independent certified public accountants (the “Auditor”) each year. Nigro & Nigro PC, a Professional Accountancy Corporation, Certified Public Accountants, served as Auditor to the District for its audited financial statements for Fiscal Year 2019-20. See Appendix H – “THE LESSEE’S FISCAL YEAR 2019-20 AUDITED FINANCIAL STATEMENTS” attached hereto.

The following Table A-2 sets forth the District's audited District General Fund revenues, expenditures and fund balances for the Fiscal Years 2015-16 through 2019-20.

**TABLE A-2**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and District General Fund Balances <sup>(1)</sup>**  
**Fiscal Years 2014-15 through 2019-20**

	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2017-18</u>	<u>Fiscal Year 2018-19</u>	<u>Fiscal Year 2019-20</u>
<b>Revenues</b>					
Revenue Limit/LCFF <sup>(2)</sup>	\$178,174,523	\$178,740,495	\$182,747,604	\$186,218,445	\$190,077,518
Federal	11,866,452	11,163,314	11,121,037	11,211,300	10,765,015
Other State	43,841,282	37,404,236	33,464,134	47,488,111	38,480,729
Other Local	<u>17,755,236</u>	<u>3,460,205</u>	<u>6,642,390</u>	<u>5,485,267</u>	<u>5,765,506</u>
<b>Total Revenues</b>	<u><u>251,637,493</u></u>	<u><u>230,768,250</u></u>	<u><u>233,975,165</u></u>	<u><u>250,403,123</u></u>	<u><u>245,088,768</u></u>
<b>Expenditures</b>					
Instruction	134,289,579	127,787,316	121,534,791	137,284,524	136,296,540
Instruction – Related Services:					
Instructional Supervision and Administration	9,604,124	11,552,975	14,269,532	14,380,760	14,732,634
Instructional Library, Media and Technology	679,340	763,370	711,210	769,459	784,378
School Site Administration	14,276,313	15,813,378	15,893,914	17,509,680	18,277,583
Pupil Services:					
Pupil Services - Home to School	2,442,938	2,890,421	2,726,155	2,967,495	2,788,008
Transportation					
Pupil Services - Food Services	15,624	14,620	5,974	-	209,814
Pupil Services – All Other Pupil Services	10,686,230	12,122,659	12,191,286	13,795,792	14,914,084
General Administration:					
General Admin. - Centralized Data Processing	3,966,932	6,698,627	4,782,256	4,701,193	4,715,294
General Admin – Other	9,364,845	11,709,407	8,841,888	10,532,996	12,441,314
Ancillary Services	1,295,888	1,302,252	1,470,411	1,560,539	1,465,431
Community Services	91,163	102,256	128,265	113,330	118,761
Enterprise Activities	--	--	--	3,004	2,601
Plant Services	19,358,046	25,935,825	25,237,885	26,051,098	24,922,214
Transfers of Indirect Costs	(2,582,951)	(1,792,484)	(1,491,455)	(1,917,044)	(1,842,537)
Capital Outlay	17,242,214	11,124,581	7,903,196	8,216,788	2,059,707
Intergovernmental Transfers	2,092,746	3,091,035	2,910,190	1,117,580	818,031
Debt Service – Principal	1,663,216	1,707,532	1,748,384	405,609	-
Debt Service – Interest	97,396	46,062	36,664	7,921	-
Debt Service – Issuance Costs/Discount	--	--	--	--	--
<b>Total Expenditures</b>	<u><u>224,583,643</u></u>	<u><u>230,869,832</u></u>	<u><u>218,900,546</u></u>	<u><u>237,500,724</u></u>	<u><u>232,703,857</u></u>
<b>Excess (Deficiency) of Revenues</b>	27,053,850	(101,582)	15,074,619	12,902,399	12,384,911
<b>Other Financings Sources/(Uses)</b>					
Transfers In	--	--	--	--	--
Other sources					
Transfers Out	<u>(20,141,914)</u>	<u>(3,751,489)</u>	<u>(7,400,000)</u>	<u>(7,495,287)</u>	<u>(7,500,287)</u>
Other uses					
<b>Total Other Financing Sources/(Uses)</b>	(20,141,914)	(3,751,489)	(7,400,000)	(7,495,287)	(7,500,287)
<b>Net Change in Fund Balance</b>	6,911,936	(3,853,071)	7,674,619	5,407,112	4,884,624
<b>Beginning Balance</b>	<u>62,567,683</u>	<u>69,479,619</u>	<u>65,626,548</u>	<u>73,301,167</u>	<u>78,708,279</u>
<b>Ending Balance</b>	<u><u>\$69,479,619</u></u>	<u><u>\$65,626,548</u></u>	<u><u>\$73,301,167</u></u>	<u><u>\$78,708,279</u></u>	<u><u>\$83,592,903</u></u>

<sup>(1)</sup> Totals may not equal sum of component parts due to rounding.

<sup>(2)</sup> See “State Funding of Education – Local Control Funding Formula” and “ – Prior Revenue Limit Funding” herein.

Sources: Hacienda La Puente Unified School District's audited financial statements for Fiscal Years 2014-15 through 2019-20.



## ***Employees and Labor Relations***

The District’s Fiscal Year 2020-21 District Adopted Budget authorizes 1,142 certificated (non-management) full-time equivalent (“FTE”) positions and 1,105 classified (non-management) FTE positions, and 211 management, supervisor and confidential FTE positions.

The District has three bargaining units which maintain contracts with the District. Certificated employees are represented by the Hacienda La Puente Education Association. Classified employees are represented by California School Employees Association, which includes classified Unit B. Classified supervisors are represented by Service Employees’ International Union, Local 347. In addition, certain employees are not represented by a formal bargaining unit (collectively, the “Non-Represented Employees”). The following Table A-3 sets forth the number of members of each bargaining unit as of June 30, 2020 and the expiration dates of the labor agreements with each of the District’s employee bargaining units.

**TABLE A-3  
HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT  
Employee Bargaining Units and Contract Expiration Dates <sup>(1)</sup>  
As of June 30, 2020**

<b><u>Employee Bargaining Unit</u></b>	<b><u>Members</u></b>	<b><u>Contract Expiration Date<sup>(2)</sup></u></b>
Hacienda La Puente Education Association	1,142	June 30, 2022
California School Employees Association	850	June 30, 2022
Service Employees’ International Union, Local 347	83	June 30, 2022
Non-Represented Employees	383	n/a

<sup>(1)</sup> Does not reflect side letters, tentative agreements and other agreements by and between the District and each of the employee bargaining units pertaining to, among other things, job services and restoration, health care, and evaluations of personnel.

<sup>(2)</sup> The employee bargaining units with expired contracts are operating under the terms of the applicable expired contract. As of the date hereof, the District and such bargaining units are negotiating terms to be contained in new contracts.

Source: Hacienda La Puente Unified School District.

## ***Retirement Systems***

**General.** The District currently participates in the California State Teachers’ Retirement System (“CalSTRS”) and California Public Employees’ Retirement System (“CalPERS”). Certificated employees are eligible to join CalSTRS, and classified employees are eligible to join CalPERS. Pursuant to federal law, all public sector employees who are not members of their employers existing retirement systems must be covered by Social Security or an alternative plan. The amounts of the District’s contributions to CalSTRS and CalPERS are subject to, among other things, collective bargaining agreements and changes in State law. See Appendix H - “The Lessee’s Fiscal Year 2019-20 Audited Financial Statements” attached hereto.

CalPERS and CalSTRS are operated on a statewide basis and, based on available information, both have substantial unfunded liabilities. Additional funding of CalSTRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes are required under State law. The amounts of the pension/award benefit obligation with respect to CalPERS or actuarially accrued liability with respect to CalPERS and CalSTRS will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. The District is unable to predict what the amount of these liabilities will be in the future or the amount of the contributions which the District may be required to make to CalPERS and CalSTRS. Accordingly, there can be no assurances that the District’s required contributions to CalPERS and CalSTRS will not significantly increase in the future in excess of the current rates approved by State law and the District as described herein.

The information set forth below regarding CalSTRS and CalPERS has been obtained from publicly available sources and has not been independently verified by the Underwriter, the District or Special Counsel, not guaranteed as to the accuracy or completeness of the information and is not to be construed as a representation by the Underwriter, the District or Special Counsel. Furthermore, the summary data below should not be read as current or definitive, as recent gains or losses on investments made by the retirement systems generally may have changed the unfunded actuarial accrued liabilities (“UAAL”) stated below.

***California State Teachers’ Retirement System.*** The District participates in the California State Teachers’ Retirement System (“CalSTRS”). CalSTRS is a defined benefit plan that covers all full-time certificated employees and some classified employees, which are employees employed in a position that does not require a teaching credential from the State. CalSTRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program (the “CalSTRS Defined Benefit Program”). The CalSTRS 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 are established by State legislation in accordance with the State Teachers’ Retirement Law. CalSTRS is operated on a Statewide basis and, based on publicly available information, has substantial unfunded liabilities. Additional funding of CalSTRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282.

As part of the 2014-15 State Budget, the Legislature enacted AB 1469 (Chapter 47, Statutes of 2014) (“AB 1469”), a comprehensive funding solution intended to eliminate the projected CalSTRS unfunded liability on the CalSTRS Defined Benefit Program by 2046. Under AB 1469, the funding plan began in Fiscal Year 2014-15 and will be phased in over several years. The employer contribution rate increased by 1.85% of covered payroll annually beginning July 1, 2015 and will continue to increase until the employer contribution rate is 19.10% of covered payroll. Beginning in Fiscal Year 2021-22 through Fiscal Year 2045-46, AB 1469 authorizes the CalSTRS Board to adjust the employer contribution up or down 1 percentage point each year, but no higher than 20.25% total and no lower than 8.25%, to eliminate the remaining unfunded obligation that existed on July 1, 2014.

In addition, the CalSTRS Board is authorized to modify the percentages paid by employers and employees for Fiscal Year 2021-22 and each fiscal year thereafter in order to eliminate CalSTRS’ unfunded liability by June 30, 2046 based upon actuarial recommendations. The CalSTRS Board would also have the authority to reduce employer and State contributions if they are no longer necessary.

The actuarial assumptions and methods adopted by the CalSTRS Board for funding the CalSTRS Defined Benefit Program include: the “Entry Age Normal Cost Method”, with the actuarial gains/losses and the unfunded actuarial obligation amortized over a closed period ending June 30, 2046, an assumed 7.25% investment rate of return (net of investment and administrative expenses) for Fiscal Year 2015-16 and a 7.00% investment rate of return (net of investment and administrative expenses) for Fiscal Year 2016-17, an assumed 3.00% interest on member accounts (based on the CalSTRS Board’s short-term interest crediting policy), projected 3.50% general wage growth, of which 2.75% is due to inflation and 0.75% is due to expected gains in productivity, and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases.

In May 2019, CalSTRS released an update on the financial position of the pension system, including estimates of the unfunded liability and contribution rates required for districts, employees and the State. The May funding update reflected an estimated unfunded liability of \$107.2 billion for the valuation period ending June 30, 2018.

Pursuant to Assembly Bill 1469, school districts’ contribution rates will increase in accordance with the following schedule:

**TABLE A-4**  
**K-14 SCHOOL DISTRICT CONTRIBUTION RATES**  
**CalSTRS (Defined Benefit Program)**

<u>Effective Date</u> <sup>(1)</sup>	<u>K-14 school districts</u>
July 1, 2017	14.43%
July 1, 2018	16.28
July 1, 2019	17.10
July 1, 2020	16.15
July 1, 2021	16.02

<sup>(1)</sup> The State’s 2020-21 Budget redirecting funds paid to CalSTRS towards long-term unfunded liabilities to further reduce employer contribution rates in Fiscal Years 2020-21 and 2021-22. This reallocation will reduce the CalSTRS employer contribution rates to approximately 16.15% in Fiscal Year 2020-21 and to 16.02% in Fiscal Year 2021-22. See “– State Budget Process –2020-21 State Budget.”

Source: AB 1469; the District.

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

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

According to the 2019 CalSTRS Actuarial Valuation, the future revenues from contributions and appropriations for the CalSTRS 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. AB 1469 provides no authority to the CalSTRS 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 CalSTRS Board, including a 7.00% investment rate of return assumption and includes the \$1.117 billion State contribution made in July 2019 pursuant to SB 90.

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

To provide local educational agencies and California community colleges with increased fiscal relief, the 2020-21 State Budget redirects \$2.3 billion appropriated in the 2019 Budget Act to CalSTRS and PERS for long-term unfunded liabilities to further reduce employer contribution rates in Fiscal Years 2020-21 and 2021-22. See “STATE FUNDING OF EDUCATION – State Budget - 2020-21 State Budget” herein.

The District’s Fiscal Year 2020-21 CalSTRS contribution is expected to decrease by approximately \$1.6 million over its Fiscal Year 2019-20 CalSTRS contribution. The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years. The following sets forth the District’s regular annual contributions to CalSTRS for Fiscal Years 2014-15 through 2019-20 and its estimated contributions for Fiscal Year 2020-21. Historically, the District has paid all required CalSTRS annual contributions.

**TABLE A-5**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Annual Regular CalSTRS Contributions**  
**Fiscal Years 2014-15 through 2020-21**

<u>Fiscal Year</u>	<u>District Contributions</u>
2014-15	\$8,166,197
2015-16	10,579,461
2016-17	12,777,412
2017-18	14,606,177
2018-19	17,006,630
2019-20	16,170,976
2020-21 <sup>(1)</sup>	16,711,161

(1) Projected.

Source: The District.

Copies of the CalSTRS’ comprehensive annual financial report may be obtained from CalSTRS, P.O. Box 15275, Sacramento, California 95851. The information presented in these reports is not incorporated by reference in this Official Statement.

**California Public Employees’ Retirement System.** The District also participates in the State Public Employees’ Retirement System (“CalPERS”). CalPERS is a defined benefit plan that covers classified personnel who work four or more hours per day. Benefit provisions are established by State legislation in accordance with the Public Employees’ Retirement Law. The contribution requirements of the plan members are established by State statute. The actuarial methods and assumptions used for determining the rates are based on those adopted by Board of Administration of CalPERS (the “CalPERS Board”).

Active plan miscellaneous members hired on or before December 31, 2012 are required to contribute 7.0% of their monthly salary and those hired on or after January 1, 2013 are required to contribute 6.5% of their monthly salary. The required contribution rate is the difference between the actuarially determined rate and the contribution rate of employees. The actuarial methods and assumptions used for determining the rates are based on those adopted by CalPERS Board. School districts are currently required to contribute to CalPERS at an actuarially determined rate, which was 11.847%, 13.888% and 15.531% of eligible salary expenditures for fiscal years 2015-16, 2016-17 and 2017-18 respectively, and 18.062% of eligible salary expenditures for fiscal year 2018-19 and 19.721% of eligible salary for fiscal year 2019-20. The Fiscal Year 2020-21 State Budget redirected State funding paid to CalPERS in fiscal year 2019-20 towards long-term unfunded liabilities to further reduce employer contribution rates in fiscal years 2020-21 and 2021-22. As a result, the CalPERS employer contribution rate will be 20.7% in fiscal year 2020-21 and to 23.00% in fiscal

year 2021-22. The effect of the redirection of funding provided in the Fiscal Year 2020-21 State Budget is reflected in the 2019 CalPERS Schools Pool Actuarial Valuation (defined below).

The CalPERS Schools Pool Actuarial Valuation as of June 30, 2019 (the “2019 CalPERS Schools Pool Actuarial Valuation”) is the most recent actuarial valuation for the CalPERS Schools Pool Plan, in which the District participate. The actuarial funding method used in the 2019 CalPERS Schools Pool Actuarial Valuation is the “Entry Age Normal Cost Method.” The 2019 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.50% inflation and payroll growth of 2.75% compounded annually. The 2019 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.00% compounded annually (net of administrative expenses) as of June 30, 2019. The CalPERS Board adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption. The reduction in the inflation assumption results in decreases in both the normal cost and the accrued liabilities in the future. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to January 1, 2013, to those hired after such date, the projected employer contribution (as a percentage of payroll) is 23.0% and 26.3% for fiscal year 2021-22 and fiscal year 2022-23, respectively. According to the 2019 CalPERS Schools Pool Actuarial Valuation as of June 30, 2019, the funded ratio is approximately 68.5% on a market value of assets basis, as compared to the funded ratio of 70.4% reported in the Actuarial Valuation as of June 30, 2018, mainly due to the reduction in the discount rate and investment return being lower than expected. The funded ratio, on a market value basis, as of June 30, 2018, June 30, 2017, June 30, 2016, June 30, 2015, and June 30, 2014 was 70.4%, 72.1%, 71.9%, 77.5%, and 86.6%. On December 21, 2016, the CalPERS Board voted to lower the CalPERS discount rate to 7.00% over the next three years in accordance with the following schedule: 7.375% in Fiscal Year 2017-18, 7.25% in Fiscal Year 2018-19 and 7.00% in Fiscal Year 2019-20. The discount rates went into effect July 1, 2017 for the State and went into effect July 1, 2018 for K-14 school districts and other public agencies.

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

The following table sets forth the District’s annual contributions to CalPERS for Fiscal Years 2014-15 through 2019-20 and the estimated contributions for Fiscal Year 2020-21. Historically, the District has paid all required CalPERS annual contributions.

**TABLE A-6**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Annual CalPERS Regular Contributions**  
**Fiscal Years 2014-15 through 2020-21**

<u>Fiscal Year</u>	<u>District Contributions<sup>(1)</sup></u>
2014-15	\$4,026,389
2015-16	4,088,207
2016-17	5,152,911
2017-18	5,805,230
2018-19	6,950,658
2019-20	7,876,076
2020-21 <sup>(2)</sup>	8,132,218

<sup>(1)</sup> Includes CalPERS contributions for the District’s Police Officers Association members.

<sup>(2)</sup> Projected

Sources: The District.

**California Public Employees' Pension Reform Act of 2013.** The Governor signed the California Public Employee's Pension Reform Act of 2013 (the "Reform Act" or "PEPRA") into law on September 12, 2012. The Reform Act affects both CalSTRS and CalPERS, most substantially as they relate to new employees hired after January 1, 2013 (the "Implementation Date"). As it pertains to CalSTRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age, increasing the eligibility for the 2% "age factor" (the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. For non-safety CalPERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and also increases the eligibility requirement for the maximum age factor of 2.5% to age 67.

The Reform Act also implements certain other changes to CalPERS and CalSTRS including the following: (a) all new participants enrolled in CalPERS and CalSTRS after the Implementation Date are required to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (b) CalSTRS and CalPERS are both required to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (currently 12 months for CalSTRS members who retire with 25 years of service), and (c) "pensionable compensation" is capped for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for CalSTRS and CalPERS members not participating in social security.

On April 17, 2013, the PERS Board of Administration (the "PERS Board") approved new actuarial policies aimed to fully fund the pension system's obligations within 30 years. The new policies included a rate-smoothing method with a 30-year fixed amortization period for gains and losses, a five-year increase of public agency contribution rates, including the contribution rate at the onset of such amortization period, and a five year reduction of public agency contribution rates at the end of such amortization period. The new actuarial policies were first included in the June 30, 2014 actuarial valuation and were implemented in respect of the State, K-14 school district and all other public agencies in Fiscal Year 2015-16.

In 2014, PERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014, the PERS Board adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS discount rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS discount rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS discount rate to 7.0% over the next three years in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate 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 will also see their contribution rates rise. The three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans. The PERS Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these changes is the inclusion of mortality improvement to acknowledge the greater life expectancies among PERS membership and expected continued improvements.

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

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

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

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

Both STRS and PERS have substantial Statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The PERS Schools Pool had an unfunded liability, based on the market value of assets, of \$27.2 billion as of June 30, 2018, and STRS had unfunded actuarial liabilities of \$107.2 billion as of June 30, 2018. The amount of unfunded actuarially accrued liability will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. STRS and PERS each issue separate comprehensive annual financial reports that include financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, P.O. Box 15275, Sacramento, California 95851-0275 and copies of the PERS annual financial report and actuarial valuations may be obtained from the PERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information presented in these reports is not incorporated by reference in this Official Statement.

**Governmental Accounting Standards Board.** In June 2012, the Governmental Accounting Standards Board ("GASB") approved two related statements that change how State and local governments report and account for the pension benefits provided to their employees. Statement No. 67, "Financial Reporting for Pension Plans," addresses financial reporting for state and local government pension plans and

Statement No. 68, “Accounting and Financial Reporting for Pensions,” establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions and are designed to improve the reporting of pension information while increasing the transparency, consistency, and comparability of pension information across governments. The Statements relate only to accounting and financial reporting and do not extend to how governments approach pension plan funding. Governments will now report a pension liability on the face of their financial statements. At present, the difference between a government’s total pension obligation and assets available for benefits — often called the unfunded liability — is disclosed in notes, but does not appear on the face of the financial statements. Statement No. 67 will take effect for pension plans in Fiscal Years ended June 30, 2014 or later. Statement No. 68 will take effect for employers and governmental non-employer contributing entities in Fiscal Years ended June 30, 2015 or later. The District began reporting its CalSTRS obligations in its audited financial statements for Fiscal Year ended June 30, 2015. As of June 30, 2020, the District’s proportionate shares of the STRS and PERS net pension liabilities were \$13,415,523 and \$79,647,943, respectively. See “APPENDIX H – THE LESSEE’S FISCAL YEAR 2019-20 AUDITED FINANCIAL STATEMENTS.”

### **Post-Retirement Programs**

In June 2004, the Governmental Accounting Standards Board (“GASB”) pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The pronouncement required public agency employers providing other postemployment benefits (“OPEB”) to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits (“GASB 45”). In June 2015, GASB pronounced Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* (“GASB 75”). The primary objective of GASB 75, which replaced the requirements of GASB 45, is to improve accounting and financial reporting by state and local governments for OPEB obligations. GASB 75 became effective for the District in Fiscal Year ending June 30, 2018. GASB 75 requires the liability of employers and non-employer contributing entities to employees for defined benefit OPEB (“Net OPEB Liability”) 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. The Total OPEB Liability generally is required to be determined through an actuarial valuation. The District conducted an actuarial valuation of its post-retirement health care benefits as of July 1, 2019 and received a report dated April 17, 2020.

The District provides a partial contribution toward the monthly premiums for postretirement health care benefits to employees who retire from the District and meet certain age and service requirements. Employees must have a minimum of 15 years of service to the District prior to retirement, must be receiving a monthly benefit from CalPERS or CalSTRS and must elect to participate in the program. (The program ceases once the retired employee reaches the age of 65.) As of July 1, 2019, there were 2,264 eligible plan members, of which 2,185 were actively receiving benefits. The provisions and obligations to contribute are established through collective bargaining agreements between the District and various unions. The District’s contributions are advance funded each year based on a specific amount agreed upon through union negotiations. The amount deposited is calculated using a base amount, plus salary increases, less any advance deposits made in the prior year. The contributions are deposited into a fund designated to account for District monies used to reduce medical contributions paid by retirees participating in a District-sponsored group medical plan for medical insurance.

Based on an actuarial valuation of the District’s post-retirement health care benefits dated June 30, 2020 (which valuation assumed that the District has not pre-funded any portion of the obligation), the District had an estimated Net OPEB Liability of \$45 million and an annual OPEB expense of \$4.7 million..



As of June 30, 2020, the District's Net OPEB Liability as a percentage of total covered employee payroll is 32.21%.

*Changes Since Prior Valuation.* The discount rate as of the measurement date for GASB 75 purposes is 2.45%. The prior valuation used was 3.13%. The GASB 75 discount rate is based on the 20-year municipal bond rate as of June 30, 2020. The impact of the change in discount rate resulted in an increase to the Total OPEB Liability of approximately 4.44%, or \$2.1 million. The SERP offering during 2017 did not provide any special health-related subsidy. As such, no OPEB liability was explicitly measured for the SERP in the OPEB actuarial valuation dated July 1, 2019.

For additional information regarding the District's OPEB, see Appendix H – "The Lessee's Fiscal Year 2019-20 Audited Financial Statements" attached hereto.

### ***Insurance***

The District participates in two insurance joint ventures under joint powers agreements. These include the Schools Excess Liability Fund ("SELF") for excess workers' compensation coverage and the Southern California Regional Liability Excess Fund ("SCR") for the District's property and liability coverage. SELF and SCR are governed by a separate boards consisting of representatives from each member district. The governing boards which control the operations of SELF and SCR, including selection of management and approval of operating budgets, are independent of the District and other local agency members beyond representation on the governing board. SELF arranges for and provides a self-funded or additional insurance for excess liability for the District. The District pays an annual premium based upon the amounts calculated by SELF and shares surpluses and deficits proportionate to its participation in SELF.

SELF and SCR are not component units of the District. The operating budgets and financial reports of SELF and SCR are not set forth in the District's financial statements. However, fund transactions between the District and SELF and SCR, respectively, are included in the District's financial statements. Audited financial statements are available from the respective entities.

The District maintains self-insurance programs for property and liability and workers' compensation. The District funds property and liability coverage from a contribution from the unrestricted portion of General Fund. Worker's compensation is funded through payroll charges. Based upon prior claims experience, the District believes that its self-insured program and participation in SELF and SCR are sufficient to satisfy pending claims.

### ***District Debt***

***General Obligation Bonds.*** The following Table A-7 sets forth the general obligation bonds issued and outstanding as of June 30, 2020.

**TABLE A-7  
HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT  
Outstanding General Obligation Bonds**

<u>Bond Issue</u>	<u>Original Principal Amount</u>	<u>Outstanding Amount as of June 30, 2020</u>	<u>Date of Issue</u>
2005 Refunding General Obligation Bonds	\$31,725,000	\$19,550,000	June 16, 2005
2007 Refunding General Obligation Bonds	55,485,000	51,100,000	October 4, 2007
Series 2016A General Obligation Bonds	70,000,000	59,685,000	July 11, 2017

Source: The District.

*Certificates of Participation.* The District has outstanding lease obligations relating to the 2015 Series A Certificates.

The following Table A-8 sets forth the outstanding certificates of participation (the “Certificates”) of the District and the amount outstanding as of June 30, 2020.

**TABLE A-8  
HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT  
Outstanding Certificates of Participation**

<u>Certificates of Participation</u>	<u>Original Principal Amount</u>	<u>Outstanding Amount as of June 30, 2020</u>	<u>Date of Delivery</u>
Certificates of Participation (Los Angeles County Schools Pooled Financing Program) 2015 Series A (Hacienda La Puente Unified School District)	\$28,160,000	\$15,705,000	May 12, 2015

Source: Hacienda La Puente Unified School District.

***Overlapping Debt Obligations***

Set forth on Table A-9 on the following page is the report prepared by California Municipal Statistics, Inc. which provides information with respect to direct and overlapping debt within the District as of February 1, 2021 (the “Overlapping Debt Report”) based on information as of February 1, 2021. The Overlapping Debt Report is included for general information purposes only. The District has not reviewed the Overlapping Debt Report for completeness or accuracy and makes no representations in connection therewith. The Overlapping Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in Table A-9 names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in Table A-9)

produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

**TABLE A-9  
HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT  
Schedule of Direct and Overlapping Bonded Debt  
As of February 1, 2021**

2020-21 Assessed Valuation: \$15,103,773,181

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/21</u>
Metropolitan Water District	0.463%	\$ 149,225
Mount San Antonio Community College District	14.732	113,702,383
North Orange County Joint Community College District	0.076	186,659
Rio Hondo Community College District	0.178	208,915
<b>Hacienda-La Puente Unified School District</b>	<b>100.000</b>	<b>122,270,000<sup>(1)</sup></b>
City of Industry	37.916	<u>17,388,278</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$253,905,460</b>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	0.884%	\$23,268,142
Los Angeles County Superintendent of Schools Certificates of Participation	0.884	40,358
<b>Hacienda-La Puente Unified School District Certificates of Participation</b>	<b>100.000</b>	<b>30,709,949</b>
City of West Covina General Fund Obligations	1.628	3,948,226
Los Angeles County Sanitation District No. 15 Authority	10.093	259,112
Los Angeles County Sanitation District No. 18 Authority	0.216	3,029
Los Angeles County Sanitation District No. 21 Authority	11.400	<u>172,504</u>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$58,401,320</b>
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>		 \$42,086,284
 <b>COMBINED TOTAL DEBT</b>		 <b>\$354,393,064<sup>(2)</sup></b>

<sup>(1)</sup> Excludes issue to be sold.

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

Ratios to 2020-21 Assessed Valuation:

<b>Direct Debt (\$122,270,000)</b> .....	<b>0.81%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	1.68%
<b>Combined Direct Debt (\$152,979,949)</b> .....	<b>1.01%</b>
Combined Total Debt .....	2.35%

Ratios to Redevelopment Incremental Valuation (\$3,324,760,105):

Total Overlapping Tax Increment Debt.....	1.27%
---	-------

Source: California Municipal Statistics, Inc.

## ***Academic Performance and Instructional Initiatives***

In connection with the reauthorization of the Elementary and Secondary Education Act of 1965, the United States Congress passed the federal No Child Left Behind Act of 2001 (the “NCLB Act”). Under the NCLB Act, a state is required to identify a local educational agency (“LEA”) for improvement (“Program Improvement”) if the LEA fails to make federal Adequate Yearly Progress (“AYP”) requirements, evaluated by state standards, for two consecutive years. The State evaluates AYP based on, among other things, a LEA’s (1) percentage participation rates in English-language arts and mathematics assessments measured LEA-wide, by grade span (grades 2 through 5, grades 6 through 8 and grade 10) and by numerically significant subgroups within grade spans, (2) graduation rate criteria LEA-wide, if a LEA has high school students, and (3) percentage of students performing at or above the proficient level in English-language arts and mathematics (also measured LEA-wide, by grade span and by subgroups) as compared to performance targets established under the NCLB Act. In addition, the NCLB Act requires that each LEA identified for Program Improvement take a variety of actions, including but not limited to developing or revising an improvement plan, promptly implementing that plan and informing parents of the LEA’s Program Improvement status. The District adopted an LEA Program Improvement Plan designed to address these academic performance concerns and has received additional categorical funding from the State for this purpose.

The District cannot predict what actions it will take or what actions will be taken in the future by the State, Congress or the President in connection with the proposed reauthorization of the Elementary and Secondary Education Act of 1965 or the waiver of certain requirements set forth therein. Further, the United States Secretary of Education may terminate any waivers that the Department of Education has granted if such waivers are superseded by the reauthorization of the Elementary and Secondary Education Act of 1965. To the extent that the reauthorization of the Elementary and Secondary Education Act of 1965 or the waivers result in reduced revenues or increased expenses for the District or requires programmatic changes, the District will be required to make adjustments to its budget.

## **STATE FUNDING OF EDUCATION**

### ***General***

Public school district revenues consist primarily of guaranteed State moneys, *ad valorem* property taxes and funds received from the State and federal government in the form of categorical aid, which are amounts restricted to specific categories of use, under various ongoing programs. All State apportionment of funds pursuant to the Local Control Funding Formula (collectively, “State Aid”) is subject to the appropriation of funds in the State’s annual budget. Decreases in State revenues may affect appropriations made by the State Legislature to the District. See “District Financial Information” herein. Beginning with the Fiscal Year ending June 30, 2014, the State has replaced the former revenue limit formula for State Aid to school districts with the Local Control Funding Formula.

Historically, approximately 91% of the annual District General Fund revenues have consisted of payments from or under the control of the State. Payments made to K-12 public schools and public colleges and universities are priority payments for State funds and are expected to be made prior to other State payment obligations. Although the State Constitution protects the priority of payments to K-12 schools, college and universities, it does not protect the timing of such payments and other obligations may be scheduled and have been scheduled to be paid in advance of those dates on which payments to school districts are scheduled to be made.

A large percentage of a school district’s budgeted revenues comes from categorical funds provided exclusively by the State and federal government. These funds are to be used for specific programs and typically cannot be used for any other purpose. The State lottery is another source of

funding for school districts, providing approximately 1.7% of a school district's general fund budget. Every school district receives the same amount of lottery funds per pupil from the State. The initiative authorizing the State lottery mandates the funds be used for instructional purposes and prohibits their use for land acquisition, construction or research and development. A small part of a school district's budget is from local sources other than property taxes, such as interest income, donations and sales of property. Some school districts derive a significant portion of their operating funds from voter-approved parcel taxes.

### ***Local Control Funding Formula***

**General.** Funding for school districts, charter schools and county offices of education in connection with the Local Control Funding Formula ("LCFF") includes State apportionments for general operating costs ("State Aid") and funding for categorical programs. During Fiscal Year 2017-18, approximately 78.55% of the District's General Fund revenues were pursuant to the LCFF. During Fiscal Year 2018-19, approximately 80.30% of the District's General Fund revenues consisted of funds determined under the LCFF.

Pursuant to the LCFF, LEAs are required to, among other things show progress toward an average class enrollment of no more than 24 pupils in kindergarten through grade 3 unless the LEA has collectively bargaining an annual alternative average class enrollment in those grades for each school. The LCFF allocates State funding based on a school district's demographics. Each school district receives a base grant (the "Base Grant") per ADA in an amount determined by the State. In addition, based on the ADA of the given demographic classification, school districts are eligible to receive a 20% supplemental grant (the "Supplemental Grant") for students classified as English learners ("EL"), students eligible to receive a free or reduced price meal ("FRPM"), and students classified as foster youth ("LI"). The State expects the Supplemental Grants to reflect the additional costs associated with the education of EL, FRPM and LI students. In addition, school districts are eligible to receive a concentration grant (the "Concentration Grant") if the school district has a significant concentration of students classified as EL, FRPM or LI (collectively, "Targeted Disadvantaged Students"). The LCFF uses an unduplicated student count to determine the amount of the Supplemental Grant and Concentration Grant authorized for a school district. A school district may only count a student one time if such student classified in more than one of the categories EL, FRPM and LI. In the event the percentage of EL or LI students exceeds 55% of the school district's total enrollment, the LCFF provides additional funding to the school district through a Concentration Grant. The Concentration Grant will be an amount equal to an additional 50% of the school district's adjusted Base Grant for each EL or LI student above the 55% threshold.

The Base Grants are based on four uniform, grade-span base rates. For Fiscal Year 2018-19, the LCFF proposes to provide to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$8,235 per ADA for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,571 per ADA for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$7,796 per ADA for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$9,269 per ADA for grades 9 through 12. However, the amount of funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State.

The Fiscal Year 2018-19 State Budget provided \$3.7 billion in new funding for the LCFF, which fully implements the LCFF two years earlier than originally scheduled, including both a 2.71% cost of living adjustment and an additional \$570 million above the cost of living adjustment as an ongoing increase to the LCFF.

The following Table A-10 sets forth the District's projected ADA for EL Students, FRPM Students, and Foster Youth on an unduplicated basis and the District's projected LCFF annual allocation

amounts for Fiscal Years 2019-20 through 2022-23. LCFF funding reflects the aggregate of, among other things, Base Grant, Supplemental Grant and Concentration Grant funding, funding from K-3 class size reduction and grades 9-12 adjustment. The estimated ADA and enrollment of EL Students, FRPM Students, and Foster Youth on an unduplicated basis are based on, among other things, surveys of District students and estimated financial information prepared by the District.

**TABLE A-10**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Local Control Funding Formula**  
**Projected Annual Allocation**  
**Fiscal Years 2020-21 through 2022-23 <sup>(1)(2)</sup>**

<u>Fiscal Year</u>	<u>ADA<sup>(3)</sup></u>	<u>LCFF Annual Allocation</u>
2020-21	17,061.59	\$10,123
2021-22	16,720.36	10,104
2022-23	16,385.95	10,107

<sup>(1)</sup> Estimated at P-2.

<sup>(2)</sup> Assumes 90% of District enrollment is comprised of unduplicated EL Students, FRPM Students and Foster Youth.

<sup>(3)</sup> Excludes charter schools.

Source: The District.

**Economic Recovery Target.** During the period in which LCFF was phased in, certain LEAs were eligible for an additional funding amount (the “Economic Recovery Target”). The Economic Recovery Target consists of funding, which the State adds on to LCFF funding for school districts and charters. The Economic Recovery Target was generally available if the school district or charter school would have generated greater revenues if the revenue limit’s deficit factor were retired and categorical funding had been restored than under the LCFF. Under the LCFF, only school districts and charter schools that were at, or below, the 90th percentile of per-pupil funding rates of school districts under the prior revenue limit system as determined at the 2013-14 P-2 Certification were eligible for Economic Recovery Target payments. With the full implementation of the LCFF in Fiscal Year 2018-19, the Economic Recovery Target has become a permanent add-on to LCFF formula funding for eligible LEAs.

**Local Control Funding Formula Gap Funding.** Prior to the full implementation of the LCFF in Fiscal Year 2018-19, each school district had a gap between the school district’s prior year funding and the target amount of funding under the LCFF for the current year. In order to address this shortfall, the LCFF provided school districts with additional funding based on the percentage of the gap (“LCFF Gap Funding”). The State provided school districts with the same percentage of LCFF Gap Funding, but the dollar amount of the LCFF Gap Funding varied between school districts. For Fiscal Year 2014-15 and each fiscal year thereafter, an LEA’s funding amount was based on a calculation of its target entitlement under the LCFF and technical calculations related to adjustments to its prior year’s funding. With the full implementation of the LCFF in Fiscal Year 2018-19, the target entitlement represents the actual amount of funding received by the District.

**Local Control and Accountability Plan.** Pursuant to the LCFF, school districts, county offices of education and charter schools are required to develop, adopt and annually update a three-year local control and accountability plan (“LCAP”) beginning July 1, 2014. The LCAP is required to identify goals and measure progress for student subgroups across multiple performance indicators.

The State’s priorities include, among other things, compliance with the *Williams* settlement with respect to appropriateness of teacher assignments, ensuring that teachers are fully credentialed in the

subject areas and for the pupils they are teaching, and ensuring that every pupil in the school district has sufficient access to the standards-aligned instructional materials as determined in accordance with the Education Code. See “District Financial Information – Funding from the Quality Education Investment Act of 2006” herein. In addition, school facilities are to be maintained in good repair. The State requires proper implementation of the academic content and performance standards adopted by the State Board of Education and will measure parental involvement (e.g., efforts to seek input from parents or guardians regarding decisions for the district and the school site), pupil achievement (e.g. performance on Statewide assessments, the Academic Performance Index, readiness for college or career technical education, progress towards English proficiency, performance on advance placement examinations), pupil engagement (e.g., school attendance rates, chronic absenteeism rates, middle school dropout rates, high school dropout and graduation rates, pupil suspension and expulsion rates, etc.), access and enrollment in a broad course of study including the core subject areas and programs and services developed and provided to Targeted Disadvantaged Students, and pupil outcomes in the subject areas comprising a broad course of study.

In November 2014, the State Board of Education adopted final regulations to govern the expenditure of the Supplemental Grant and Concentration Grant funding. These regulations require school districts, county offices of education, and charter schools to increase and improve services for Targeted Disadvantaged Students and provide authority for school districts to spend funds school-wide when significant populations of Targeted Disadvantaged Students attend a school. Pursuant to the regulations, LEAs are required to obtain input from parents of students and the general public in connection with the development, revision and updates of LCAPs. In addition, the regulations require County superintendents to review school district LCAPs and require county offices of education to provide technical assistance if they disapprove an LCAP. The Education Code grants the State Superintendent of Public Instruction authority to intervene if a school district or charter school fails to show improvement across multiple subgroups in three out of four consecutive years.

***Average Daily Attendance***

The Fiscal Year 2020-21 District Adopted Budget projects a decrease in the ADA as compared to Fiscal Year 2019-20. The following Table A-11 sets forth the District’s annual ADA record for Fiscal Year 2015-16 through 2019-20, and the projected annual ADA for Fiscal Year 2020-21.

**TABLE A-11  
HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT  
Annual Average Daily Attendance<sup>(1)</sup>  
Fiscal Years 2015-16 through 2020-21**

<u>Fiscal Year</u>	<u>K-12</u>
2015-16	18,586.48
2016-17	18,122.85
2017-18	17,709.74
2018-19	17,395.21
2019-20	17,109.30
2020-21 <sup>(2)</sup>	17,061.59

<sup>(1)</sup> Includes non-public school special education students.

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

Sources: Hacienda La Puente Unified School District audited financial statements for Fiscal Years 2015-16 through 2019-20, and District Adopted Budget for Fiscal Year 2020-21.

***Education Revenue Augmentation Fund.*** As part of the Fiscal Year 1992-93 State budget resolution, the State required counties, cities and special districts to shift *ad valorem* property tax

revenues to school districts by contributing to the Education Revenue Augmentation Fund (“ERAF”) in lieu of direct payments to school districts from the general fund of the State (the “State General Fund”). This transfer is commonly referred to as the “ERAF shift.” The Fiscal Year 1993-94 State Budget Act required a similar shift of *ad valorem* property taxes to school districts from local government entities, which shift of *ad valorem* property taxes has continued. The manner in which the shift of *ad valorem* property taxes has occurred has varied year by year. As a result of the various shifts of *ad valorem* taxes, school districts no longer receive ERAF funds. See Table 6 in the forepart of this Official Statement which sets forth real property tax levies and collections for the District’s last ten Fiscal Years, in the Section entitled “- Assessed Valuation of Property within the District – Tax Rates, Levies and Collections”.

Proposition 1A (defined herein) generally prohibited the State from shifting to schools or community colleges any share of *ad valorem* property tax revenues allocated from the 1% levy to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. However, Proposition 1A provided that beginning in Fiscal Year 2008-09, the State could shift to schools and community colleges up to 8% of local government property tax revenues from the general 1% *ad valorem* property tax levy, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Notwithstanding the aforementioned shifts in property tax revenues in prior fiscal years, certain levels of funding are guaranteed as described in “ – Proposition 98” below. *Ad valorem* property taxes levied to pay debt service on the District’s general obligation bonds, are not subject to the shifts described above for *ad valorem* property taxes provided from the 1% levy. Further, the State’s ability to initiate future exchanges and shifts of funds will be limited by Proposition 22. See “California Constitutional and Statutory Provisions relating to *Ad Valorem* Property Taxes, District Revenues and Appropriations—Proposition 1A” and “ – Proposition 22” herein.

### ***Charter School Funding***

A charter school is a public school authorized by a school district, county office of education or the State Board of Education. State law requires that charter petitions be approved if they comply with the statutory criteria. The District has certain fiscal oversight and other responsibilities with respect to both affiliated and independent charter schools located in the District geographic boundaries. However, independent charter schools are separate local education agencies, the funding for which is primarily revenues from the State. According, independent charter schools are not included in the District’s audit report and have control over their staffing and budgets. Accordingly, information regarding enrollment, average daily attendance (“ADA”), budgets and other financial information relating to such independent charter schools is not included in the District’s audit reports or in this Official Statement unless otherwise noted.

Pursuant to the LCFF, charter schools will receive a Base Grant per ADA and will be eligible to receive Supplemental Grants and Concentration Grants in the same manner as school districts. See “ – Local Control Funding Formula” herein. In addition, charter schools are eligible for certain categorical funds which are provided separate from the Base Grant. As of June 30, 2018, there were three fiscally independent charter schools and one affiliated charter schools within the District’s boundaries.

### ***Proposition 98***

On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act.” Proposition 98 changed State funding of public education below the university level and the operation of the State’s appropriation limit as described in Article XIII B of the State Constitution,



primarily by guaranteeing K-14 schools a minimum share of State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), there are currently three tests which determine the minimum level of K-14 funding. See “Constitutional and Statutory Provisions Relating to *Ad valorem* Property Taxes, District Revenues and Appropriations” herein. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the revenue limit to K-14 schools under Article XIII B of the State Constitution.

Proposition 98 permits the State Legislature, by two-thirds vote of both houses and with the Governor’s concurrence, to suspend the K 14 schools’ minimum funding formula for a one-year period. The amount of suspension is eventually repaid according to a specified State Constitutional formula, thereby restoring Proposition 98 funding to the level that would have been required in the absence of such suspension. The 2020-21 State Budget (as herein defined) fully funds the Proposition 98 minimum guarantee for Fiscal Year 2020-21. In addition, due to declining revenue, the Proposition 98 guarantee level of \$70.9 billion in the 2020-21 State Budget is more than \$10 billion below the minimum guarantee previous year. The 2020-21 Budget offsets this loss in several ways and defers \$12.9 billion in payments into the next Fiscal Year 2021-22 to preserve programs.

### ***State Budget***

***General.*** The District’s operating income consists primarily of two components, which include the State Aid portion funded from the State General Fund and a locally generated portion derived from the District’s share of the general 1% *ad valorem* property tax levy authorized by the State Constitution. In addition, school districts, such as the District, may be eligible for other special categorical funding, including funding for certain State and federal programs. Currently, the District receives approximately 91% of District General Fund revenues from funds of or controlled by the State. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

**The following description of the State’s budget has been obtained from publicly available information which the District believes to be reliable; however, none of the Underwriter, the District, their counsel, or the Financial Advisor guarantees the accuracy or completeness of this information and have not independently verified such information. Additional information regarding State budgets is available at various State-maintained websites, including [www.dof.ca.gov](http://www.dof.ca.gov). These websites are not incorporated herein by reference and none of the Underwriter, the District, their counsel, or the Financial Advisor makes any representation as to the accuracy of the information provided therein.**

***The State Budget Process.*** The State’s fiscal year begins on July 1 and ends on June 30. According to the State Constitution, the Governor of the State (the “Governor”) is required to propose a budget for the next fiscal year (the “Governor’s Budget”) to the State Legislature no later than January 10 of each year. State law requires the Governor to update the Governor’s Budget projections and budgetary proposals by May 14 of each year (the “May Revision”). Proposition 25, which was adopted by voters in the State at an election held on November 2, 2010, amended the State Constitution such that a final budget must be adopted by a simple majority vote of each house of the State Legislature by no later than June 15 and the Governor must sign the adopted budget by no later than June 30. The budget becomes law upon the signature of the Governor (the “Budget Act”).

Under State law, the annual proposed Governor’s Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor’s Budget, the State Legislature takes up the proposal. Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law.

The primary source of the annual expenditure authorizations is the Budget Act, as approved by the State Legislature and signed by the Governor. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature. Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the State Legislature and be signed by the Governor. Bills containing K-14 education appropriations require only a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt. However, delays in the adoption of a final State budget in any fiscal year may affect payments of State funds during such budget impasse. See “ – State Funding of Schools Without a State Budget” herein for a description of payments of appropriations during a budget impasse.

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

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

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

**K-12 Education.** The 2020-21 Budget includes total funding of \$98.8 billion (\$48.1 billion General Fund and \$50.7 billion other funds) for all K-12 education programs and provides for \$1.9 billion of LCFF apportionment deferrals in Fiscal Year 2019-20, increasing to \$11 billion LCFF apportionment deferrals in Fiscal Year 2020-21 to allow LCFF funding to remain at Fiscal Year 2019-20 levels in both Fiscal Years. The 2020-21 Budget suspends the statutory LCFF cost-of-living adjustment in Fiscal Year

2020-21. Of the total LCFF deferrals, \$5.8 billion will be triggered off in Fiscal Year 2020-21 if the federal government provides sufficient funding that can be used for this purpose.

*Proposition 98 Guarantee.* As a result of declining State revenue, the 2020-21 Budget states that the constitutional Proposition 98 guarantee level of \$70.9 billion is more than \$10 billion below the minimum guarantee at the 2019 Budget Act, a loss which is offset by the 2020-21 Budget and defers \$12.9 billion in payments to preserve programs and to provide K-12 schools, as well as California community colleges, the resources necessary to safely reopen. In addition, the 2020-21 Budget commits to making supplemental appropriations above the Proposition 98 guarantee for several years starting in Fiscal Year 2021-22, which will accelerate General Fund support for schools over the multi-year forecast period.

*Learning Loss Mitigation (COVID-19).* The 2020-21 Budget includes a one-time investment of \$5.3 billion (\$4.4 billion federal Coronavirus Relief Fund, \$539.9 million Proposition 98 General Fund, and \$355.2 million federal Governor's Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures. These funds are to be allocated to local educational agencies on an equity basis, with an emphasis on ensuring the greatest resources are available to local educational agencies serving students with the greatest needs, and are intended to track and mitigate the inequitable impact that the COVID-19 pandemic has had on different student populations, including low-income students and students with disabilities. Specifically, funds will be allocated in the following manner: (i) \$2.9 billion based on the LCFF supplemental and concentration grant allocation; (ii) \$1.5 billion based on number of students with exceptional needs; and (iii) \$979.8 million based on total LCFF allocation. These funds may be used for purposes including the following: learning supports that begin prior to the start of the school year, and the continuing intensive instruction and supports into the school year; extending the instructional school year, including an earlier start date, by increasing the number of instructional minutes or days; providing additional academic services for pupils, including diagnostic assessments of student learning needs, intensive instruction for addressing gaps in core academic skills, additional instructional materials or supports, or devices and connectivity for the provision of in-classroom and distance learning; and also providing integrated student supports to address other barriers to learning, such as the provision of health, counseling or mental health services; professional development opportunities to help teachers and parents support pupils in distance-learning contexts; access to school breakfast and lunch programs; or programs to address student trauma and social-emotional learning.

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

*Revised CalPERS and CalSTRS Contributions.* The 2020-21 Budget redirects \$2.3 billion appropriated in the 2019 Budget Act to CalSTRS and CalPERS for long-term unfunded liabilities to reduce employer contribution rates in Fiscal Years 2020-21 and 2021-22. This reallocation will further reduce the CalSTRS employer rate from 18.41 percent to approximately 16.15 percent in Fiscal Year 2020-21 and from 17.9 percent to 16.02 percent in Fiscal Year 2021-22. The CalPERS Schools Pool employer contribution rate will be further reduced from 22.67 percent to 20.7 percent in Fiscal Year 2020-21 and from 24.6 percent to 22.84 percent in Fiscal Year 2021-22.

*Allocation of Federal Funds.* In addition to the federal Coronavirus Relief Fund and Governor's Emergency Education Relief Fund allocated to K-12 education, the 2020-21 Budget appropriates \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds that California was recently awarded. Of this amount, 90 percent (\$1.5 billion) will be allocated to local educational agencies in proportion to the amount of Title I-A funding they receive to be used for COVID-19 related costs. The remaining 10 percent (\$164.7 million) is available for COVID-19 related state-level activities, as follows: (i) \$112.2 million to provide up to \$0.75 per meal for local educational agencies participating in the National School Lunch Program, School Breakfast Program, Seamless Summer Option, or Summer Food Service Program and serving meals between March 2020 and August 2020 due to physical school closures caused by the COVID-19 pandemic; (ii) \$45 million for grants to local educational agencies, including county offices of education, to coordinate or expand community schools to increase access to health, mental health, and social service supports for high-needs students; and (iii) \$1.5 million for the Department of Education for State operations costs associated with the COVID-19 pandemic.

*Average Daily Attendance.* To help minimize additional learning loss related to COVID-19, the 2020-21 Budget presumes that local educational agencies should transition back to providing in-classroom instruction in the 2020-21 school year, provided that if local or State public health official orders necessitate a school closure, local educational agencies will need flexibility to provide distance learning. The 2020-21 Budget includes a hold harmless for the average daily attendance used to calculate school funding for all local educational agencies and requirements for distance learning to ensure that, when in-person instruction is not possible, students continue to receive access to a quality education via distance learning.

In this regard, the 2020-21 Budget includes: (i) a hold-harmless for the purpose of calculating apportionment in Fiscal Year 2020-21; average daily attendance shall be based on the 2019-20 year, except for new charter schools commencing instruction in Fiscal Year 2020-21; (ii) an exemption for local educational agencies from the annual minimum instructional minutes requirement; (iii) requirements for distance learning services, including the provision of devices and connectivity and supports for students with exceptional needs, English language learner students, youth in foster care, and youth experiencing homelessness, as well as students in need of mental health supports; and (iv) distance learning attendance requirements, including documentation of daily student participation, weekly engagement records, and attendance reporting for purposes of chronic absenteeism tracking.

*Employee Protections.* The 2020-21 Budget includes the suspension of the August 15, 2020, layoff window for teachers and other non-administrative certificated staff and suspension of layoffs for classified staff working in transportation, nutrition, and custodial services from July 1, 2020 through June 30, 2021. The 2020-21 Budget also includes (i) the intent of the State Legislature that school districts, community college districts, joint powers authorities, and county offices of education retain all classified employees in Fiscal Year 2020-21; and (ii) an increase of \$60 million Proposition 98 General Fund to provide a match of State funds for participating classified employees to be paid during the summer recess period.

Other significant features of the 2020-21 Budget affecting K-12 schools include the following:

- **Special Education** – The 2020-21 Budget increases special education base rates to \$625 per pupil, and provides \$100 million to increase funding for students with low-incidence disabilities.
- **Child Care** - Of the \$350.3 million received by California through the CARES Act for COVID-19 related child care activities, the 2020-21 Budget applies \$144.3 million for State costs associated with SB 89 expenditures, family fee waivers, and provider payment protection; \$125

million for voucher provider hold harmless and stipends; and \$73 million to continue care for at-risk children and essential workers

- ***Learning Continuity and Attendance Plan*** – To replaces the annual LCAP requirement with a Learning Continuity and Attendance Plan, with public stakeholder engagement, to outline local education agencies compliance with applicable provisions, including student participation and attendance reporting, device accessibility and instruction. The 2020-21 Budget requires the State Superintendent to develop a template of this plan for use by local educational agencies which will include a description of how such agencies will provide continuity of learning during the COVID-19 pandemic, expenditures related to addressing the impacts of the pandemic, and how such agencies are increasing or improving services in proportion to concentration funding that is received under the LCFF.

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

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

***Deferrals and COLA.*** The 2020-21 Budget deferred LCFF apportionments of about \$1.9 billion for K-12 funding from Fiscal Year 2019-20 to July in Fiscal Year 2021-22 and about \$11 billion of more deferrals from Fiscal Year 2020-21 to Fiscal Year 2021-22. The Proposed 2021-22 State Budget proposes to pay down \$9.2 billion of scheduled K-12 LCFF deferrals, which effectively eliminates most of the deferrals for apportionments originally scheduled to begin in February 2022. However, this pay down does not eliminate the deferral of the June 2022 apportionment to July 2022, nor does such pay down impact the deferral of February 2021 through June 2021 apportionments. The repayment schedule for these deferrals remains as provided in the 2020-21 Budget, with local educational agencies receiving those deferred apportionments from July through November 2021 instead. The proposed COLA for LCFF in Fiscal Year 2021-22 is 3.84% – a compounded amount that encompasses a 2.31% COLA for 2020-21 and an additional 1.5% for 2021-22 (translating to about \$2 billion) – and is applied to the LCFF base grants. The Proposed 2021-22 State Budget projects a net decline in ADA Statewide.

Significant features of the Proposed 2021-22 State Budget affecting K-12 public schools include the following:

- ***Support for Reopening for In-Person Instruction.*** A \$2 billion one-time Proposition 98 General Fund appropriation to augment resources for schools to offer in-person instruction safely, available on a per-pupil basis for all county schools, school districts and classroom-based charter schools that are open for in-person instruction by specified dates.
- ***Learning-Loss Interventions.*** To address learning loss due to the COVID-19 pandemic, a \$4.6 billion one-time Proposition 98 General Fund appropriation for targeted interventions that focus on students from low-income families, English language learners, youth in foster care and homeless youth, including an extended school year or summer school.
- ***Hold Harmless.*** The Proposed 2021-22 State Budget does not include a new ADA hold-harmless provision in 2021-22. However, because of the ADA hold-harmless provision in the 2020-21 Budget, local education agencies that experience enrollment declines in 2021-22 will retain the ability to receive apportionment based on the higher of their 2019-20 or 2020-21 ADA, under existing statutes.
- ***Special Education Funding.*** A \$300 million ongoing Proposition 98 General Fund appropriation for the Special Education Early Intervention Grant to increase evidence-based services for infants, toddlers, and preschoolers. A \$5 million one-time Proposition 98 General Fund appropriation to establish professional learning networks.
- ***Community Schools.*** A \$264.9 million one-time Proposition 98 General Fund appropriation to enable local education agencies to expand existing networks of community schools and establish new community schools, and to coordinate services to these schools with priority given to high-poverty communities.
- ***Student Mental Health.*** A \$400 million one-time appropriation of a mix of federal funds and General Fund, available over multiple years, to implement an incentive program through Medi-Cal Managed Care Plans, administered by county behavioral health departments and schools, to increase the number of students receiving preventive care and early intervention behavioral health services from schools, providers in schools and school-based health centers.
- ***Early Education.*** A \$250 million one-time Proposition 98 General Fund appropriation, available over multiple years, to encourage expansion of transitional kindergarten to younger children.
- ***Pension Costs.*** The 2020-21 Budget redirected \$2.3 billion of funds previously designated for a long-term buy-down of pension liabilities, and instead used them to reduce local school employer pension contributions in 2020-21 and 2021-22. The Proposed 2021-22 State Budget proposes, for 2021-22, CalSTRS apply \$820 million to reduce the employer contribution rate from 18.1% to about 15.92%, and CalPERS apply \$330 million to reduce the CalPERS School Pool employer contribution rate from 24.9% to 23%.

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

The LAO estimates that the Governor had a \$15.50 billion surplus to allocate in the Proposed 2021-22 State Budget, and that the Governor allocated approximately \$8.10 billion to one-time or temporary spending, approximately \$2.90 billion to the Special Fund for Economic Uncertainties (“SFEU”), approximately \$2.50 billion to revenue reductions, approximately \$1.30 billion to ongoing spending (the costs of which the LAO estimates will grow slightly over time to \$1.40 billion by fiscal year 2024-25), and approximately \$700 million to repay State debts and liabilities. The LAO comments that the Proposed 2021-22 State Budget provides a reasonable mix of one-time and ongoing spending.

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

Regarding the Governor’s proposed plan for reopening in-person instruction, the LAO Report expresses concern that the proposal for offering in-person instruction is likely unfeasible and could discourage school district participation, given the short time frame and significant steps schools would be required to take. To be open by February 16, 2021, schools would only have a few weeks to complete their reopening plans, arrange routine testing, and develop collective bargaining agreements with their labor unions. It is also unclear whether the State and local health departments have the capacity to provide the support and technical assistance necessary to help schools implement their reopening plans in such a short time frame. The LAO Report suggests that the Legislature could modify the proposal to address these concerns.

The LAO Report recommends allocating a greater share of funding to paying down deferrals and addressing pension cost increases. Recent federal legislation—approved shortly before the release of the Proposed 2021-22 State Budget—is likely to provide one-time funding in Fiscal Year 2021-22 in amounts similar to the \$7 billion in State and federal funds to address COVID-19-related costs and mitigate learning loss contemplated in the Proposed 2021-22 State Budget. Although some additional State funding directed toward academic support and reopening schools might be warranted, the LAO Report suggests additional budget resources be directed to making more progress on (1) paying down deferrals or (2) mitigating future cost increases related to pensions.

The LAO Report is available on the LAO website at [www.lao.ca.gov](http://www.lao.ca.gov). The Lessee can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or

timeliness of information posted therein, and such information is not incorporated herein by such reference.

***Additional Information.*** Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the State budget may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget.” Various analyses of the budget may be found at the website of the LAO at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found via the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information presented in these websites is not incorporated by reference in this Official Statement.

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

#### ***State Funding of Schools without a State Budget***

Although the State Constitution requires that the State Legislature adopt a budget for the State by June 15 of the prior fiscal year and that the Governor sign a budget by June 30, this deadline has been missed from time to time. Delays in the adoption of a Budget Act in any fiscal year could impact the receipt of State funding by the District. 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), et al. (also referred to as *White v. Davis*) (“*Connell*”). The California Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of State funds during a budget impasse only when payment is either (i) authorized by a “continuing appropriation” enacted by the State Legislature, (ii) authorized by a self-executing provision of the State Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the State Constitution—the provision establishing minimum funding of K-14 education enacted as part of Proposition 98—did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. Nevertheless, the State Controller has concluded that the provisions of the State Education Code establishing K-12 and county office of education revenue limit funding do constitute continuing appropriations enacted by the State Legislature and, therefore, has indicated that State payments of such amounts would continue during a budget impasse. The State Controller, however, has concluded that K-12 categorical programs are not authorized pursuant to a continuing appropriation enacted by the State Legislature and, therefore, cannot be paid during a budget impasse. To the extent the *Connell* decision applies 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 some payments to the District while such required legislative action is delayed, unless the payments are self-executing authorizations, continuing appropriations or are subject to a federal mandate. However, the District does not expect any delays in payments from the State to adversely affect its ability to pay the principal of and interest with



respect to the Certificates described in the forepart of this Official Statement, which are payable from voter-approved *ad valorem* property taxes.

### ***Limitations on School District Reserves***

On June 15, 2014, the State Legislature approved Senate Bill 858 (“SB 858”), an education omnibus bill. SB 858 was approved by the Governor on June 21, 2014. In connection with voter approval of Proposition 2 (2014) in November 2014 with respect to the State’s Rainy Day Fund, SB 858 amended the Education Code to limit school district reserves. In addition to the conditions described herein, additional conditions must be satisfied before the reserve limitations are operative. Pursuant to Proposition 2 (2014), in any fiscal year following a year in which the State has made a transfer into the Public School System Stabilization Account and all other applicable conditions have been satisfied, the combined unassigned and assigned ending fund balance in any budget adopted or revised by a school district may not be (i) more than two times the amount of the minimum recommended reserve specified under the Education Code for school districts such as the District with an ADA of less than 400,000 or (ii) more than three times the amount of the minimum recommended reserve specified under the Education Code for school districts with an ADA of 400,000 or greater. Further, a county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive fiscal years within a three-year period if certain extraordinary fiscal circumstances exist.

The State-imposed minimum recommended reserve for the District, which is accounted for in the Reserve for Economic Uncertainties, is an amount equal to 6% of General Fund expenditures and other financing uses. The District cannot predict the extent to which the State will fund the Public School System Stabilization Account. In addition, the District cannot predict what steps it will implement, if any, to adjust its budgeted reserves to comply with the amended Education Code. Further, the District cannot predict whether the limitations on reserves in the Education Code, as amended, will apply solely to fund balances in the District’s General Fund or if it will apply to other funds of the District. However, the District does not expect the limitations on reserves in the Education Code, as amended, to adversely affect its ability to pay the principal of and interest with respect to the Certificates described in the forepart of this Official Statement, which are payable from voter-approved *ad valorem* property taxes.

## **CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO *AD VALOREM* PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS**

### **Constitutionally Required Funding of Education**

The State Constitution requires that from all State revenues there shall first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases as well as increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

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

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). On June 3, 1986, California voters approved Proposition 46 (“Proposition 46”) which amended Article XIII A to permit local governments and school districts to increase the *ad valorem* property tax rate above 1% if two-thirds of those voting in a local election approve the issuance of such bonds and the proceeds of such bonds are used to acquire or improve real property.

The provisions of Article XIII A were subsequently modified pursuant to Proposition 39, which was approved by California voters on November 7, 2000. See “ – Proposition 39” below. Article XIII A limits the amount of any ad valorem property tax to 1% of the full cash value thereof, except that additional ad valorem property taxes may be levied to pay debt service on (i) bonded indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the school district or community college district, but only if certain accountability measures are included in the proposition. The Measure R Authorization and the Measure Y Authorization were approved under Proposition 39. See “ – Proposition 39” herein.

Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by substantial damage, destruction or other factors including a general economic downturn. Subsequent amendments further limit the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on bonded indebtedness approved by the requisite percentage of voters voting on the proposition.

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

Other amendments to the California Constitution have implemented and modified limits on reassessment of property value upon transfers. Most recently, Proposition 19 limits people who inherit family properties from keeping a low property tax base resulting from the 2% restriction on increases, unless they use the home as their primary residence, but it also allows homeowners who are over 55 years of age, disabled, or victims of a wildfire or natural disaster to transfer their assessed value of their primary home to a newly purchased or newly constructed replacement primary residence up to three times.

### **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 ad valorem property tax (except to pay voter-approved indebtedness). The 1% ad valorem property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the up to 2% annual inflationary adjustment of the 1% tax base 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. Separate ad valorem property taxes to pay voter approved indebtedness such as general obligation bonds are levied by the County on behalf of the local agencies. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the Proposition 13 limit except for taxes to support such indebtedness.

The full cash value of taxable property under Article XIII A represents the maximum taxable value for property. Accordingly, the fair market value for a given property may not be the equivalent of the full cash value under Article XIII A. During periods in which the real estate market within the District evidences an upward trend, the fair market value for a given property, which has not been reappraised due to a change in ownership, may exceed the full cash value of such property. During periods in which the real estate market demonstrates a downward trend, the fair market value of a given property may be less than the full cash value of such property and the property owner may apply for a “decline in value” reassessment pursuant to Proposition 8. Reassessments pursuant to Proposition 8, if approved by the Office of the County Assessor, lower valuations of properties (where no change in ownership has occurred) if the current value of such property is lower than the full cash value of record of the property. The value of a property reassessed as a result of a decline in value may change, but in no case may its full cash value exceed its fair market value. When and if the fair market value of a property which has received a downward reassessment pursuant to Proposition 8 increases above its Proposition 13 factored base year value, the Office of the County Assessor will enroll such property at its Proposition 13 factored base year value.

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

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979 thereby adding Article XIII B to the State Constitution (“Article XIII B”). In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Under Article XIII B, the State and each local governmental entity have an annual “appropriations limit” and are not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, State subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in costs of living and changes in population, and adjusted where applicable for transfer of financial responsibility of providing services to or from another unit of government. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. However, in the event that a school district’s revenues exceed its spending limit, the district may, in any fiscal year, increase its appropriations limit to equal its spending by borrowing appropriations limit from the State, provided the State has sufficient excess appropriations limit in such year. See “State Funding of Education—State Budget” herein.

The District’s annual appropriation limit for Fiscal Year 2019-20 was \$126,435,375.87. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and federal governments that are tied to special programs. For Fiscal Year 2020-21, the annual appropriations limit is estimated to be \$129,052,992.73.

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

On November 5, 1996, the voters of the State approved Proposition 218, the so called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution (“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.

Article XIII D deals with assessments and property related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Proposition 218 does not affect the *ad valorem* property taxes to be levied to pay debt service with respect to the Certificates.

### ***Proposition 98***

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

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (i) in general, a fixed percent of the State General Fund’s revenues (“Test 1”), (ii) the amount appropriated to K-14 districts in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State per capita personal income) and enrollment (“Test 2”), or (iii) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus 0.05% is less than the percentage growth in State per capita personal income (“Test 3”). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a “credit” to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of Fiscal Year 1988-89 that implemented Proposition 98, determined the K-14 districts’ funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 34.559% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature, by a two-thirds vote of both houses of the State Legislature and with the Governor’s concurrence, to suspend the K-14 districts’ minimum funding formula for a one-year period. In the fall of 1989, the State Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. In the fall of 2004, the State Legislature and the Governor agreed to suspend the K-14 districts’ minimum funding formula set forth pursuant to Proposition 98 in order to address a projected shortfall during Fiscal Year 2004-05. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIII B limit to K-14 districts.

For further information concerning the impact of State Budgets on Proposition 98 funding, see “District Financial Information—State Budget” herein.

### ***Proposition 39***

Proposition 39, which was approved by California voters in November 2000 (“Proposition 39”), provides an alternative method for passage of school facilities bond measures by lowering the constitutional voting requirement from two-thirds to 55% of voters and allows property taxes to exceed the current 1% limit in order to repay such bonds. The lower 55% vote requirement would apply only to bond issues to be used for construction, rehabilitation, or equipping of school facilities or the acquisition of real property for school facilities. The State Legislature enacted additional legislation which placed

certain limitations on this lowered threshold, requiring that (i) two-thirds of the governing board of a school district approve placing a bond issue on the ballot, (ii) the bond proposal be included on the ballot of a Statewide or primary election, a regularly scheduled local election, or a Statewide special election (rather than a school district election held at any time during the year), (iii) the tax rate levied as a result of any single election not exceed \$25 for a community college district, \$60 for a unified school district, or \$30 for an elementary school or high school district per \$100,000 of taxable property value, and (iv) the governing board of the school district appoint a citizen's oversight committee to inform the public concerning the spending of the bond proceeds. In addition, the school board of the applicable district is required to perform an annual, independent financial and performance audit until all bond funds have been spent to ensure that the funds have been used only for the projects listed in the measure. The District's Measure I Authorization was authorized pursuant to Proposition 39. See "District Financial Information – District Debt – General Obligation Bonds" herein. The District is in full compliance with all Proposition 39 requirements.

### ***Proposition 1A***

Proposition 1A ("Proposition 1A"), proposed by the Legislature as a Senate Constitutional Amendment in connection with the 2004-05 Budget Act and approved by California voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provided, however, that beginning in Fiscal Year 2008-09, the State could shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates. The State's ability to initiate future exchanges and shifts of funds will be limited by Proposition 22. See "– Proposition 22" below.

### ***Proposition 22***

Proposition 22 ("Proposition 22"), which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. Due to the prohibition with respect to State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A of 2004. See "– Proposition 1A" herein. In addition, Proposition 22 generally eliminated the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increased school and community college district's share of property tax revenues, prohibited the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibited the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of

each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. The LAO stated that Proposition 22 would prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. However, the California Supreme Court, in *California Redevelopment Association v. Matosantos*, held that the dissolution provisions set forth in Assembly Bill No. 26 of the First Extraordinary Session (2011) were constitutional and permitted the State to allocate revenues that would have been directed to the redevelopment agencies to make pass-through payments (*i.e.*, payments that such entities would have received under prior law) to local agencies and to successor agencies for retirement of the debts and certain administrative costs of the redevelopment agencies.

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO stated that Proposition 22 would require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow needs. The District does not believe that the adoption of Proposition 22 will have a significant impact on their respective revenues and expenditures.

### ***Proposition 30***

Proposition 30, which was approved voters in the State in November 2012 (“Proposition 30”) authorizes the State to temporarily increase the maximum marginal personal income tax rates for individuals, heads of households and joint filers above 9.3 percent by creating three additional tax brackets of 10.3 percent, 11.3 percent and 12.3 percent. The tax increases set forth in Proposition 30 are in effect from tax year 2012 to tax year 2018. In addition, Proposition 30 temporarily increases the State’s sales and use tax rate by 0.25 percent from 2013 to 2016.

Pursuant to Proposition 30, the State will include revenues from the temporary tax increases in the General Fund calculation of the Proposition 98 minimum guarantee for education spending. The State will deposit a portion of the new General Fund revenues into an Education Protection Account be established to support funding for schools and community colleges. The remainder of the new General Fund revenues will be available to help the State balance its budget through Fiscal Year 2017-18. However, the allocation of such revenues to particular programs is subject to the discretion of the Governor and the State Legislature.

In addition, Proposition 30 amends the State Constitution to address certain provisions relating to the realignment of State program responsibilities to local governments. Proposition 30 requires the State to continue to provide tax revenues that were redirected in calendar year 2011 (or equivalent funds) to local governments to pay for transferred program responsibilities. Further, Proposition 30 permanently excludes sales tax revenues that are redirected to local governments from the calculation of the Proposition 98 minimum guarantee for schools and community colleges.

Pursuant to Proposition 30, the State’s ability to expand program requirements will be limited. Local governments will not be required to implement any future State laws that increase local costs to administer realigned program responsibilities unless the State provides such local governments with additional money to pay for the increased costs. Further, Proposition 30 requires the State to pay part of any new local costs that result from certain court actions and changes in federal statutes or regulations that are related to the realigned program responsibilities. Proposition 30 eliminates potential funding liability on the part of the State for mandates imposed upon local governments. Previously, the State was required to reimburse local governments when the State imposed new mandates upon them. In addition,

Proposition 30 eliminates the State's practice of reimbursing local governments for costs resulting from certain provisions of the Ralph M. Brown Act including, among other things, the requirement to prepare and post agendas for public meetings.

The Proposition 30 sales and use tax increases expired at the end of the 2016 tax year. Under Proposition 30, the personal income tax increases were set to expire at the end of the 2018 tax year. However, the voters approved on November 8, 2016 the California Tax Extension to Fund Education and Healthcare Initiative ("Proposition 55"), which extends by twelve years the temporary personal income tax increases on incomes over \$250,000 that was first enacted by Proposition 30. Revenues from the tax increase will be allocated to school districts and community colleges in the State.

### ***Future Initiatives***

The foregoing described amendments to the State Constitution and propositions 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 that further affect District revenues or the District's ability to expend revenues.

### **Assessed Valuation of Property Within the District**

**General.** As required by State law, the District uses the services of the County for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as are the County, the City of Los Angeles and other local agency and special district taxes.

State law exempts \$7,000 of the full cash value of an owner-occupied dwelling from property tax, but this exemption does not result in any loss of revenue to local entities, including the District, because an amount equivalent to the taxes which would have been payable on such exempt values is paid by the State to the County for distribution to local agencies.

The County levies property taxes on behalf of taxing agencies in the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases or decreases in real property assessed valuation (the "Supplemental Assessment"). In such instances, the property is reassessed and a supplemental tax bill is sent to the new owner based on the new value prorated for the balance of the tax year. Accordingly, each school district is to receive allocations of revenue from such Supplemental Assessments and, in accordance with various apportionment factors, to the County, the County superintendent of schools, each community college district, each city and each special district within the County. Such allocations are to be from amounts remaining after allocations to the successor entity to each redevelopment agency in the County in connection with the 1% *ad valorem* property tax levy.

The 2019-20 Assessment Roll for property within the District's boundaries reflects an approximately 6.0% increase in assessed value from the prior year. Under State law, in addition to reassessments requested by property owners pursuant to Proposition 8 (1978) when the current market value of property is less than assessed value as of January 1, the county assessor annually initiates reviews of property for reassessments due to decline-in-value.

The following table sets forth the gross assessed valuation of taxable property within the boundaries of the District in Fiscal Years 2016-17 through 2020-21.

**TABLE A-12**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Historical Gross Assessed Valuation of Taxable Property <sup>(1)</sup>**  
**Fiscal Years 2015-16 through 2020-21**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utilities</u>	<u>Unsecured</u>	<u>Total</u>
2016-17	\$11,430,912,075	\$483,994,403	\$622,874,187	\$12,537,780,665
2017-18	12,075,337,485	438,194,403	635,268,757	13,148,800,645
2018-19	12,829,239,462	397,194,403	713,131,100	13,939,564,965
2019-20	13,506,151,027	376,055,268	623,879,860	14,506,086,155
2020-21	14,088,971,648	349,015,708	665,785,825	15,103,773,181

<sup>(1)</sup> Full cash value.

Source: California Municipal Statistics, Inc.

The following table sets forth the assessed valuation by land use of property within the District in Fiscal Year 2020-21.

**TABLE A-13**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Assessed Valuation and Parcels by Land Use**  
**Fiscal Year 2020-21**

	<u>2020-21 Local Secured Assessed Valuation <sup>(1)</sup></u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
<b><u>Non-Residential:</u></b>				
Commercial	\$ 846,135,759	6.01%	589	1.96%
Vacant Commercial	11,474,792	0.08	58	0.19
Industrial	2,861,820,766	20.31	581	1.94
Vacant Industrial	43,586,931	0.31	85	0.28
Recreational	4,184,885	0.03	10	0.03
Government/Social/Institutional	61,270,344	0.43	60	0.20
Miscellaneous	<u>139,259,971</u>	<u>0.99</u>	<u>274</u>	<u>0.91</u>
Subtotal Non-Residential	\$3,967,733,448	28.16%	1,657	5.52%
<b><u>Residential:</u></b>				
Single Family Residence	\$9,156,298,519	64.99%	25,720	85.66%
Condominium/Townhouse	393,979,228	2.80	1,399	4.66
Mobile Home and Lots	14,369,835	0.10	394	1.31
Mobile Home Park	12,988,381	0.09	4	0.01
2-4 Residential Units	168,624,119	1.20	351	1.17
5+ Residential Units/Apartments	315,453,996	2.24	91	0.30
Vacant Residential	<u>59,524,122</u>	<u>0.42</u>	<u>408</u>	<u>1.36</u>
Subtotal Residential	\$10,121,238,200	71.84%	28,367	94.48%
<b>Total</b>	<b>\$14,088,971,648</b>	<b>100.00%</b>	<b>30,024</b>	<b>100.00%</b>

<sup>(1)</sup> Local Secured Assessed Valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.



***Tax Rates, Levies and Collections.*** Taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. Real property that changes ownership or is newly constructed is revalued at the time the change occurs or the construction is completed. The current year property tax rate is applied to the reassessed value, and the taxes are then adjusted by a proration factor that reflects the portion of the remaining tax year for which taxes are due. The annual tax rate is based on the amount necessary to pay all obligations payable from *ad valorem* property taxes and the assessed value of taxable property in a given year. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster such as earthquake, flood, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the District's outstanding general obligation bonds. The District cannot predict and does not make any assurances regarding the effects that natural disasters, such as fire, drought, earthquakes or other related natural or man-made conditions, have or may have on the value of taxable property within the District, or to what extent the effects such natural disasters might have on economic activity in the District.

For assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing property (real or personal) the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is listed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and June 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Properties on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then may be sold at public auction by the County Treasurer and Tax Collector.

Property taxes on the unsecured roll are due in one payment on the January 1 lien date and become delinquent after August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (i) a civil action against the taxpayer; (ii) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (iii) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (iv) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The County has not adopted the "Teeter Plan" for the distribution of tax levies and collections within the County. Accordingly, the District's receipt of property taxes is subject to delinquencies, and the District's tax receipts reflect the receipt of interest and penalties relating to delinquent taxes.

Proposition 13 and its implementing legislation impose the function of property tax allocation on counties in the State and prescribe how levies on countywide property values are to be shared with local taxing entities within each county. The limitations in Proposition 13, however, do not apply to *ad valorem* property taxes or special assessments to pay the interest and redemption charges on indebtedness, such as the District's general obligation bonds, approved by the voters.

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

State Government Code Sections 29100 through 29107 provide the procedures that all counties must follow for calculating tax rates. The secured tax levy within the District consists of the District’s share of the 1% general *ad valorem* property and unitary taxes assessed on a County-wide basis and amounts levied that are in excess of the 1% general *ad valorem* property taxes. These tax receipts are part of the District’s operations. In addition, the secured tax levy also includes the amount for the District’s share of special voter-approved *ad valorem* property taxes assessed on a District-wide basis, such as the *ad valorem* property taxes assessed for the District’s general obligation bonds issued pursuant to the authorizations received at elections held on November 5, 2002 and November 3, 2015 at which more than 55% of the persons voting on the proposition voted to authorize the issuance and sale of not more than \$80,000,000 and \$350,000,000, respectively, of general obligation bonds and any related general obligation refunding bonds. *Ad valorem* property taxes levied for general obligation bonds are deposited with the County and may only be applied to pay the principal of, redemption premium, if any, and interest on the District’s general obligation bonds and general obligation refunding bonds. The District does not receive such funds nor are they available to pay any of the District’s operating expenses. In addition, the total secured tax levy includes special assessments, improvement bonds, supplemental taxes or other charges which have been assessed on property within the District. Since State law allows homeowners’ exemptions (described above) and certain business exemptions from *ad valorem* property taxation, such exemptions are not included in the total secured tax levy.

Further, State Education Code Section 15251 provides that all taxes levied with respect to general obligation bonds when collected will be paid into the county treasury of the county whose superintendent of schools has jurisdiction over the school district on behalf of which the tax was levied, to the credit of the debt service fund (or interest and sinking fund) of the school district, and will be used for the payment of the principal of and interest on the general obligation bonds and general obligation refunding bonds of the school district and for no other purpose. Accordingly, the County may not borrow or spend such amounts nor can the District receive such funds and use them for operating purposes.

The following table sets forth the secured tax charges for the one percent General Fund apportionment and the District’s general obligation bond debt service levy on property in the District from Fiscal Years ended June 30, 2016 through June 30, 2020 and the amount and percent delinquent as of June 30 of each such fiscal year.

**TABLE A-14**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Property Tax Levies and Collections**  
**Fiscal Years ended June 30, 2016 to June 30, 2020**

Fiscal Year ended June 30	1% General Fund Apportionment			District's General Obligation Bond Debt Service Levy		
	Secured Tax Charge <sup>(1)</sup>	Amount Delinquent (June 30)	Percent Delinquent (June 30)	Secured Tax Charge <sup>(2)</sup>	Amount Delinquent (June 30)	Percent Delinquent (June 30)
2016	\$20,774,860.31	\$294,543.00	1.42%	\$7,303,604.88	\$60,350.47	0.83%
2017	21,580,235.16	256,250.24	1.19	7,837,394.77	67,000.86	0.85
2018	22,778,880.08	282,911.77	1.24	13,116,686.46	101,115.57	0.77
2019	24,117,121.75	329,394.88	1.37	14,148,970.02	152,716.04	1.08
2020	25,198,304.30	567,970.64	2.25	11,448,756.95	158,341.77	1.38

<sup>(1)</sup> 1% General Fund apportionment. Excludes redevelopment agency impounds. Reflects countywide delinquency rate.

<sup>(2)</sup> District's general obligation bond debt service levy.

Source: California Municipal Statistics, Inc.

**TABLE A-15**  
**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
**Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 4385) <sup>(1)</sup>**

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
1% General Fund Levy	1.000000	1.000000	1.000000	1.000000	1.000000
Hacienda-La Puente Unified School District	.066004	.105314	.107055	.082517	.082608
Mt. San Antonio Community College District	.023996	.023709	.024354	.047814	.044588
Metropolitan Water District	<u>.003500</u>	<u>.003500</u>	<u>.003500</u>	<u>.003500</u>	<u>.003500</u>
Total Tax Rate	1.093500	1.132523	1.134909	1.133831	1.130696

<sup>(1)</sup> 2020-21 assessed valuation of TRA 4385 is \$ 1,133,656,412, which is 7.51% of the district's total assessed valuation.

***Largest Taxpayers in the District.*** The following table sets forth the 20 largest secured taxpayers in the District for Fiscal Year 2020-21.

**TABLE A-16  
HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT  
Largest Local Secured Taxpayers  
Fiscal Year 2020-21**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2019-20 Assessed Valuation</u>	<u>% of Total <sup>(1)</sup></u>
1.	BPP Shiraz Park ABC LP	Industrial	\$108,995,874	0.77%
2.	Tropicana Manufacturing Company	Industrial	105,462,932	0.75
3.	Hacienda Heights CA LLC	Apartments	89,196,475	0.63
4.	Quemetco West LLC	Industrial	82,641,477	0.59
5.	San Gabriel Valley Water Company	Water Company	78,024,896	0.55
6.	CPT Towers Industrial LLC	Industrial	65,661,724	0.47
7.	Adcor Realty Corp	Industrial	65,061,510	0.46
8.	BBP Pacific Industrial CA REIT	Industrial	64,863,153	0.46
9.	Master K Investment I LLC	Shopping Center	50,090,174	0.36
10.	Wilson John Reed LLC	Industrial	46,807,279	0.33
11.	CFT NVC Developments LLC	Shopping Center	45,136,213	0.32
12.	Eastgroup Properties LP	Industrial	39,057,008	0.28
13.	14700 Nelson LLC	Industrial	35,507,038	0.25
14.	PI Properties 34 Hacienda Heights	Apartments	34,295,683	0.24
15.	LBA PPF Industrial III A LP	Industrial	33,666,822	0.24
16.	Arakelian Enterprises Inc.	Office Building	31,248,945	0.22
17.	Gear 14505 Proctor LLC	Industrial	29,976,780	0.21
18.	CT Gale LLC	Industrial	29,864,302	0.21
19.	Walnut V LLC	Industrial	29,620,296	0.21
20.	Liberty Property LP	Industrial	<u>29,554,500</u>	<u>0.21</u>
			<u>\$1,094,733,081</u>	<u>7.77%</u>

<sup>(1)</sup> 2020-21 Local Secured Assessed Valuation: \$14,088,971,648.

Source: California Municipal Statistics, Inc.

## REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION

The District’s boundaries include the City of La Puente and portions of the Cities of Carson and Los Angeles (collectively, the “Cities”). The following economic and demographic information pertains to the Cities and the County of Los Angeles. The Certificates are not general obligations of the Cities or the County.

### *Population*

The following table sets forth the estimates of the population of the City and the County in calendar years 2011 through 2020.

**TABLE A-17**  
**Population Estimates**  
**2011 through 2020**  
**(as of January 1)**

Year	City of La Puente	County of Los Angeles
2011	40,040	9,885,948
2012	40,335	9,972,649
2013	40,557	10,040,960
2014	40,712	10,098,952
2015	40,822	10,155,753
2016	40,780	10,185,851
2017	40,764	10,226,920
2018	40,719	10,254,658
2019	40,795	10,253,716
2020	40,568	10,172,951

Source: State Department of Finance, Demographic Research Unit.

### *Income*

The following table summarizes the median household income for the City, the County, the State and the United States for calendar years 2014 through 2019.

**TABLE A-18**  
**Median Household Income<sup>(1)</sup>**  
**2014 through 2019**

<u>Year</u>	<u>City of La Puente</u>	<u>County of Los Angeles</u>	<u>State of California</u>	<u>United States of America</u>
2014	\$54,660	\$55,870	\$61,489	\$53,889
2015	56,512	56,196	61,818	53,889
2016	57,174	57,952	63,783	55,322
2017	60,019	61,015	67,169	57,652
2018	61,054	68,093	75,277	61,937
2019	64,592	68,044	75,235	65,712

<sup>(1)</sup> Estimated. In inflation-adjusted dollars.

Source: U.S. Census Bureau – Economic Characteristics – American Community Survey.

## Employment

The District is within the Los Angeles-Long Beach-Glendale Metropolitan Division (Los Angeles County) Labor Market. The following table sets forth information regarding the civilian labor force and wage and salary employment in the County for calendar years 2015 through 2020.

**TABLE A-19**  
**Labor Force and Employment in Los Angeles County<sup>(1)</sup>**  
**2015 through 2020**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>(3)</sup></u>
Civilian Labor Force <sup>(2)</sup>	4,989,800	5,041,400	5,096,500	5,136,300	5,121,600	4,896,200
Employment	4,659,700	4,776,700	4,853,800	4,896,500	4,894,300	4,374,500
Unemployment	330,100	264,800	242,700	239,800	227,300	521,600
Unemployment Rate	6.6%	5.3%	4.8%	4.7%	4.4%	10.7%
Wage and Salary						
Employment						
Farm	5,000	5,300	5,700	4,800	4,500	4,200
Mining and Logging	2,900	2,400	2,000	1,900	1,900	1,700
Construction	126,100	133,900	138,400	146,000	149,800	148,100
Manufacturing	368,200	360,800	349,900	343,700	340,700	312,800
Trade, Transportation and Utilities	822,200	835,600	845,700	850,900	843,700	850,900
Information	207,600	229,400	214,900	217,400	208,900	191,700
Financial Activities	215,600	219,800	221,600	223,000	224,500	224,400
Professional and Business Services	591,000	600,100	608,800	620,000	639,800	614,600
Educational and Health Services	745,900	772,700	800,600	823,600	831,800	822,900
Leisure and	486,600	510,000	524,600	534,300	553,200	372,100
Hospitality						
Other Services	151,000	153,300	155,700	159,700	158,800	124,500
Government	568,500	576,700	586,100	589,600	603,700	571,200
Total <sup>(1)</sup>	4,290,600	4,400,000	4,454,000	4,514,900	4,561,300	4,239,100

<sup>(1)</sup> Totals may not equal sum of component parts due to rounding.

<sup>(2)</sup> Based on place of residence.

<sup>(3)</sup> Preliminary; Totals as of December 2020.

Source: State Employment Development Department, Labor Market Information Division.

## Taxable Transactions

The following table sets forth taxable sales in the County for the calendar years 2015 through 2019.

**TABLE A-20**  
**County of Los Angeles**  
**Taxable Transactions<sup>(1)</sup>**  
**Calendar Years 2015 through 2019**  
**(\$ in thousands)**

Type of Business	2015	2016	2017	2018	2019
Motor Vehicle and Parts Dealers	\$ 18,058,173	\$ 18,502,763	\$ 18,564,128	\$18,935,861	\$18,940,224
Home Furnishings and Appliance Stores <sup>(2)</sup>	7,832,717	7,842,401	7,608,635	7,536,953	7,247,948
Furniture and Home Furnishings Stores	--	--	--	--	--
Electronics and Appliance Stores	--	--	--	--	--
Building Materials and Garden Equipment and Supplies	7,402,869	7,688,704	8,033,660	8,446,279	8,662,435
Food and Beverage Stores	6,689,582	6,696,653	6,922,448	7,106,527	7,248,714
Health and Personal Care Stores <sup>(3)</sup>	--	--	--	--	--
Gasoline Stations	11,468,929	10,137,302	10,962,033	12,553,326	12,386,743
Clothing and Clothing Accessories Stores	10,974,322	11,413,847	11,554,496	12,258,410	12,526,793
Sporting Goods, Hobby, Book & Music Stores <sup>(3)</sup>	--	--	--	--	--
General Merchandise Stores	10,912,560	10,904,814	11,249,712	12,583,909	12,906,976
Miscellaneous Store Retailers <sup>(3)</sup>	--	--	--	--	--
Nonstore Retailers <sup>(3)</sup>	--	--	--	--	--
Food Services and Drinking Places	20,605,855	22,002,191	23,198,676	24,016,431	25,056,194
Other Retail Group <sup>(4)</sup>	<u>14,202,014</u>	<u>14,808,367</u>	<u>15,186,560</u>	<u>15,707,358</u>	<u>17,161,638</u>
Total Retail and Food Services	<u>\$108,147,021</u>	<u>\$109,997,043</u>	<u>\$113,280,347</u>	<u>\$119,145,054</u>	<u>\$122,137,664</u>
All Other Outlets	<u>\$ 42,886,760</u>	<u>\$ 44,211,290</u>	<u>\$ 45,979,009</u>	<u>\$ 46,878,742</u>	<u>\$ 49,638,663</u>
<b>TOTAL ALL OUTLETS</b>	<u><b>\$151,033,781</b></u>	<u><b>\$154,208,33</b></u>	<u><b>\$159,259,356</b></u>	<u><b>\$166,023,796</b></u>	<u><b>\$171,776,327</b></u>

<sup>(1)</sup> Totals may not equal sum of component parts due to rounding.

<sup>(2)</sup> In 2015, the taxable transactions for the type of business for Furniture and Home Furnishings Stores and Electronics and Appliance Stores were combined.

<sup>(3)</sup> In 2015, the taxable transactions for the type of business for Health and Personal Care Stores, Sporting Goods, Hobby, Book & Music Stores, Miscellaneous Store Retailers and Nonstore Retailers were eliminated.

<sup>(4)</sup> In 2015, the taxable transactions for the type of business for Other Retail Group was included.

Source: California State Board of Equalization, Taxable Sales in California for Fiscal Years 2015 through 2016; California Department of Tax and Fee Administration for Fiscal Years 2017 through 2019.

## Major Employers

The economic base of the County is diverse, with no one sector being dominant. Some of the leading activities include government (including education), business/professional management services (including engineering), health services (including training and research), tourism, distribution, and entertainment. The following table sets forth the major employers in the County.

**TABLE A-21**  
**County of Los Angeles**  
**Major Employers<sup>(1)</sup>**  
**2020**

<u>Employer</u>	<u>Location</u>	<u>Product/Service s</u>
AHMC Healthcare Inc	Alhambra	Health Care Management
California State University Northridge	Northridge	Schools-Universities & Colleges Academic
Cedar-Sinai Medical Ctr	West Hollywood	Hospitals
Commerce Casino-Crowne Plaza	Commerce	Hotels & Motels
JET Propulsion Laboratory	Pasadena	Research Service
Kaiser Permanente Los Angeles	Los Angeles	Hospitals
La County Office of Education	Downey	Educational Service-Business
LAC & USC Medical Ctr	Los Angeles	Hospitals
Long Beach City Hall	Long Beach	Government Offices-City/Village & Twp
Longshore Dispatch	Wilmington	Nonclassified Establishments
Los Angeles County Sheriff	Monterey Park	Government Offices-County
Los Angeles Intl Airport-Lax	Los Angeles	Airports
Los Angeles Medical Ctr	Los Angeles	Pathologists
Los Angeles Police Dept	Los Angeles	Police Departments
National Institutes of Health	Pasadena	Physicians & Surgeons
Northrop Grumman	Whittier	Engineers
Security Industry Specialist	Culver City	Security Systems Consultants
Six Flags Magic Mountain	Valencia	Amusement & Theme Parks
Sony Pictures Entertainment	Culver City	Motion Picture Producers & Studios
Space Exploration Tech Corp	Hawthorne	Aerospace Industries (mfrs)
University of Ca Los Angeles	Los Angeles	Schools-Universities & Colleges Academic
University of Ca Los Angeles	Los Angeles	University-College Dept/Facility/Office
Vxi Global Solutions	Los Angeles	Call Centers
Walt Disney Co	Burbank	Water Parks
Water Garden Management	Santa Monica	Office Buildings & Parks

Source: America's Labor Market Information System (ALMIS) Employer Database, 2020 1<sup>st</sup> Edition.



## **APPENDIX B**

### **THE LEASED PROPERTY**

The Leased Property consists of:

The Hacienda La Puente Adult Education Willow Center (the “Willow Center”) located at 14101 East Nelson Avenue, La Puente, California 91746. The Willow Center was approved and purchased by the District in February, 1959 for a costs of \$70,663.30. The Willow Center was occupied in March, 1960 and used as an adult facility in July, 1980. The Willow Center consists of 18.76 acres, and contains only one (1) two-story building (Buiding D). The Willow Center was expanded by 123,000 square feet in June, 1999.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

### DEFINITIONS

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

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

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

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

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

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

“Business Services Representative” means any person representing the Assistant Superintendent or the Director, Business Advisory Services, including representatives of the Los Angeles County Office of Education Business Advisory Services, Internal Business Services and School Financial Services.

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

“Certificates” means the Certificates of Participation (Los Angeles County Schools Pooled Financing Program) 2021 Series A (Hacienda La Puente Unified School District) executed and delivered pursuant to the Trust Agreement.

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

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

“Corporation” means the Los Angeles County Schools Regionalized Business Services Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California.

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

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

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

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

“Defeasance Obligations” means, unless otherwise approved by the Insurer: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) 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 (5) 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.

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

“Governing Board” when used with reference to the Lessee means the Board of Trustees of the Lessee.

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

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

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

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

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

“Interest Payment Date” means June 1 and December 1 of each year, commencing June 1, 2021.

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

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

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

“Lease Payment Date” means May 15 and November 15 of each year, commencing May 15, 2021.

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

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

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

“Lessee” means the Hacienda La Puente Unified School District, a unified school district duly organized and existing under and by virtue of the laws of the State of California, as lessee under the Lease Agreement.

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

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

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

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

“Municipal Bond Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal and interest evidenced by the Certificates when due as provided therein.

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

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

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

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

(b) Certificates for the payment or prepayment of which funds or Defeasance Obligations in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates) in accordance with the Trust Agreement; provided, that if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

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

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

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

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

(1) “Federal Securities” means:

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

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

- U.S. Treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration

- Guaranteed Title XI financing
- Government National Mortgage Association
- State and Local Government Series;

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

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

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

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

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

exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements and in which the Trustee has a perfected first lien in, and retains possession of, such obligations free from all third party claims;

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

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

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

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

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

(12) The Treasury Pool of the County.

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

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

"Principal Component" means the principal amount of Outstanding Certificates.



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

“Principal Payment Date” means June 1 of each year, commencing June 1, 2021.

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

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

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

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

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

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

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

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

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

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

“Reserve Fund Credit Facility” means a letter of credit, line of credit, surety bond, insurance policy or similar facility acceptable to the Insurer and deposited in the Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein.

“Reserve Fund Requirement” means an amount, at any time, equal to the least of (i) ten percent (10%) of the original principal amount of the Certificates, (ii) the maximum prospective aggregate amount of Lease Payments to be paid in any Certificate Year by the Lessee, or (iii) 125% of the average Lease Payments to be paid in the then-current or any future Certificate Year, each as certified in writing to the Trustee by the Lessee.

“Reserve Policy” means a municipal bond debt service reserve insurance policy issued by a municipal bond insurer named therein. The Reserve Policy shall constitute a Reserve Fund Credit Facility for all purposes of this Trust Agreement.

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

“S&P” means Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, its successors and assigns.

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

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

“State” means the State of California.

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

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

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

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

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, and its successors or assigns, if any, as Trustee.

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

## **THE LEASE AGREEMENT**

### **Substitution of Alternate Leased Property and Release of Leased Property**

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

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

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

### **Term of Agreement**

The “Term” of the Lease Agreement shall mean the duration the Lease Agreement for the Leased Property, which will commence on the Closing Date and terminate on June 1, 2045 unless earlier

terminated in accordance with the Lease Agreement, provided, however that if Lease Payments and Additional Payments, if any, remain unpaid at the expiration of the Lease Agreement Term, or provision shall not have been made for their payment, then the Lease Agreement shall not terminate until the earlier of (i) June 1, 2055, (ii) the date on which the Certificates (including amounts payable to the Insurer) have been paid in full or (iii) the expiration of the term of the Lease Agreement in the event the Lease Agreement shall have been amended pursuant to the Lease Agreement, unless such term is sooner terminated as provided in the Lease Agreement provided; and provided further, however, that there shall be terminated with respect to the Leased Property, the entirety of Lessor's interest which is transferred to the Lessee upon the end of its useful life, as provided in the Lease Agreement. If by June 1, 2055, the Certificates (including amounts payable to the Insurer) will not be fully paid, or if the rental payable under the Lease Agreement shall have been abated at any time and for any reason, then said Term of the Lease Agreement shall be extended until ten days after all Certificates (including amounts payable to the Insurer) shall be fully paid, except that the Term of the Lease Agreement shall in no event be extended beyond the maximum period permitted by law. If all Certificates (including amounts payable to the insurer) shall be fully paid, the Term of the Lease Agreement shall end ten days thereafter or ten days after written notice by the Lessee to the Lessor, whichever is earlier. Notwithstanding the above, if the Insurer has made a payment under the Municipal Bond Insurance Policy during a period of abatement, the Term of the Lease Agreement shall be extended at least until all Lease Payments have been made and the Insurer has been reimbursed in full, subject only to the maximum Term of the Lease Agreement.

The Term of the Lease Agreement will end upon the earliest of any of the following events: (a) a default by the Lessee and the Lessor's subsequent election to terminate the Lease Agreement pursuant to the Lease Agreement; (b) the payment by the Lessee of all Lease Payments required under the provisions of the Lease Agreement relating to Lease Payments and any Additional Payments required under the Lease Agreement; (c) the deposit of moneys or Defeasance Obligations with the Trustee in amounts sufficient to pay all of the Lease Payments as the same shall become due, as provided pursuant to the Lease Agreement; or (d) upon the exercise by the Lessee of its option to purchase the entire interest of the Lessor in the Leased Property as provided in the Lease Agreement and payment of all amounts provided for under the Lease Agreement.

### **Lease Payments**

Subject to the provisions of the Lease Agreement, the Lessee agrees to pay to the Lessor, its successors and assigns, as rental for the use and possession of the Leased Property, the Lease Payments in the amounts specified in the Lease Agreement, to be due and payable on each Lease Payment Date, which are intended to be sufficient in both time and amount to pay the Principal Components and Interest Components with respect to the Certificates due on the next Interest Payment Date. Delinquent Lease Payments, if any, will be made to the Trustee for application in accordance with the Trust Agreement, or, if payment has been made under the Municipal Bond Insurance Policy or Reserve Policy, to the Trustee for payment to the Insurer as a reimbursement for such payment, together with interest on such amount at the rate set forth in Trust Agreement.

Lease Payments and Additional Payments, if any, shall be paid from any source of legally available funds of the Lessee, and so long as the Leased Property, or a sufficient portion thereof, is available for the use, the Lessee covenants to take such action as may be necessary to include all Lease Payments and Additional Payments, if any, due under the Lease Agreement in its budgets and to make the necessary appropriations for all such Lease Payments. During the Term of the Lease Agreement, the Lessee will furnish to the Trustee, no later than twenty (20) days following the adoption of the budget for its then-current fiscal year, and prior to the beginning of the fiscal year, a certificate of the Authorized Representative to the effect that amounts stated in the Lessee's proposed annual budget for the payment of Lease Payments due under the Lease Agreement in the fiscal year covered by such budget and approved by

the Governing Board are fully adequate for the payment of all Lease Payments due under the Lease Agreement in such fiscal year, in the form set forth in the Trust Agreement as provided in the Trust Agreement. The covenants on the part of the Lessee in the Lease Agreement contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Lessee to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Lessee to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the Lessee.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease Agreement and other amounts required for payment of the Principal Components and Interest Components with respect to any Certificates not presented for payment) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid and are to be used for such purpose. At such time as the moneys on hand in the Lease Payment Fund and the Reserve Fund are equal to all Lease Payments remaining unpaid under the Lease Agreement, such moneys shall be applied by the Trustee, pursuant to the Trust Agreement, to such Lease Payments on behalf of the Lessee and the Lessee will not be required to make any further Lease Payments under the Lease Agreement. A Lease Payment payable on a Lease Payment Date is consideration for the use and possession of the Leased Property to the next succeeding Lease Payment Date.

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

In the event the Lessee should fail to make any of the payments required by the sections of the Lease Agreement relating to Lease Payments, the payments in default shall continue as an obligation of the Lessee until the amount in default shall have been fully paid, and the Lessee agrees to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the net interest rate paid with respect to the Certificates.

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

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

## **Quiet Enjoyment**

During the term of the Lease Agreement, the Lessor shall provide the Lessee with quiet use and enjoyment of the Leased Property, and the Lessee shall during such term peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Lessor, or any person or entity claiming under or through the Lessor except as expressly set forth in the Lease Agreement. The Lessor shall, at the request and expense of the Lessee, join in any legal action in which the Lessee asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor shall have the right to inspect the Leased Property as provided in the provisions of the Lease Agreement relating to access to the Leased Property and the Project.

## **Title to the Leased Property**

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

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

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

## **Additional Payments**

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

to the Lease Agreement, in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, insurance premiums, credit enhancement fees, and all other necessary administrative costs of the Lessor or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement or to defend the Lessor. Additional Payments include any amounts owed to the Insurer pursuant to the Trust Agreement.

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

Additional Payments due under the applicable provisions of the Lease Agreement shall be paid by the Lessee directly to the person or persons to whom such amounts shall be payable. The Lessee shall pay all such amounts owed in connection with the Municipal Bond Insurance Policy and Reserve Policy when due or within ten days after notice in writing from the Trustee or the Insurer to the Lessee stating the amount of Additional Payments then due and payable and the purpose thereof.

### **Additional Lease Payments**

The Lease Agreement may be amended to provide for the execution and delivery of additional certificates of participation in Additional Lease Payments to be made by the Lessee, without the approval of the Certificateholders but with the prior written consent of the Insurer, provided that the following shall have occurred: (i) the Lease Agreement shall have been amended, to the extent necessary, so as to increase the Lease Payments payable by the Lessee under the Lease Agreement by an aggregate amount equal to the Principal Components and Interest Components represented by such additional certificates of participation, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such certificates; provided, however, that no such amendment will be made such that the sum of Lease Payments, including any such amendment to the Lease Agreement, plus Additional Payments in any year shall be in excess of the annual fair rental value of the Leased Property; and (ii) the Lessee will not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease Agreement; and (iii) the Lessee has obtained the consent of the Insurer. Notwithstanding the foregoing and anything to the contrary in the Lease Agreement, in the Trust Agreement or in any Supplemental Trust Agreement, the Lease Agreement will not be amended to provide for the execution and delivery of additional Certificates (1) if an Event of Default, (or any event which, once all notice and grace periods have passed, would constitute an Event of Default) exists unless such default shall be cured upon such issuance of such additional Certificates, (2) unless the Reserve Fund is fully funded at the Reserve Fund Requirement, upon the issuance of such additional Certificates, and (3) without the Insurer's prior written consent.

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

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

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

### **Modification of the Leased Property**

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

The Lessee will not permit any mechanic's or other lien to be established or to remain against the Leased Property for labor or materials furnished in connection with any additions, modifications, remodeling, construction or improvements made by the Lessee pursuant to the Lease Agreement, except Permitted Encumbrances; provided, that if any such lien is established and the Lessee shall first notify or cause to be notified the Lessor of the Lessee's intention to do so, the Lessee may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the liens so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Lessor with full security against any loss or forfeiture which might arise from such nonpayment with respect to the Leased Property, in form satisfactory to the Lessor. The Lessor will cooperate fully in any such contest, upon the request and at the expense of the Lessee.

### **Public Liability and Property Damage Insurance; Workers' Compensation Insurance**

Public Liability and Property Damage. The Lessee shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the Lessee, its officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of the Leased Property.

Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 (subject to a deductible clause of not to exceed \$50,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Lessee, and may be maintained in the form of self-insurance by the Lessee with the consent of the Insurer.



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

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

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

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

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

Rental Interruption and Title Insurance. The Lessee shall maintain or cause to be maintained with a reputable commercial insurer throughout the Term of the Lease Agreement insurance against loss, total or partial, of the use and occupancy of the Leased Property as a result of any of the hazards

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

The Lessee shall, on or before the Closing Date, obtain an extended CLTA title insurance policy with the Trustee as beneficiary respecting the ownership and condition of the real property portion of the Leased Property as described in the Lease Agreement, in an amount not less than the maximum aggregate principal amount of the Certificates. All endorsements and restrictions to such policy must be acceptable to the Insurer.

General Insurance Provisions. All policies of insurance obtained under the requirements of the Lease Agreement and any statements of self-insurance shall be in forms certified by an insurance agent, broker or consultant to the Lessee to comply with the provisions of the Lease Agreement unless waived by the Insurer. Any insurance policy obtained under the requirements of the Lease Agreement shall be issued by a commercial insurer rated at least "A" by A.M. Best & Company unless otherwise consented to in writing by the Insurer, and shall be written or endorsed to list the Trustee, the Lessor and the Lessee as additional named insureds and the Trustee as loss payee, with in all instances the net proceeds, if any, of the insurance policy described in the applicable sections of the Lease Agreement to be deposited in the Lease Payment Fund, and each insurance policy provided for in the Lease Agreement shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Trustee, the Lessor or the Lessee or fail to renew such policy without first giving written notice thereof to the Trustee, the Lessor and the Lessee at least thirty (30) days in advance of such intended cancellation or modification or failure to renew; provided that, the Trustee will not be responsible for the sufficiency of any insurance required pursuant to the Lease Agreement and shall be fully protected in accepting payment on account of such insurance or any adjustments, compromise or settlement of any loss agreed to by it.

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

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

If the Lessee chooses to self-insure for any of the risks described in the sections of the Lease Agreement relating to public liability and property damage insurance; workers' compensation

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

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

### **Liens**

Except as otherwise provided in the Lease Agreement, the Lessee shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Leased Property, or any portion thereof, other than the respective rights of the Lessor and the Lessee as provided in the Lease Agreement and Permitted Encumbrances. Except as expressly provided in the Lease Agreement, the Lessee shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The Lessee shall reimburse the Lessor for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

### **Use of the Leased Property**

The Lessee represents and warrants that it has or will, as of the Closing Date, have an immediate need for, and expects to make immediate use of the Leased Property, which need is not temporary or expected to diminish in the foreseeable future. The Lessee agrees not to give priority in the appropriation of funds for the construction, acquisition or use of any additional Equipment or facilities, as the case may be, performing functions similar to that performed by the Leased Property.

### **Tax Covenants**

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

### **Advances**

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

### **Agreement to Pay Program Expenses**

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

### **Books and Records**

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

### **Continuing Disclosure**

The Lessee covenants and agrees that it will comply with and carry out all of the provisions of its Continuing Disclosure Certificate. Notwithstanding any other provision of the Lease Agreement, failure of the Lessee to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, the Trustee at the written request of the Certificateholders of at least 25% aggregate principal amount of Outstanding Certificates shall (but only to the extent indemnified to its satisfaction against any expense or liability) or any Certificateholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Lessee to comply with its obligations under the provisions of the Lease Agreement relating to continuing disclosure. For purposes of the provisions of the Lease Agreement relating to continuing disclosure, "Beneficial Owner" means any person which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (ii) is treated as the owner of any Certificates for federal income tax purposes.

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

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

## **Application of Net Insurance and Condemnation Proceeds**

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

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

All Net Insurance and Condemnation Proceeds deposited in the Net Insurance and Condemnation Proceeds Fund and not so transferred to the Prepayment Fund as provided in the Lease Agreement shall be applied to the prompt replacement or repair of the affected portion of the Leased Property by the Lessee, upon receipt of a requisition signed by the Lessee's Authorized Representative (a "Requisition") stating with respect to each payment to be made (i) the Requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Insurance and Condemnation Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee may conclusively rely on the Requisition as to the amount of such obligation and on the representations set forth therein. Any balance of the Net Insurance and Condemnation Proceeds remaining after such replacement or repair has been completed shall, after payment of amounts due the Trustee and the Insurer, be paid to the Lessee upon written request of the Lessee.

## **Laws and Ordinances**

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

## **Disclaimer of Warranties**

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

## **Lessee’s Right to Enforce Warranties**

Pursuant to the Lease Agreement, the Lessor irrevocably appoints the Lessee as its agent and attorney-in-fact during the term of the Lease Agreement, so long as the Lessee will not be in default under the Lease Agreement, to assert from time to time whatever claims and rights, including without limitation, warranty claims, claims for indemnification and claims for breach of any representations, respecting the Leased Property which the Lessor may have against any vendor or contractor. The Lessee’s sole remedy for the breach of any such warranty, indemnification or representation shall be against the vendor or contractor with respect thereto, and not against the Lessor, nor shall such matter have any effect whatsoever on the rights and obligations of the Lessor with respect to the Lease Agreement, including the right to receive full and timely Lease Payments and all other payments due under the Lease Agreement. The Lessee shall be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Lessor shall, upon the Lessee’s request and at the Lessee’s expense, do all things and take all such actions as the Lessee may request in connection with the assertion of any such claims and rights. The Lessee expressly acknowledges that the Lessor makes, and has made, no representation or warranties whatsoever as to the existence or availability of such warranties of the manufacturer or vendor or contractor.

## **Access to the Leased Property and the Project**

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

## **Release and Indemnification Covenants**

To the extent permitted by law, the Lessee shall and, pursuant to the Lease Agreement, agrees to indemnify and save the Lessor and its successors, assigns, agents, officers, employees and servants harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the Lessee, (ii) any breach or default on the part of the Lessee in the performance of any of its obligations under the Lease Agreement, (iii) any act or negligence of the Lessee or of any of its agents,

contractors, servants, employees or licensees with respect to the Leased Property, or (iv) any act or negligence of any assignee or sublessee of the Lessee with respect to the Leased Property. Pursuant to the Lease Agreement, no indemnification is provided for claims, losses or damages, including legal fees and expenses arising out of the willful misconduct or gross negligence, under the Lease Agreement by the Lessor, its officers, agents, employees, successors or assigns. For purposes of indemnification under the Lease Agreement, the term "Leased Property" includes alternate leased property, if any, pursuant to the Lease Agreement.

### **Assignment by the Lessor**

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

### **Assignment and Subleasing by the Lessee**

No sublease, release, sale, disposition or substitution of the Leased Property shall occur without the prior written consent of the Insurer. Without limiting the generality of the foregoing, no portion of the Leased Property may be released following the partial prepayment of Lease Payments, the partial redemption of Certificates, or the exercise of a purchase option or similar right, unless in each case the Insurer shall have provided its prior written consent to such release. The Lease may be assigned by the Lessee with the prior consent of the Insurer and the Rating Agencies so long as such assignment does not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Lease Payments. The Lessee may sublease the Leased Property, with the prior written consent of the Lessor, the Insurer, and the Rating Agencies, subject to all of the following conditions: (i) the Lease Agreement and the obligation of the Lessee to make Lease Payments under the Lease Agreement shall remain obligations of the Lessee; (ii) the Lessee shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Lessor and the Trustee a true and complete copy of such sublease; (iii) no sublease by the Lessee shall cause the Leased Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; (iv) no sublease shall cause the Interest Component of the Lease Payments due with respect to the Leased Property to become included within gross income for federal income tax purposes or subject to State personal income taxes, as evidenced by an opinion of Special Counsel; and (v) in the event that the Lease Agreement is assigned by the Lessee, the obligation to make Lease Payments under the Lease Agreement shall remain the obligation of the Lessee.

### **Amendment**

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

## **Events of Default**

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

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

## **Remedies on Default**

Upon the occurrence and continuance of an event of default specified in the section of the Lease Agreement relating to events of default, the Lessor shall, only at the direction of the Insurer, proceed to: (i) protect and enforce the Lease Agreement by such judicial proceedings as the Lessor or its assignee shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Lease Agreement, or in aid of the exercise of any power granted in the Lease Agreement, or to enforce any other legal or equitable right vested in the Lessor or its assignee by the Lease Agreement or by law; (ii) take possession of the Leased Property and exclude the Lessee from using it until the default is cured, holding the Lessee liable for the Lease Payments and Additional Payments, if any, and other amounts payable by the Lessee prior to such taking of the Leased Property under and pursuant to the Lease Agreement and curing of such default; or (iii) take whatever actions at law or in equity appear necessary or desirable to enforce its rights as the Certificateholder of the Leased Property, including termination of the Lease Agreement and the repossession, re-letting (with an approving opinion of Special Counsel) or sale (with an approving opinion of Special Counsel) of the Leased Property.

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

Notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise



declare any Lease Payments not then in default to be immediately due and payable. After the occurrence of an event of default under the Lease Agreement, the Lessee will surrender possession of the Leased Property to the Lessor, if requested to do so by the Lessor, or by the Trustee, the Insurer or the Certificateholders of not less than the majority in principal amount of Certificates then Outstanding in accordance with the provisions of the Trust Agreement.

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

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

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

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

## **Termination; Repossession and Re-Lease**

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

## **No Remedy Exclusive**

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

## **Agreement to Pay Attorneys' Fees and Expenses**

In the event either party to the Lease Agreement should default under any of the provisions of the Lease Agreement and the non-defaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party contained in the Lease Agreement, the defaulting party agrees that it will on demand therefor pay to the non-defaulting party the reasonable fees of such attorneys and such other expenses so incurred by the non-defaulting party.

### **No Additional Waiver Implied by One Waiver**

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

### **Trustee and Certificateholders to Exercise Rights**

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

### **Additional Covenants**

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

The Lessee will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from action, would or might be a ground for cancellation or termination of the Lease Agreement by the Lessor under the Lease Agreement. The Lessor and the Lessee, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting its estate in the Leased Property, which may or can in any manner affect such estate of the Lessee, will deliver the same, or a copy thereof, to the Trustee and the Insurer.

The Lessee will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by it, including its right to exist and carry on business as a unified school district or similar entity, as the case may be, to the end that such rights, privileges and franchises shall be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

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

The Lessor and the Lessee will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming unto the Certificateholders and the Insurer of the rights and benefits provided in the Lease Agreement.

## **THE TRUST AGREEMENT**

### **Payment Procedure Pursuant to Municipal Bond Insurance Policy**

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date (“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 principal of and interest on the Certificates due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the “Insurer’s Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by 12:00 p.m., New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Certificates due on such Payment Date, the Trustee shall make a claim under the Municipal Bond 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 interest on the Certificates and the amount required to pay principal of the Certificates, confirmed in writing to the Insurer and the Insurer’s Fiscal Agent (if any) by 12:00 p.m., New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Municipal Bond Insurance Policy.

The Trustee shall designate any portion of payment of principal on Certificates paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Certificates registered to the then current Certificateholder, 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., in a principal amount equal to the amount of 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 payable by the Lessee on any Certificate or the subrogation rights of the Insurer.

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 interest on and principal paid in respect of any Certificate. The Insurer shall have the right to inspect such records at reasonable times during the Trustee’s normal business hours upon reasonable notice to the Trustee.

Upon payment of a claim under the Municipal Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Certificateholders referred to in the Trust Agreement 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 Municipal Bond Insurance Policy in trust on behalf of Certificateholders 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 Certificateholders in the same manner as principal and interest payments are to be made with respect to the Certificates under the sections of the Trust Agreement regarding payment of Certificates. 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 pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Trust Agreement, the Lessee agrees to pay to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Municipal Bond Insurance Policy (the “Insurer Advances”); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the “Insurer Reimbursement Amounts”). As used in under this heading, “Late Payment 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 or its successor at its principal office in the City of New York, as its prime or base lending rate (any change in such rate of interest 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 on the Certificates and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Lessee covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Lease Payments and payable from such Lease Payments on a parity with debt service due on the Certificates.

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 Certificate payment date shall promptly be remitted to the Insurer.

The Insurer shall, to the extent it makes any payment of principal of or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy. The obligations of the Lessee to the Insurer under the Trust Agreement, the Lease, the Assignment Agreement and the Site Lease shall survive discharge or termination of the Trust Agreement, the Lease, the Assignment Agreement and the Site Lease.

### **Reimbursement to Insurer**

The Lessee shall reimburse the Insurer, as Additional Payments under the Lease, 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, the Site Lease and the Assignment Agreement, (ii) the pursuit of any remedies under the Trust Agreement or the Lease, Site Lease and 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 or the Lease, the Site Lease or the Assignment Agreement whether or not executed or completed, (iv) any litigation or other dispute in connection with the Trust Agreement or the Lease, the Site Lease or the Assignment Agreement or the transactions contemplated thereby, other than amounts resulting from the failure of the Insurer to honor its obligations under the Municipal Bond 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 or the Lease, the Site Lease or the Assignment Agreement.

### **Draws on Reserve Policy**

The Lessee shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Insurer at the Late Payment Rate. As used under this heading, "Late Payment Rate" means, as determined by the Insurer, 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, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 5%, and (ii) the then applicable highest rate of interest on the Certificates and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify. 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 all sums in excess of those lawfully collectible as applied as additional interest for any later periods of time when amounts are outstanding hereunder 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, with the same force and effect as if the Lessee had specifically designated such extra sums to be so applied and the Insurer 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 moneys or for forbearance in seeking its collection.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

All cash and investments in the Reserve Fund established for the Certificates shall be transferred to the Lease Payment Fund before any drawing may be made on the Reserve Policy or any other credit facility credited to the Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

If the Lessee shall fail to pay any Policy Costs in accordance with the requirements of the above paragraphs, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Trust Agreement other than remedies which would adversely affect owners of the Certificates.

The Trust Agreement shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The Lessee's obligation to pay such amounts shall expressly survive payment in full of the Certificates.

The Trustee shall ascertain the necessity for a claim upon the Reserve Policy and shall provide notice to the Insurer in accordance with the terms of the Reserve Policy at least five business days prior to each date upon which interest or principal is due on the Certificates.

### **Insurer Right to Pay Unpaid Accounts**

The Insurer shall be entitled to pay principal or interest with respect to the Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Municipal Bond Insurance Policy) by the Lessee, whether or not the Insurer has received a Notice of Nonpayment (as such term is defined in the Municipal Bond Insurance Policy) or a claim upon the Municipal Bond Insurance Policy.

### **Establishment of Project Fund**

The Trustee will establish a special fund designated as the “ Los Angeles County Schools Pooled Financing Program, 2021 Series A Hacienda La Puente Unified School District Project Fund” (the “Project Fund”), shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. The Project Fund will be held and applied by the Trustee in accordance with the Trust Agreement. There will be credited to the Project Fund the proceeds from the sale of the Certificates required to be deposited therein pursuant to the Trust Agreement, all investment earnings on moneys held in the Project Fund, and any other funds from time to time deposited with the Trustee for such purposes.

### **Establishment of Costs of Delivery Fund**

The Trustee shall establish a special fund designated as the “Los Angeles County Schools Pooled Financing Program, 2021 Series A Hacienda La Puente Unified School District Costs of Delivery Fund” (the “Costs of Delivery Fund”), shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. The Costs of Delivery Fund will be held and applied by the Trustee in accordance with the Trust Agreement. Amounts on deposit in the Costs of Delivery Fund shall be applied to pay Costs of Delivery, as provided in the Trust Agreement.

The Trustee shall disburse moneys on deposit in the Costs of Delivery Fund only upon receipt of a Requisition signed by the Lessee’s Authorized Representative, the Business Services Representative or the County Treasurer or his or her duly designated deputy setting forth the amounts to be disbursed for payment or reimbursement of Costs of Delivery and the person or persons to whom said amounts are to be disbursed, and stating that the amounts to be disbursed are for Costs of Delivery properly chargeable to the Costs of Delivery Fund. The Costs of Delivery Fund shall be closed 180 days months after the Closing Date, and any moneys then remaining in the Costs of Delivery Fund, including any interest earnings thereon, shall be transferred to the Lease Payment Fund. Each such written request shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

### **Establishment of Prepayment Fund**

The Trustee shall establish a special fund designated as the “Los Angeles County Schools Pooled Financing Program, 2021 Series A Hacienda La Puente Unified School District Prepayment Fund” (the “Prepayment Fund”), shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. The Trustee need not open such fund on its records until such time as deposits are required to be made therein. Prior to any prepayment of the Certificates, an amount at least equal to the amount necessary to prepay the Certificates shall be deposited by the Lessee into the Prepayment Fund. As provided in the Trust Agreement, prepayments of the Certificates will be made from money available therefor. Any prepayments of the Certificates in advance of their maturity will be made on the date designated for prepayment and upon presentation and surrender of such Certificates.

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

## **Prepayment from Net Insurance and Condemnation Proceeds**

Upon the receipt of Net Insurance and Condemnation Proceeds from the Lessee, the Trustee shall promptly deposit such moneys into the Net Insurance and Condemnation Proceeds Fund and shall promptly provide notice thereof to the Lessee and the Insurer; the Lessee shall then deliver a Written Order to the Trustee, directing the Trustee to retain the Net Insurance Proceeds in the Net Insurance and Condemnation Proceeds Fund to be used to replace or repair the Leased Property, or to deposit such Net Insurance and Condemnation Proceeds into either (i) the Prepayment Fund, or (ii) the Lease Payment Fund as a credit against the Lease Payments, as may be required by the Lease Agreement; provided, however, that the Lessee will first obtain the prior written consent of the Insurer before it elects to repair or replace any portion of the Leased Property.

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

In the event that Net Insurance Proceeds are sufficient, together with other moneys as may be provided by the Lessee, to prepay the Lease Payments in full, payments from Net Insurance Proceeds may be applied to the prepayment of Certificates without the further consent of the Insurer; if such Net Insurance Proceeds are less than the amount necessary to prepay the Certificates in full, no prepayment of Certificates may be effected under the Trust Agreement without the prior written consent of the Insurer.

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

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

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

The Lessee will be permitted to request the replacement or repair of the Leased Property only if (i) the Net Insurance Proceeds available for such purpose, together with any other funds supplied by the Lessee for such purpose, are sufficient therefor, (ii) in the event that damage or destruction results in an abatement of Lease Payments, the Lessee Representative certifies and covenants to the Trustee that such



replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds will be available to pay in full all Lease Payments coming due during such period as described in the Lease Agreement, (iii) the Insurer has consented, in writing, to such repair or replacement, or (iv) such requirements are waived by the Insurer.

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

### **Surplus**

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

### **Security Provisions**

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

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

The Lessor and Lessee, pursuant to the Trust Agreement grant to the Trustee for the benefit of the Certificateholders a lien on and a security interest in the Leased Property for the maximum Term of the Lease Agreement, which interest shall be evidenced by the filing of appropriate security instruments, signed by the Lessor, granting the Trustee a first perfected security interest in the Leased Property. Unless otherwise agreed to in writing by the Insurer, no lien on the Leased Property (except laborers' and mechanics' liens) senior to such lien shall be permitted.

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

### **Establishment of Rebate Fund**

The Trustee shall establish a special fund designated as the “Los Angeles County Schools Pooled Financing Program, 2021 Series A Hacienda La Puente Unified School District Rebate Fund” (the “Rebate Fund”). So long as any Certificates are Outstanding, neither the Lessee nor the Lessor shall have any beneficial right or interest in the Rebate Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as set forth in the Trust Agreement. The Trustee may rely conclusively on the Lessee’s (or its agent’s) determinations, calculations and certifications with regard to the calculation of rebate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Lessee’s (or its agent’s) calculations with regard to rebate.

### **Establishment of Lease Payment Fund**

The Trustee shall establish a special fund designated as the “Los Angeles County Schools Pooled Financing Program, 2021 Series A Hacienda La Puente Unified School District Lease Payment Fund” (the “Lease Payment Fund”). All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Certificateholders. So long as any Certificates are Outstanding, neither the Lessee nor the Lessor shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as set forth in the Trust Agreement.

### **Deposits**

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

### **Application of Moneys**

Except as provided in the Trust Agreement, all amounts in any account in the Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the Principal Component and Interest Component as the same shall become due and payable, in accordance with the provisions of the Trust Agreement; provided that delinquent Lease Payments deposited into the Lease Payment Fund shall be used to reimburse any draws upon the Reserve Fund Credit Facility necessitated by delinquency attributable to the Lessee. This pledge shall constitute a first and exclusive lien on the Lease Payments in accordance with the terms of the Trust Agreement.

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

1) On or before each Interest Payment Date, an amount sufficient to pay the Interest Component coming due and payable with respect to the Current Interest Certificates on such date shall be set aside;

2) On or before each Principal Payment Date, an amount sufficient to pay the Principal Component with respect to the Certificates coming due and payable on such date shall be set aside by the Trustee and mailed (or sent by wire transfer, as appropriate) to the Certificateholders; and

3) To the extent that Lessee Prepayments shall be deposited to the Prepayment Fund by the date which is forty-five (45) days prior each date set for prepayment of Certificates pursuant to the Trust Agreement, the amount prepaid shall be deposited into the Prepayment Fund to be applied for the prepayment of Certificates in accordance with the Trust Agreement.

### **Surplus**

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

### **Investment Earnings**

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

### **Recordation and Filing**

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

### **Preservation of Lien**

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

### **Reserve Fund**

The Trustee shall establish a special fund designated as the "Los Angeles County Schools Pooled Financing Program, 2021 Series A Hacienda La Puente Unified School District Reserve Fund" (the "Reserve Fund"). The Trustee shall keep such fund separate and apart from all other funds and accounts held by it and shall administer such accounts in accordance with the provisions of the Trust Agreement. All moneys at any time on deposit in the Reserve Fund will be held by the Trustee in trust for the benefit of the Certificateholders, and applied solely as provided in the Trust Agreement. Notwithstanding anything to the

contrary in the Trust Agreement, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service on the Certificates.

On the Closing Date, there shall be deposited into the Reserve Fund the Reserve Fund Credit Facility. This deposit and any future Reserve Fund Credit Facility or moneys subsequently deposited in the Reserve Fund will be held in trust as a reserve for the payment when due of all the Lease Payments and, solely with respect to any moneys on deposit in the Reserve Fund, Prepayments to be paid pursuant to the Lease Agreement and of all payments on the Certificates. If the Reserve Fund contains both a Reserve Fund Credit Facility and cash, any cash on deposit shall be drawn completely before any demand is made on the Reserve Fund Credit Facility.

So long as the Certificates are Outstanding, the Trustee shall transfer any moneys on hand in the Reserve Fund in excess of the Reserve Fund Requirement as provided in the Trust Agreement.

In the event that the Trustee shall have withdrawn any amounts from the Reserve Fund to remedy a shortfall in the Lease Payment Fund, and the Reserve Fund has not theretofore been replenished to the Reserve Fund Requirement, the Trustee shall apply any delinquent Lease Payments received by the Trustee from the Lessee first to replenish that Reserve Fund so that it contains that dollar amount equal to the Reserve Fund Requirement, and then to make deposits into the Lease Payment Fund; provided that, so long as the Reserve Fund shall contain a Reserve Fund Credit Facility, the Trustee shall apply any delinquent Lease Payments received by the Trustee from the Lessee first to reimburse all costs owing to the Insurer identified by the Insurer in writing to the Trustee, then to replenish the Reserve Fund so that it contains that dollar amount equal to the Reserve Fund Requirement, and then to make deposits into the Lease Payment Fund. Upon the receipt of any delinquent Lease Payments owing to the Insurer under the Municipal Bond Insurance Policy or the Reserve Policy, the Trustee shall apply such delinquent Lease Payments to the extent of such reimbursement due plus accrued interest at the rate set forth in the Trust Agreement, for payment to the Insurer in accordance with the Trust Agreement.

If five Business Days immediately preceding any Interest Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the Principal Component and Interest Component, the Trustee shall transfer the moneys available in the Reserve Fund or draw upon the Reserve Fund Credit Facility to make delinquent Lease Payments on behalf of the Lessee.

If on any Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of past due Principal Components and Interest Components not yet presented for payment) are sufficient to pay all of the Outstanding Certificates, including a premium, if any, the Trustee shall, upon the written direction of the Lessee's Authorized Representative, transfer all amounts then on hand in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments or Prepayments on behalf of the Lessee and such moneys shall be distributed to the Certificateholders in accordance with the Trust Agreement; provided, however, that if no written instruction is received by the Trustee, no such transfer will be made. Any amounts remaining in the Reserve Fund upon payment in full of all of the Outstanding Certificates, or upon provision for such payments as provided in the Trust Agreement, including payment of the Trustee's fees and expenses, and any amounts owed by the Lessee to the Insurer, shall be withdrawn by the Trustee and paid to the Lessee, provided that all costs owing to the Insurer shall have been paid in full.

### **Reserve Fund Credit Facility**

At the option of the Lessee with the prior written consent of the Insurer, a Reserve Fund Credit Facility may be substituted for any funds held in the Reserve Fund, such that the amount available

to be drawn under such Reserve Fund Credit Facility, together with any moneys in the Reserve Fund, satisfy the Reserve Fund Requirement.

If the Lessee, with the concurrence of the Business Services Representative and the County Treasurer, exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held in the Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective and is deposited with the Trustee, at the option of the Lessee, will be transferred to the Lease Payment Fund and on each Payment Date shall be applied in lieu of Lease Payments due from the Lessee due immediately prior to such Payment Date. The Lessee may not invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event the Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under the Reserve Fund Credit Facility (provided that the Trustee has the right to make such draw or claim under the terms of the Reserve Fund Credit Facility) ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Reserve Fund Requirement of the Lessee in either case for deposit into the Reserve Fund.

If a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held in the Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision of the Trust Agreement, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from such Reserve Fund and (2) amounts required by the Trust Agreement to be deposited or transferred to the Reserve Fund shall (y) in the event the Reserve Fund Credit Facility has been drawn upon, be paid to the provider of such Reserve Fund Credit Facility if the Lessee has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment in accordance with the Trust Agreement or (z) in the event the Lessee has not drawn upon the Reserve Fund Credit Facility or does not have an outstanding reimbursement obligation to the provider of such Reserve Fund Credit Facility, otherwise be transferred or deposited pursuant to the terms of the Trust Agreement as if no deposit or transfer to the Reserve Fund were required.

### **Net Insurance Proceeds and Condemnation Proceeds Fund**

The Trustee shall establish a special fund, at such time as deposits are required to be made therein, to be designated as the “Los Angeles County Schools Pooled Financing Program, 2021 Series A Hacienda La Puente Unified School District Net Insurance and Condemnation Proceeds Fund” (the “Net Insurance and Condemnation Proceeds Fund”) and shall administer such fund, and any account therein, in accordance with the provisions of the Trust Agreement. All moneys at any time on deposit in the Net Insurance and Condemnation Proceeds Fund will be held by the Trustee in trust for the benefit of the Certificateholders, and applied solely as provided in the Trust Agreement.

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

If any portion of the Leased Property is damaged or destroyed, or taken by condemnation proceedings, the Net Insurance and Condemnation Proceeds therefrom shall be deposited in the Net Insurance and Condemnation Proceeds Fund promptly upon receipt thereof and the Lessee shall certify to the County Treasurer, the Insurer and to the Trustee within forty-five (45) days (i) as to whether the Leased

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

After all of the Certificates have been retired and the entire amount of the Principal Components and Interest Components of the Certificates have been paid in full or provision having been made therefor satisfactory to the Trustee, including payment of the Trustee's fees and expenses, and any amounts owed by the Lessee to the Insurer, the Trustee shall then pay any remaining moneys in the Net Insurance and Condemnation Proceeds Fund to the Lessee.

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

### **Moneys In Funds; Investment**

The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Certificateholders, with the exception of moneys held in the Rebate Fund, which are held in trust for rebate to the United States Government, and for the purposes in the Trust Agreement specified, and such moneys, and any income or interest earned thereon, shall be

expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Lessor, the Trustee or the Lessee or any Owner of Certificates, or any of them other than the lien in favor of Trustee permitted pursuant to the Trust Agreement.

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

Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement shall be credited to the fund or account from which the investment was made, except as otherwise provided in the Trust Agreement. All earnings resulting from the investment of moneys deposited in the Reserve Fund in excess of such Reserve Fund Requirement shall be transferred promptly upon receipt to the Rebate Fund to be applied in accordance with instructions from the Lessee, which instructions shall comply with the Tax Certificate. All earnings resulting from the investment of moneys deposited in any other fund or account held under the Trust Agreement will be retained in the fund or account in which earned and shall be applied for the purpose for which such fund or account is established.

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

With respect to all funds and accounts, the Trustee shall, at the expense of the Lessee, determine the value of investments held under the Trust Agreement no less often than monthly, calculated as follows: (i) the value of the securities as computed on the basis of the closing bid price quoted by Interactive Data Systems, Inc; (ii) the valuation of the securities performed by a nationally recognized and

accepted pricing service acceptable to the Insurer whose valuation method consists of the composite average of various bid price quotes on the valuation date; (iii) the valuation of collateral based on the lower of two dealer bids on the valuation date, which dealers or their parent holding companies are rated at least investment grade by S&P and Moody's, are market makers in the securities being valued; (iv) as to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and (v) as to any investment not specified above, the value thereof established by the Lessee and the Insurer, as notified in writing to the Trustee, except that Permitted Investments in the Reserve Fund shall be valued at cost (excluding accrued interest). In making any valuations under the Trust Agreement, the Trustee may utilize pricing services (including brokers and dealers in securities) available to it, including those within its regular accounting system and may conclusively rely thereon. If amounts on deposit in the Reserve Fund shall, at any time, have a value less than the Reserve Fund Requirement, such deficiency will be made up from first available moneys after required deposits have been made to the Lease Payment Fund by the Lessee. Any Permitted Investment shall be deemed to mature on the earliest date that the issuer thereof may be required to repay the principal thereof at principal without penalty. The Trustee shall sell, or present for prepayment or redemption, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

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

### **The Trustee**

The Lessor will maintain either The Bank of New York Mellon Trust Company, N.A., or a successor Trustee which successor Trustee is a commercial bank, national banking association, banking corporation or trust company having an office in Los Angeles, California, which, together with the corporate parent of such Trustee, has a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000), or is otherwise approved by the Insurer in writing, so long as any Certificates are Outstanding. If such bank, national banking association, banking corporation or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purpose of the Trust Agreement, the combined capital and surplus of such bank, national banking association, banking corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

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

In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Trust Agreement would adversely affect the security for the Certificates or the rights of the Certificateholders, the effect of any such amendment, consent, action or inaction shall be considered as if there were no Municipal Bond Insurance Policy.



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

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

Every successor Trustee appointed pursuant to the Trust Agreement shall satisfy the requirements of the applicable section of the Trust Agreement and shall be approved, in writing, by the Insurer. Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to Insurer as indicated in writing, shall be appointed.

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

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

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

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

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

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

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

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

The Trustee will have the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to the Trust Agreement and delivered using Electronic Means (“Electronic Means” will mean the following communications methods: S.W.I.F.T., e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services under the Trust Agreement); provided, however, that the Lessee will provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by the Lessee whenever a person is to be added or deleted from the listing. If the Lessee elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee’s understanding of such Instructions will be deemed controlling. The Lessee understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The Lessee will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Lessee and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Lessee. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Lessee agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Lessee; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

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

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

The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any

of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, including, but not limited to, the legality of any investment in which Trustee is instructed to invest, but may, in the absence of negligence or bad faith on its part, accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the Lessee, with regard to legal questions and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee under the Trust Agreement in good faith in accordance therewith.

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

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

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

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

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

The Trustee shall have no duty to review, verify or analyze any financial statements furnished to it by the Lessee, and shall hold such financial statements solely as a repository for the Certificateholders. The Trustee shall not be deemed to have notice of any information contained therein or any default or event of default that may be disclosed therein in any manner.

The Lessee shall on demand pay to the Trustee reasonable compensation for the Trustee's regular services under the Trust Agreement as provided in the written fee schedule of the Trustee furnished

to the Lessee and shall reimburse the Trustee, for all advances (with interest on such advances at the maximum rate allowed by law) and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys or other experts employed by the Trustee in the exercise and performance of its powers and duties under the Trust Agreement and the Trustee shall have a lien therefor on all funds and property attributable to a defaulting party, at any time held by it under the Trust Agreement, which lien will not be prior and superior to the lien of the Certificateholders unless there has occurred an Event of Default in which event the lien of the Trustee shall be prior and superior to the lien of the Certificateholders. The Lessee's obligations under the Trust Agreement shall remain valid and binding, notwithstanding the maturity and payment of the Certificates. The compensation of the Trustee under the Trust Agreement will not be limited by any provision of law in regard to the compensation of a trustee of an express trust. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

### **Indemnification of Trustee**

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

### **Amendments Permitted**

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

In executing, or accepting the additional trusts created by, any supplemental trust agreement permitted by the Trust Agreement or the modification thereby of the trusts created by the Trust Agreement, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of counsel stating that the execution of such supplemental trust agreement is authorized or permitted by the Trust Agreement and complies with the terms thereof. The Trustee may, but shall not be obligated to, enter into any such supplemental trust agreement which affects the Trustee's own rights, duties or immunities under the Trust Agreement or otherwise.

### **Covenants; Notices**

The Lessee covenants and agrees with the Insurer and the Certificateholders to perform all obligations and duties imposed on them, respectively, under the Trust Agreement and under the Lease

Agreement. The Lessor covenants and agrees with the Certificateholders to perform all obligations and duties imposed under the Lease Agreement.

The Lessee will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from action, would or might be a ground for cancellation or termination of the Lease Agreement by the Lessor thereunder. The Lessor and the Lessee, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting the estate, in the Leased Property and the Project, which may or can in any manner affect such estate of the Lessee, will deliver the same, or a copy thereof, to the Trustee.

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

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

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

The Lessor and the Lessee will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming unto the Insurer and the Certificateholders of the rights and benefits provided in the Trust Agreement.

### **Limited Liability of the Lessee**

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

### **No Liability of the Lessee or Lessor for Trustee Performance**

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

### **Limited Liability of Trustee**

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

### **Opinion of Counsel**

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

### **Limitation of Rights to Parties and Certificateholders**

Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the Lessee, the Lessor, the Trustee, the Insurer and the Certificateholders, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement

or any covenant, condition or provision of the Trust Agreement; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the Lessee, the Lessor, the Trustee, the Insurer and the Certificateholder.

### **Assignment of Rights; Events of Default and Remedies of Certificateholders**

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

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

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

(b) Failure by a Lessee or the Lessor to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement or the Lease Agreement, other than such failure as may constitute an Event of Default under clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee and Lessor by the Trustee or the Insurer or to the Lessee and the Lessor by the Certificateholders of not less than a majority in aggregate principal amount of the Certificates then Outstanding or if the failure stated in the notice cannot be corrected within such thirty (30) day period, where the Lessee shall fail to institute corrective action within such thirty (30) day period and diligently pursue the same to completion; provided, however, that completion of such corrective action shall not in any event occur more than thirty (30) days after the written notice required by the applicable provisions of the Trust Agreement without the written consent of the Insurer.

If an Event of Default shall occur and be continuing, the Trustee shall give notice of such Event of Default to the Certificateholders and the Insurer. Such notice shall identify the party in default and shall provide a brief description of such Event of Default. The Trustee in its discretion may withhold such notice if it deems it in the best interests of the Certificateholders. The notice provided in the applicable provisions of the Trust Agreement shall be given by registered or certified mail to the Certificateholders within thirty (30) days of such occurrence of the Event of Default.

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement under which such Event of Default has occurred; provided, however, that notwithstanding anything in the Trust Agreement or in the Lease Agreement to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare the Lease Payments not then in default to be immediately due and payable. .

Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Lessee, the Lessor, the Trustee, the Insurer and the registered Certificateholders, any right, remedy or claim under or by reason of the Trust Agreement



or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the Lessee shall be for the sole and exclusive benefit of the Lessee, the Lessor, the Trustee and the registered Certificateholders.

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the applicable articles of the Trust Agreement or the Lease Agreement and any other funds then held by the Trustee, shall be deposited into the Lease Payment Fund and be applied by the Trustee in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

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

(b) Second, to the payment to the persons entitled thereto of all amounts representing the Interest Component then due in the order of the maturity of such installment, and, if the amount available will not be sufficient to pay in full any Interest Component maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

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

(d) Fourth, to the extent not included in subsections (a), (b) or (c) above, to the payment of all costs and other amounts owing to the Insurer; and

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

If one or more Events of Default shall occur and be continuing, the Trustee in its discretion may, and upon the written request of the Certificateholders of a majority in principal amount of the Certificates then Outstanding received by the Trustee at its Principal Corporate Trust Office, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Certificateholders by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in the Lease Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as shall be deemed most effectual in support of any of its rights or duties under the Trust Agreement. Nothing in the Trust Agreement shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Certificate Certificateholder any plan of reorganization, arrangement, adjustment, or composition affecting the Certificates or the rights of any Certificateholder thereof, or to authorize the Trustee to vote in respect of the claim of any Certificateholder in any such proceeding without the approval of the Certificateholders so affected.

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

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

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

No Certificateholder of any Certificate executed and delivered under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Certificateholder shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease Agreement; (b) the Certificateholders of a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers in the Trust Agreement before granted or to institute such action, suit or proceeding in its own name; (c) said Certificateholders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared pursuant to the Trust Agreement, in every case, to be conditions precedent to the exercise by any Certificateholder of any remedy under the Trust Agreement; it being understood and intended that no one or more Certificateholders shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal benefit of all Certificateholders of the Outstanding Certificates.

The right of any Certificateholder of any Certificate to receive payment of said Certificateholder's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Certificateholder, notwithstanding the provisions of the Trust Agreement.

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

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

### **Defeasance**

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

To accomplish defeasance, the Lessee shall cause to be delivered to the Trustee and the Insurer (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be addressed to and acceptable to the Insurer verifying the sufficiency of the escrow established to pay the Certificates in full on the maturity or prepayment date (a "Verification"), (ii) an escrow deposit agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized special counsel addressed to the Trustee and the Insurer and acceptable to the Insurer to the effect that the Certificates are no longer Outstanding under the Trust Agreement and (iv) a certificate of discharge of the Trustee, which may rely on the Verification with respect to the Certificates. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow. The Certificates shall be deemed "Outstanding" under the Trust Agreement unless and until they are in fact paid and retired or the above criteria are met.

Amounts paid by the Insurer under the Municipal Bond Insurance Policy or the Reserve Policy will not be deemed paid for purposes of the Trust Agreement and shall remain Outstanding and continue to be due and owing until paid by the Lessee in accordance with the Trust Agreement.

The Trust Agreement will not be discharged unless all amounts due to the Insurer have been paid in full or duly provided for. The Lessee's obligation to pay such amounts is expressly stated to survive payment in full of the Certificates.

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

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

### **Interested Parties**

To the extent that any provision in the Trust Agreement confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Insurer is explicitly recognized as being a third-party beneficiary under the Trust Agreement and may enforce any such right, remedy or claim conferred, given or granted under the Trust Agreement. No contract shall be entered into nor 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. Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Lessee, the Trustee, the Insurer and the registered owners of the Certificates, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulation, promises and agreements in the Trust Agreement contained by and on behalf of the Lessee shall be for the sole and exclusive benefit of the Lessee, the Trustee, the Insurer, and the registered owners of the Certificates.

### **Insurer Exercise of Rights**

The rights granted to the Insurer under the Trust Agreement, the Lease, and the Site Lease to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Municipal Bond 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, or on behalf, of the Certificateholders nor shall such action be considered or deemed to be taken for the benefit or on behalf of the Certificateholders or be considered evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Certificateholders or any other person is required in addition to the consent of the Insurer.

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

### **Insolvency**

Any reorganization or liquidation plan with respect to the Lessee must be acceptable to the Insurer. Each Certificateholder appoint the Insurer as its agent and attorney-in-fact with respect to the Certificates and agrees that the Insurer may at any time during the continuation of any proceeding by or against the Lessee under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (a) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (b) the direction of any appeal of any order relating to any Claim, (c) the posting of any surety, supersedeas or performance bond pending any such appeal, and (d) the right to vote to accept or reject any plan of adjustment. In addition, each Certificateholder delegates and assigns to the Insurer, to the fullest extent permitted by law, the rights of each Certificateholder with respect to the Certificates in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. The Trustee acknowledges such appointment, delegation and assignment by each Certificateholder for the Insurer's benefit, and agrees to cooperate with the Insurer in taking any action reasonably necessary or appropriate in connection with such appointment, delegation and assignment.

### **Insurer Default**

If an Insurer Default (defined below) shall occur and be continuing, then, notwithstanding anything in the Trust Agreement to the contrary, (1) if at any time prior to or following an Insurer Default, the Insurer has made payment under the Municipal Bond Insurance Policy, to the extent of such payment the Insurer shall be treated like any other Certificateholder for all purposes, including giving of consents, and (2) if the Insurer has not made any required payment under the Municipal Bond Insurance Policy, the Insurer shall have no further consent rights until the particular Insurer Default is no longer continuing or the Insurer makes a payment under the Municipal Bond Insurance Policy, in which event, the foregoing clause (1) shall control. For purposes of this paragraph, "Insurer Default" means: (A) the Insurer has failed to make any payment under the Municipal Bond Insurance Policy when due and owing in accordance with its terms; or (B) the Insurer shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take action for the purpose of effecting any of the foregoing; or (C) any state or federal agency or instrumentality shall order the suspension of payments on the Municipal Bond Insurance Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the Insurer (including without limitation under the New York Insurance Law).

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX D

### BOOK-ENTRY SYSTEM

*The information in the following sections entitled “DTC’s Book-Entry System” has been provided by DTC for use in securities offering documents, and the Lessee takes no responsibility for the accuracy or completeness thereof. The Lessee cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Certificates or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with Direct Participants are on file with DTC.*

#### **DTC’s Book-Entry System**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Certificate will be issued with respect to each maturity of the Certificates, and such Certificates will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of “AA+”. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by 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 Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal, prepayment price and interest payments with respect to 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 Lessee or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Lessee or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Lessee or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.



The Lessee may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered.

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX E

### PROPOSED FORM OF SPECIAL COUNSEL OPINION

*Upon the delivery of the Certificates, Hawkins Delafield & Wood LLP, Special Counsel, proposes to deliver it approving opinion in substantially the following form:*

Hacienda La Puente Unified School District  
City of Industry, California

Los Angeles County Schools Regionalized Business Services Corporation  
Downey, California

Ladies and Gentlemen:

We have acted as Special Counsel to the Los Angeles County Schools Regionalized Business Services Corporation (the "Corporation") in connection with the execution and delivery of \$46,915,000 aggregate principal amount Certificates of Participation (Los Angeles County Schools Pooled Financing Program), 2021 Series A (Hacienda La Puente Unified School District) (the "Certificates"), representing proportionate undivided interests of the owners thereof in Lease Payments made under the Lease Agreement, dated as of March 1, 2021 (the "Lease Agreement"), by and between the Corporation and the Hacienda La Puente Unified School District (the "District"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of March 1, 2021 (the "Trust Agreement"), by and among the Corporation, the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Trust Agreement or in the Lease Agreement.

In such connection, we have examined the Lease Agreement, the Trust Agreement, the Site Lease, dated as of March 1, 2021 (the "Site Lease"), by and between the Corporation and the District, the Assignment Agreement, dated as of March 1, 2021 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Tax Certificate dated the date hereof (the "Tax Certificate") executed by the District, certain estimates, expectations and assumptions made by or on behalf of the District, originals, or copies identified to our satisfaction as being true copies, of such records and proceedings of the District and such other documents and other matters deemed necessary to render the opinions set forth herein.

We are of the opinion that:

1. The Lease Agreement and the Site Lease, dated as of March 1, 2021 (the "Site Lease"), by and between the District and the Corporation, have been duly authorized, executed and delivered by the District and the Corporation and constitute valid and legally binding obligations of the District and the Corporation, enforceable against the District and the Corporation in accordance with their respective terms.
2. The Trust Agreement has been duly authorized, executed and delivered by the District and the Corporation and, assuming due authorization and execution thereof by the Trustee, the Trust Agreement constitutes a valid and legally binding obligation of the District and the Corporation, enforceable in accordance with its terms.
3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) the portion of Lease Payments due under the Lease Agreement

designated as and comprising Interest Components with respect to the Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) the portion of Lease Payments due under the Lease Agreement designated as and comprising Interest Components with respect to the Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.

The Code establishes certain requirements which must be met subsequent to the execution and delivery of the Certificates in order that the portion of Lease Payments due under the Lease Agreement designated as and comprising Interest Components with respect to the Certificates be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Certificates, restrictions on the investment of proceeds of the Certificates prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause the portion of Lease Payments due under the Lease Agreement designated as and comprising Interest Components with respect to the Certificates to become subject to federal income taxation retroactive to their date of execution and delivery, irrespective of the date on which such noncompliance occurs or is ascertained. On the date of execution and delivery of the Certificates, the District will execute the Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the District covenants that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that the portion of Lease Payments due under the Lease Agreement designated as and comprising Interest Components with respect to the Certificates will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 3 hereof, we have relied upon and assumed the material accuracy of the District’s representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of the portion of Lease Payments due under the Lease Agreement designated as and comprising Interest Components with respect to the Certificates, and continuing compliance with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

4. Under existing statutes, the portion of Lease Payments due under the Lease Agreement designated as and comprising Interest Components with respect to the Certificates is exempt from State of California personal income taxes.

The foregoing opinions are qualified to the extent that the enforceability of the Certificates, the Lease Agreement, the Site Lease and the Trust Agreement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditor’s rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Certificates, or the ownership or disposition thereof, except as stated in paragraphs (3) and (4) above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Certificates.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Certificates and express herein no opinion relating thereto.

We express no opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Trust Agreement, the Lease Agreement or the Site Lease, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens, on any such property.

This letter is furnished by us as Special Counsel and is solely for your benefit and it is not to be used, circulated, quoted, or otherwise referred to for any purposes other than the issuance and delivery of the Certificates and may not be relied upon by any other person or entity without our express written permission, except that references may be made to it in any list of closing documents pertaining to the delivery of the Certificates.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX F**

**THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS**

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

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

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

The Treasury Pool participation composition is as follows:

Non-Discretionary Participants	90.58%
Discretionary Participants:	
Independent Public Agencies	8.66
County Bond Proceeds and Repayment Funds	<u>0.76</u>
Total	100.0%

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

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

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

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer’s Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor’s staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. On a quarterly basis, the County’s outside independent auditor (External Auditor) reviews the cash and investment reconciliations for completeness and accuracy. Additionally, the External Auditor reviews investment transactions on a quarterly basis for conformance with the approved Investment Policy and annually accounts for all investments.

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

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

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



## APPENDIX G

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) dated March 16, 2021 of the Hacienda La Puente Unified School District (the “District”) is executed in connection with the execution and delivery of \$46,915,000 Certificates of Participation (Los Angeles County Schools Pooled Financing Program) 2021 Series A (Hacienda La Puente Unified School District) pursuant to the Trust Agreement dated as of March 1, 2021 (this “Trust Agreement”), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the District and Los Angeles County Schools Regionalized Business Services Corporation (the “Lessor”). 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 has in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

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

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), (b) is treated as the Owner of any Certificates for federal income tax purposes or (c) Assured Guaranty Municipal Corp., or any successor thereto, so long as the municipal bond insurance policy issued thereby remains in effect.

“County” shall mean the County of Los Angeles, California.

“CUSIP Numbers” shall mean the Committee on Uniform Securities Identification Procedures’ unique identification numbers for each public issue of a security.

“Disclosure Counsel” shall mean an attorney-at-law, or a firm of such attorneys, of nationally recognized standing in matters pertaining to the disclosure obligations under Rule 15c2-12(b)(5) of the Securities and Exchange Commission of the United States of America, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Dissemination Agent” shall mean the District or any Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Financial Obligation” means a “financial obligation” as such term is defined in the Rule.

“Trust Agreement” shall mean the Trust Agreement by and among the Trustee, the District and the Lessor pursuant to which the Certificates are executed and delivered.

“EMMA System” shall mean the MSRB’s Electronic Municipal Market Access system.

“Holder” shall mean either the registered owners of the Certificates, or if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Events” shall mean any of the events listed in Section 6(b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate.

“Official Statement” shall mean the Official Statement dated February 23, 2021 with respect to the Certificates.

“Participating Underwriter” shall mean the original underwriters of the Certificates required to comply with the Rule in connection with offering 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.** Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB’s EMMA System, the current internet address of which is <http://emma.msrb.org>.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB.

**Section 4.** Provision of Annual Reports. (a) The District shall provide to the Dissemination Agent not later than the March 15 following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2020-21 Fiscal Year (which is due not later than April 1, 2022), an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Certificate, and the Dissemination Agent shall submit the Annual Report to the MSRB through its EMMA System no later than April 1 after the end of such fiscal year. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Certificate. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 6(c).

(b) Not later than thirty (30) days (not more than sixty (60) days) prior to April 1 as specified in Section 4(a) above, the Dissemination Agent shall give notice to the District that the Annual Report is so required to be filed in accordance with the terms of this Disclosure Certificate. If the District is unable to provide to the MSRB through its EMMA System an Annual Report by the date required in Section 4(a), the Dissemination Agent shall in a timely manner send a notice of such fact to the MSRB through its EMMA System.

(c) The Dissemination Agent shall: (i) determine each year, prior to the date for providing the Annual Report to the MSRB through the EMMA System, the date on which such Annual Report shall be due and notify the District of such date; and (ii) (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 and that it was provided to the MSRB through the EMMA System.

**Section 5.** 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 filed pursuant to Section 4 hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

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

(i) Table A-12 – “Historical Gross Assessed Valuation of Taxable Property,” if and to the extent provided to the District by the County;

(ii) Table A-14 – “Property Tax Levies and Collections,” if and to the extent provided to the District by the County;

(iii) Table A-1 – “District Budget” for the current fiscal year;

(iv) Table A-2 – “Statement of Revenues, Expenditures and District General Fund Balances” for the prior fiscal year;

(v) Table A-7 – “Outstanding General Obligation Bonds;”

(vi) Table A-8 – “Outstanding Certificates of Participation;” and

(vii) Table A-11 – “Annual Average Daily Attendance,” as may be reasonably available.

(c) It shall be sufficient for purposes of Section 4 hereof if the District provides annual financial information by specific reference to documents (i) available to the public on the MSRB website (currently, [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference. The provisions of this Section 5(c) shall not apply to notices of Listed Events pursuant to Section 6 hereof.

(d) The descriptions of financial information and operating data to be included in the Annual Report contained in Section 5(b) above are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, or due to changes in accounting practices, legislative or organizational changes, a statement to that effect shall be provided in lieu of such information. Comparable information shall be provided if available.

**Section 6. Reporting of Listed Events.** (a) If a Listed Event occurs, the District shall provide or caused to be provided, in a timely manner not in excess of ten (10) business days of the District having notice of such Listed Event, notice of such Listed Event to (i) the EMMA System of the MSRB and (ii) the Dissemination Agent.

(b) Pursuant to the provisions of this Section 6, the District shall give, or cause to be given, notice of the occurrence of any of the following events (each, a “Listed Event”) with respect to the Certificates:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) modifications to rights of Holders, if material;
- (iv) bond calls, if material and tender offers;
- (v) defeasances;
- (vi) rating changes;
- (vii) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (Internal Revenue Service Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
- (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on the credit enhancements reflecting financial difficulties;
- (x) release, substitution or sale of property securing repayment of the certificates, if material;
- (xi) bankruptcy, insolvency, receivership or similar event of the District (such 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 government authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or 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);
- (xii) substitution of credit or liquidity providers, or their failure to perform;
- (xiii) 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, if material;

(xiv) appointment of a successor or additional Bond Registrar or the change of name of a Bond Registrar, if material;

(xv) incurrence of a Financial Obligation of the District, if material, 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 security holders, if material;

(xvi) 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; and

(xvii) any amendment or waiver of a provision of this Disclosure Certificate.

(c) If the District determines that a Listed Event has occurred, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 3 hereof.

If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB through its EMMA System.

Notwithstanding the foregoing, notice of the Listed Event described in Section 6(b)(iv) need not be given under this Section 6 any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Resolution.

**Section 7.** CUSIP Numbers. Whenever providing information to the Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, audited financial statements and notices of Listed Events, the District shall indicate the full name of the Certificates and the 9-digit CUSIP numbers for the Certificates as to which the provided information relates.

**Section 8.** Termination of Reporting Obligation.

The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 6(c).

This Disclosure Certificate, or any provision hereof, shall cease to be effective in the event that the District (1) delivers to the Dissemination Agent an opinion of Disclosure Counsel, addressed to the District and the Dissemination Agent, to the effect that those portions of the Rule which require this Disclosure Certificate, or such provision, as the case may be, do not or no longer apply to the Certificates, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

**Section 9.** 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. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder. The

Dissemination Agent (other than the District) shall not be responsible in any manner for the content of any notice or report required to be delivered by the District pursuant to this Disclosure Certificate.

**Section 10. Amendment; Waiver.** (a) This Disclosure Certificate may be amended by the District without the consent of the Holders of the Certificates, if all of the following conditions are satisfied:

(i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the District or the type of business conducted thereby;

(ii) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(iii) the District shall have received an opinion of Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the same effect as set forth in Section 10(a)(ii) above;

(iv) either (1) the District shall have received an opinion of Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the holders of the Certificates or (2) is approved by the Holders of the Certificates in the same manner as provided in the Resolution; and

(v) the District shall have delivered copies of such opinion and amendment to the MSRB through its EMMA System within ten (10) business days from the execution thereof.

(b) In addition to Section 10(a) above, this Disclosure Certificate may be amended and any provision of this Disclosure Certificate may be waived, by written certificate of the District, without the consent of the Holders of the Certificates, if all of the following conditions are satisfied:

(i) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Disclosure Certificate which is applicable to this Disclosure Certificate;

(ii) the District shall have received an opinion of Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that performance by the District under this Disclosure Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule; and

(iii) the District shall have delivered copies of such opinion and amendment to the MSRB through its EMMA System.

(c) In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a

Listed Event under Section 6 hereof, 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 11.** Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**Section 12.** Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Participating Underwriter has or the Holders or Beneficial Owners of at least 25% of aggregate principal amount of the Certificates then outstanding, shall) or any Holders or Beneficial Owners 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 the Superior Court of the State of California in and for the County of Los Angeles or in the U.S. District Court in the County of Los Angeles. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**Section 13.** Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section 13 shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

**Section 14.** Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter has and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

HACIENDA LA PUENTE UNIFIED SCHOOL  
DISTRICT

By: \_\_\_\_\_  
Authorized Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]



**APPENDIX H**

**THE LESSEE'S FISCAL YEAR 2019-20  
AUDITED FINANCIAL STATEMENTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**HACIENDA LA PUENTE UNIFIED  
SCHOOL DISTRICT  
LOS ANGELES COUNTY  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2020**

**NIGRO  
& NIGRO<sup>PC</sup>**

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2020

## Table of Contents

---

<b>FINANCIAL SECTION</b>		<u>Page</u>
Independent Auditors' Report .....		1
Management's Discussion and Analysis .....		3
Basic Financial Statements:		
District-wide Financial Statements		
Statement of Net Position .....		12
Statement of Activities .....		13
Governmental Funds Financial Statements		
Balance Sheet .....		14
Reconciliation of the Governmental Funds Balance Sheet to the		
Statement of Net Position .....		15
Statement of Revenues, Expenditures, and Changes in Fund Balances .....		16
Reconciliation of the Governmental Funds Statement of Revenues,		
Expenditures, and Changes in Fund Balances to the Statement of Activities .....		17
Proprietary Funds Financial Statements		
Statement of Net Position .....		18
Statement of Revenues, Expenses, and Changes in Fund Net Position .....		19
Statement of Cash Flows .....		20
Fiduciary Funds Financial Statement		
Statement of Fiduciary Net Position .....		21
Notes to Financial Statements .....		22

## REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund .....	62
Budgetary Comparison Schedule – Adult Education Fund .....	63
Schedule of Proportionate Share of the Net Pension Liability .....	64
Schedule of Pension Contributions .....	65
Schedule of Changes in the District's Total OPEB Liability and Related Ratios .....	66
Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program .....	67
Notes to the Required Supplementary Information .....	68

## SUPPLEMENTARY INFORMATION

Local Educational Agency Organization Structure .....	70
Schedule of Average Daily Attendance .....	71
Schedule of Instructional Time .....	72
Schedule of Financial Trends and Analysis .....	73
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements .....	74
Reconciliation of Head Start Expenditures .....	75
Schedule of Expenditures of Federal Awards .....	76
Note to the Supplementary Information .....	77

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

*For the Fiscal Year Ended June 30, 2020*

*Table of Contents (continued)*

---

**OTHER INDEPENDENT AUDITORS' REPORTS**

**Page**

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	78
Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.....	80
Independent Auditors' Report on State Compliance .....	82

**FINDINGS AND QUESTIONED COSTS**

Schedule of Audit Findings and Questioned Costs:	
Summary of Auditors' Results.....	84
Current Year Audit Findings and Questioned Costs .....	85
Summary Schedule of Prior Audit Findings .....	89
Management Letter.....	90

---

---

*Financial Section*

---

---

*(This page intentionally left blank)*



## INDEPENDENT AUDITORS' REPORT

Board of Education  
Hacienda La Puente Unified School District  
City of Industry, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hacienda La Puente Unified School District, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hacienda La Puente Unified School District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

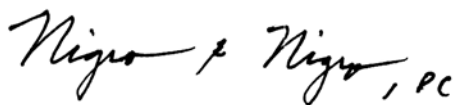
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 71 to 75 and the schedule of expenditures of federal awards on page 76 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 70 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California  
December 23, 2020

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2020*

---

This discussion and analysis of Hacienda La Puente Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's net position in governmental activities increased by \$15.0 million.
- Governmental expenses were about \$280.1 million. Revenues were about \$295.2 million.
- The District spent approximately \$25.6 million in new capital assets during the year. These expenditures were incurred primarily from the Building Fund.
- Grades K-12 average daily attendance (ADA) decreased by 266, or 1.5%.
- Governmental funds increased by \$5.4 million, or 2.1%.
- Reserves for the General Fund increased by \$1.2 million, or 16.7%. Revenues were \$245.1 million and expenditures were \$232.7 million.

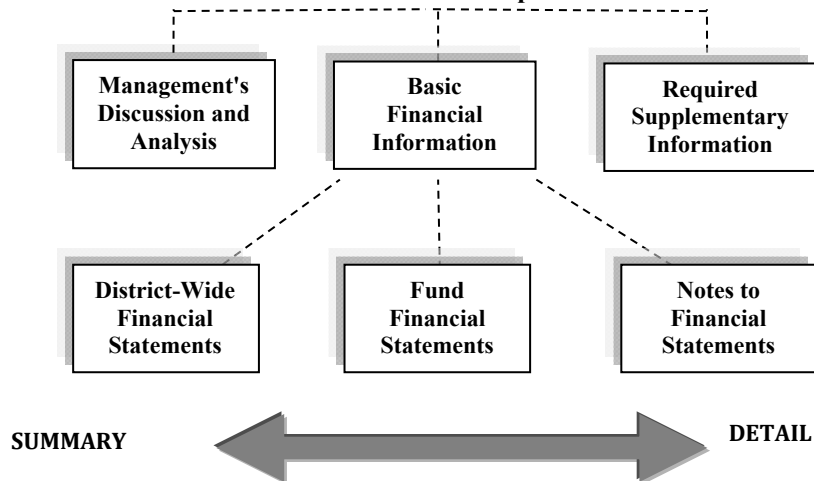
**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial* statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial* statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds* statements.
  - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1. Organization of Hacienda La Puente Unified School District's Annual Financial Report**



# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2020

---

### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

#### District-Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the District-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- *Proprietary funds* – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the District-wide statements but provides more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for workers' compensation claims, vision insurance, and health and welfare costs.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2020*

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

**Fund Financial Statements (continued)**

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position.** The District's combined net position was higher on June 30, 2020, than it was the year before – increasing 9.1% to \$180.0 million (See Table A-1).

**Table A-1: Statement of Net Position**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2020</b>	<b>2019*</b>	
Current assets	\$ 354,727,768	\$ 341,881,360	\$ 12,846,408
Capital assets	316,016,791	302,373,205	13,643,586
<b>Total assets</b>	<b>670,744,559</b>	<b>644,254,565</b>	<b>26,489,994</b>
<b>Total deferred outflows</b>	<b>68,760,113</b>	<b>65,686,607</b>	<b>3,073,506</b>
Current liabilities	32,663,943	33,165,823	(501,880)
Long-term liabilities	236,545,739	235,794,559	751,180
Net pension liability	255,933,080	241,146,662	14,786,418
<b>Total liabilities</b>	<b>525,142,762</b>	<b>510,107,044</b>	<b>15,035,718</b>
<b>Total deferred inflows</b>	<b>34,355,189</b>	<b>34,868,513</b>	<b>(513,324)</b>
Net investment in capital assets	202,120,150	202,607,867	(487,717)
Restricted	213,537,696	188,659,049	24,878,647
Unrestricted	(235,651,125)	(226,301,301)	(9,349,824)
<b>Total net position</b>	<b>\$ 180,006,721</b>	<b>\$ 164,965,615</b>	<b>\$ 15,041,106</b>

\*As Restated

**Changes in net position, governmental activities.** The District's total revenues increased 1.3% to \$295.2 million (See Table A-2). The increase is due primarily to increased operating grants and contributions.

The total cost of all programs and services increased 5.2% to \$280.1 million. The District's expenses are predominantly related to educating and caring for students, 78.4%. The purely administrative activities of the District accounted for just 3.8% of total costs. A significant contributor to the increase in costs was increased salaries and benefits costs from negotiated salary increases as well as increases to pension and health and welfare costs.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2020*

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Table A-2: Statement of Activities**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2020</b>	<b>2019</b>	
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$ 2,743,286	\$ 3,547,749	\$ (804,463)
Operating grants and contributions	67,154,222	63,747,567	3,406,655
General Revenues:			
Property taxes	53,650,821	49,403,411	4,247,410
Federal and state aid not restricted	163,139,065	169,159,435	(6,020,370)
Other general revenues	8,464,486	5,618,816	2,845,670
<b>Total Revenues</b>	<b>295,151,880</b>	<b>291,476,978</b>	<b>3,674,902</b>
<b>Expenses</b>			
Instruction-related	188,894,698	180,257,990	8,636,708
Pupil services	30,617,695	27,501,182	3,116,513
Administration	10,651,110	8,712,566	1,938,544
Plant services	29,155,489	28,674,535	480,954
All other activities	20,791,782	21,059,359	(267,577)
<b>Total Expenses</b>	<b>280,110,774</b>	<b>266,205,632</b>	<b>13,905,142</b>
Increase (decrease) in net position	15,041,106	25,271,346	\$ (10,230,240)
<b>Total net position</b>	<b>\$ 180,006,721</b>	<b>\$ 164,965,615</b>	

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$262.5 million, which is above last year's ending fund balance of \$257.2 million. The primary cause of the increased fund balance is proceeds from a new lighting lease in the Special Reserve Fund for Capital Outlay Projects.

**Table A-3: The District's Fund Balances**

<b>Fund</b>	<b>Fund Balances</b>				
	July 1, 2019*	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2020
General Fund	\$ 78,708,279	\$ 245,088,768	\$ 232,703,857	\$ (7,500,287)	\$ 83,592,903
Adult Education Fund	36,800,135	24,331,716	21,773,374	-	39,358,477
Child Development Fund	1,469,780	10,257,134	10,145,297	-	1,581,617
Cafeteria Fund	3,277,600	10,383,454	12,091,384	100,287	1,669,957
Deferred Maintenance Fund	5,070,840	3,081,906	1,118,284	-	7,034,462
Building Fund	71,863,420	1,114,662	14,525,297	-	58,452,785
Special Reserve Fund (Capital Outlay)	11,723,431	154,534	6,848,360	18,099,800	23,129,405
Bond Interest and Redemption Fund	16,475,673	12,581,610	17,359,436	-	11,697,847
Tax Override Fund	13,778	235	-	-	14,013
Debt Service Fund	31,748,785	531,931	3,696,771	7,400,000	35,983,945
	<b>\$ 257,151,721</b>	<b>\$ 307,525,950</b>	<b>\$ 320,262,060</b>	<b>\$ 18,099,800</b>	<b>\$ 262,515,411</b>

\*As Restated

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2020*

---

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)**

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased \$9.7 million due to revised estimates from the state.
- Salaries and benefits – increased \$6.3 million due to updating staffing estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$13.8 million, the actual results for the year show that revenues exceeded expenditures by roughly \$12.4 million. Actual revenues were \$0.5 million more than anticipated, and expenditures were \$25.8 million less than budgeted.

That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2020, that will be carried over into the 2020-21 budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2019-20 the District had invested \$25.6 million in new capital assets, related to ongoing modernization programs. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$11.9 million.

**Table A-4: Capital Assets at Year-End, Net of Depreciation**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>2020</b>	<b>2019</b>	
Land	\$ 6,162,576	\$ 6,162,576	\$ -
Improvement of sites	18,151,727	18,847,624	(695,897)
Buildings	248,424,779	249,316,195	(891,416)
Equipment	12,398,957	13,145,995	(747,038)
Construction in progress	30,878,752	14,900,815	15,977,937
<b>Total</b>	<b>\$ 316,016,791</b>	<b>\$ 302,373,205</b>	<b>\$ 13,643,586</b>

**Long-Term Debt**

At year-end the District had \$236.5 million in general obligation bonds, certificates of participation, lighting project leases, and employment benefits – an increase of 0.3% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2020

---

### CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance
	2020	2019	Increase (Decrease)
General obligation bonds	\$ 138,978,298	\$ 150,562,776	\$ (11,584,478)
Certificates of participation	17,847,597	20,981,116	(3,133,519)
Lighting project lease	23,531	69,560	(46,029)
Lighting project lease, Phase IV	15,500,000	-	15,500,000
Capital leases	-	15,306	(15,306)
Workers' compensation claims	13,203,000	13,203,000	-
Other postemployment benefits	46,458,574	46,771,891	(313,317)
Compensated absences	4,534,739	4,190,910	343,829
Total	<u>\$ 236,545,739</u>	<u>\$ 235,794,559</u>	<u>\$ 751,180</u>

Net pension liability increased during the year by \$14.8 million.

### FACTORS BEARING ON THE DISTRICT'S FUTURE

The State Legislature passed a final budget package on June 26, 2020. The final budget package assumed that \$2 billion in federal funds would be forthcoming and took the Governor's approach in the May Revision to make other spending reductions contingent on other federal money. In addition, relative to the June 15 initial package, the final package made several changes, including increasing school deferrals by \$3.5 billion (assuming no federal money is forthcoming), increasing revenue assumptions by more than \$1 billion, and eliminating the plan to reinstate General Fund payment deferrals. The Governor signed the 2020-21 Budget Act and related budget legislation on June 29, 2020.

#### **Proposition 98**

##### **Proposition 98 Establishes Minimum Funding Level for Schools and Community Colleges**

This minimum funding requirement is commonly called the minimum guarantee. The state calculates the minimum guarantee by comparing three main formulas or "tests". Each test takes into account certain inputs, such as state General Fund revenue, per capita personal income, and K-12 student attendance. The state can choose to fund at the minimum guarantee or any level above it. It also can suspend the guarantee with a two-thirds vote of each house of the Legislature, allowing the state to provide less funding than the formulas require that year. The state meets the guarantee through a combination of state General Fund and local property tax revenue.

##### **Minimum Funding Requirement Down Significantly in 2019-20 and 2020-21**

Estimates of the minimum guarantee under the June 2020 budget plan have dropped significantly compared with June 2019 estimates. For 2019-20, the minimum requirement is down \$3.4 billion (4.2 percent). For 2020-21, the minimum requirement is down \$6.8 billion (8.7 percent) from the revised 2019-20 level and \$10.2 billion (12.5 percent) from the 2019-20 level estimated in June 2019. These drops mainly reflect reductions in state General Fund revenue. Test 1 remains operative in both years, with the drop in the General Fund portion of the guarantee equal to nearly 40 percent of the drop in revenues. The local property tax portion of the guarantee, by contrast, grows slowly from 2019-20 to 2020-21.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2020*

---

## **FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

### **Proposition 98 (continued)**

#### **Budget Plan Implements Significant Payment Deferrals**

In both 2019-20 and 2020-21, the budget plan reduces school and community college funding to the lower minimum requirement. It implements these reductions primarily by deferring \$12.5 billion in payments. (When the state defers payments from one fiscal year to the next, the state can reduce spending while allowing school districts to maintain programs by borrowing or using cash reserves.) Of the \$12.5 billion, \$11 billion applies to K-12 schools and \$1.5 billion applies to community colleges. Although the budget plan authorized the Department of Finance to rescind up to \$6.6 billion of the deferrals if the state received additional federal funding by October 15, 2020, Congress did not approve any additional funds prior to this deadline.

#### **Makes a Few Other Spending Adjustments**

In addition to the deferrals, the budget plan makes a few other adjustments to school and community college funding. Most notably, it does not provide the 2.31 percent statutory cost-of-living adjustment for school and community college programs in 2020-21. The budget plan also uses \$833 million in one-time funds to cover costs for the K-12 Local Control Funding Formula (LCFF) and community college apportionments in 2019-20 and 2020-21. These one-time funds consist of \$426 million in unspent prior-year funds and a \$407 million settle-up payment. In addition, the budget plan withdraws the entire \$377 million the state deposited into the Proposition 98 Reserve in the fall of 2019. (Formulas in the State Constitution govern Proposition 98 Reserve deposits and withdrawals.) Finally, the budget plan obtains \$240 million in savings (\$110 million in 2019-20 and \$130 million in 2020-21) from eliminating unallocated State Preschool slots.

#### **Creates Supplemental Obligation to Increase Funding Beginning in 2021-22**

This obligation has two parts. First, it requires the state to make temporary payments on top of the Proposition 98 guarantee beginning in 2021-22. Each payment will equal 1.5 percent of annual General Fund revenue. The state can allocate these payments for any school or community college purpose. Payments will continue until the state has paid \$12.4 billion—the amount of funding schools and community colleges could have received under Proposition 98 if state revenues had continued to grow. (Technically, the obligation equals the total difference between the Test 1 and Test 2 funding levels in 2019-20 and 2020-21.) Second, the obligation requires the state to increase the minimum share of General Fund revenue allocated to schools and community colleges from 38 percent to 40 percent on an ongoing basis. This increase is set to phase in over the 2022-23 and 2023-24 fiscal years.

### **K-12 Education**

#### **Proposition 98 Funding Decreases 12 Percent**

The budget package includes \$62.5 billion in Proposition 98 funding for K-12 education in 2020-21—\$8.7 billion (12.2 percent) less than the 2019-20 Budget Act level.

#### **Defers \$11 Billion in K-12 Payments, Allows Exemptions in Limited Circumstances**

The state distributes funding for LCFF and special education following a monthly payment schedule established in law. The budget plan modifies this schedule in 2019-20 to defer \$1.9 billion in payments to the following fiscal year. In 2020-21, the budget plan maintains these deferrals and adopts \$9.1 billion in additional deferrals. Under the modified schedule, portions of the payments otherwise scheduled for the months of February through June will be paid over the July through November period. The total amount deferred equates to about 16 percent of all state and local funding schools receive for LCFF and special education, or 24 percent of the General Fund allocated for these programs. If a district or charter school can demonstrate it would be unable to meet its financial obligations because of the deferrals, and has exhausted all other sources of internal and external borrowing, it can apply for an exemption. The law allows the Department of Finance, State Controller, and State Treasurer to authorize up to \$300 million in deferral exemptions per month. If these exemption requests exceed the funding available, the earliest applications will be approved first.



**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2020*

---

**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**K-12 Education (continued)**

**Addresses Historically Low-Funded Special Education Regions**

Most state special education funding is provided to Special Education Local Plan Areas (SELPAs) based on total student attendance within the area. (Most SELPAs are regional collaborations of neighboring districts, county offices of education [COEs], and charter schools, though some consist of only a single large district.) Each SELPA receives a unique per-student rate linked to certain historical factors. In 2019-20, these per-student rates varied from \$557 to more than \$900. The budget provides \$545 million to bring low-funded SELPAs to a new rate of \$625 per student. This rate is roughly equivalent to the 93rd percentile of current rates.

**Allocates \$6.4 Billion in One-Time Federal Funding**

The budget package allocates \$6.4 billion in one-time federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding for K-12 education. The majority of funding (\$4.8 billion) is provided for learning loss mitigation. The budget also includes \$1.5 billion that can be used for a variety of activities and is distributed based on counts of low-income and disadvantaged children. The remaining funds are used to provide higher reimbursement rates for some school meals, create a competitive grant program for implementing the community schools model, and cover state costs of allocating and overseeing how CARES Act funds are spent.

**Funds Learning Loss Mitigation Activities**

The budget package provides \$5.3 billion in one-time funding for activities mitigating learning loss due to coronavirus disease 2019 (COVID-19) school closures. This amount consists of \$4.4 billion from the federal Coronavirus Relief Fund, \$540 million Proposition 98 General Fund, and \$355 million from the federal Governor's Emergency Education Relief Fund. Allocations from the Coronavirus Relief Fund can be used to cover eligible costs incurred between March 1, 2020 and December 30, 2020, while the remainder of the funding covers costs incurred between March 13, 2020 and September 30, 2022. Allowable activities include expanding learning supports, increasing instructional time, offering additional academic services (such as diagnostic assessments and devices and connectivity for distance learning), and addressing other barriers to learning (such as mental health services, professional development for teachers and parents, and student meals). Of this funding, \$2.9 billion is to be allocated based on LCFF supplemental and concentration grants, \$1.5 billion based on the number of students with disabilities, and \$980 million based on total LCFF allocation.

**Funds Schools Based on 2019-20 Attendance Levels, Allows Growth Under Certain Conditions**

For funding purposes, the state ordinarily credits school districts with their average daily attendance in the current or prior year, whichever is higher. Charter schools and COEs are funded according to their attendance in the current year only. In 2020-21, however, the state will not collect average daily attendance data. Instead, districts, charter schools, and COEs will be funded according to their 2019-20 attendance levels unless they had previously budgeted for attendance growth. Any attendance growth for a district or charter school is limited to the lower of its (1) previously projected increase in enrollment or attendance, as documented in its budget, or (2) actual increase in enrollment from October 2019 to October 2020. (For this calculation, enrollment numbers are converted to an equivalent amount of average daily attendance by adjusting them for the statewide average absence rate.) The trailer legislation also allows a few other attendance-related adjustments. Most notably, if a charter school closes during the 2020-21 school year, the attendance it previously generated will be credited to its sponsoring school district.

**Modifies Instructional Requirements to Allow for Distance Learning**

The budget package suspends requirements for annual instructional minutes for 2020-21 to provide additional flexibility to schools and allows minimum instructional day requirements be met through a combination of in-person instruction and distance learning. The budget package also sets expectations for distance learning.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)*

*For the Fiscal Year Ended June 30, 2020*

---

## **FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

### **K-12 Education (continued)**

#### **Modifies Instructional Requirements to Allow for Distance Learning (continued)**

Among other specified activities, distance learning must be substantially equivalent to in-person instruction; include daily live interaction between teachers and students; and provide appropriate supports to students with disabilities, English learners, and other student subgroups.

#### **Includes Additional Fiscal Flexibility in a Few Areas**

Budget trailer legislation includes several changes to provide more spending flexibility for school districts:

- For the purposes of calculating minimum routine maintenance deposits, excludes one-time funding for state pension payments on behalf of school districts, learning loss mitigation funds, and federal Elementary and Secondary School Emergency Relief funds. Typically, school districts receiving funding from the state's School Facility Program are required to establish a restricted account for routine maintenance of school facilities and deposit 3 percent of the district's annual expenditures.
- Allows for proceeds from the sale or lease of surplus property purchased entirely with local funds to be used for one-time general fund purposes through 2023-24.
- For the purpose of spending restricted lottery revenues, permanently expands the definition of instructional materials to also include laptop computers and devices that provide internet access. Schools and community colleges receive about \$450 million in lottery revenues annually that must be spent on instructional materials.
- Allows the California Department of Education (CDE) to waive several programmatic requirements for the After School Education and Safety program.

#### **Repurposes Prior Pension Payment to Reduce District Costs Over the Next Two Years**

School district pension costs have been rising relatively quickly over the past several years. To help mitigate future cost increases, the 2019-20 budget plan included \$2.3 billion non-Proposition 98 General Fund to make a supplemental pension payment on behalf of schools and community colleges. Of this amount, \$1.6 billion was for the California State Teachers' Retirement System and \$660 million was for the California Public Employees' Retirement System. (Nearly all school employees are covered by one of these two pension systems.) At the time, the state estimated that the supplemental payment could reduce district pension costs by roughly 0.3 percent of annual pay over the next few decades. The 2020-21 budget plan repurposes this payment to reduce pension costs by a larger amount over the next two years. Specifically, districts will receive cost savings of approximately 2.2 percent of pay in 2020-21 and 2021-22, but will not experience savings over the following decades.

All of these factors were considered in preparing the Hacienda La Puente Unified School District budget for the 2020-21 fiscal year.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have any questions about this report or need additional financial information, contact the District's Business Office at (626) 933-3869.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Statement of Net Position

June 30, 2020

---

	<b>Total Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 318,570,976
Accounts receivable	33,779,089
Inventories	2,222,148
Prepaid expenses	155,555
Non-depreciable assets	37,041,328
Depreciable assets	451,963,124
Less accumulated depreciation	<u>(172,987,661)</u>
Total Assets	<u>670,744,559</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows from pensions	66,930,936
Deferred outflows from OPEB	<u>1,829,177</u>
Total deferred outflows of resources	<u>68,760,113</u>
<b>LIABILITIES</b>	
Accounts payable	28,074,299
Unearned revenues	4,589,644
Long-term liabilities other than pensions:	
Due within one year	13,189,666
Due after one year	223,356,073
Net pension liability	<u>255,933,080</u>
Total Liabilities	<u>525,142,762</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows from pensions	33,014,641
Deferred outflows from OPEB	<u>1,340,548</u>
Total deferred outflows of resources	<u>34,355,189</u>
<b>NET POSITION</b>	
Net investment in capital assets	202,120,150
Restricted for:	
Capital projects	23,129,405
Debt service	47,695,805
Categorical programs	93,647,283
Self-insurance programs	49,065,203
Unrestricted	<u>(235,651,125)</u>
Total Net Position	<u>\$ 180,006,721</u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Statement of Activities

For the Fiscal Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities</b>				
Instructional services:				
Instruction	\$ 149,313,776	\$ 653,291	\$ 35,914,193	\$ (112,746,292)
Instruction-related services:				
Supervision of instruction	19,420,087	281,922	9,848,453	(9,289,712)
Instructional library, media and technology	961,264	-	(5,961)	(967,225)
School site administration	19,199,571	56,613	1,390,728	(17,752,230)
Pupil services:				
Home-to-school transportation	3,072,030	-	-	(3,072,030)
Food services	12,205,945	702,403	9,615,454	(1,888,088)
All other pupil services	15,339,720	24,733	4,154,704	(11,160,283)
General administration services:				
Data processing services	5,096,660	-	-	(5,096,660)
All other general administration	5,554,450	68,397	2,438,923	(3,047,130)
Plant services	29,155,489	10,602	1,775,473	(27,369,414)
Ancillary services	1,427,517	-	990	(1,426,527)
Community services	120,891	-	-	(120,891)
Enterprise activities	97,872	-	-	(97,872)
Interest on long-term debt	6,241,635	-	-	(6,241,635)
Other outgo	993,031	945,325	2,021,265	1,973,559
Depreciation (unallocated)	11,910,836	-	-	(11,910,836)
Total governmental activities	\$ 280,110,774	\$ 2,743,286	\$ 67,154,222	\$ (210,213,266)
<b>General Revenues:</b>				
Property taxes				53,650,821
Federal and state aid not restricted to specific purposes				163,139,065
Interest and investment earnings				3,801,126
Interagency revenues				1,315,652
Miscellaneous				3,347,708
Total general revenues				225,254,372
Change in net position				15,041,106
Net position - July 1, 2019, as originally stated				165,402,752
Adjustment for restatement (Note 12)				(437,137)
Net position - July 1, 2019, as restated				164,965,615
Net position - June 30, 2020				\$ 180,006,721

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Balance Sheet – Governmental Funds

June 30, 2020

	General Fund	Adult Education Fund	Building Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Deposits and investments	\$ 79,641,326	\$ 38,484,125	\$ 59,784,644	\$ 35,893,974	\$ 42,569,522	\$ 256,373,591
Accounts receivable	26,843,795	2,504,252	179,892	89,971	3,995,238	33,613,148
Inventories	2,106,930	-	-	-	115,218	2,222,148
Prepaid expenditures	86,759	35,206	6,899	-	-	128,864
Total Assets	<u>\$ 108,678,810</u>	<u>\$ 41,023,583</u>	<u>\$ 59,971,435</u>	<u>\$ 35,983,945</u>	<u>\$ 46,679,978</u>	<u>\$ 292,337,751</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 20,550,891	\$ 1,665,106	\$ 1,518,650	\$ -	\$ 1,537,677	\$ 25,272,324
Unearned revenues	4,535,016	-	-	-	15,000	4,550,016
Total Liabilities	<u>25,085,907</u>	<u>1,665,106</u>	<u>1,518,650</u>	<u>-</u>	<u>1,552,677</u>	<u>29,222,340</u>
<b>Fund Balances</b>						
Nonspendable	2,243,689	35,206	6,899	-	115,218	2,401,012
Restricted	51,448,938	39,225,447	58,445,886	35,983,945	37,663,739	222,767,955
Committed	1,275,000	97,824	-	-	7,348,344	8,721,168
Assigned	20,047,240	-	-	-	-	20,047,240
Unassigned	8,578,036	-	-	-	-	8,578,036
Total Fund Balances	<u>83,592,903</u>	<u>39,358,477</u>	<u>58,452,785</u>	<u>35,983,945</u>	<u>45,127,301</u>	<u>262,515,411</u>
Total Liabilities and Fund Balances	<u>\$ 108,678,810</u>	<u>\$ 41,023,583</u>	<u>\$ 59,971,435</u>	<u>\$ 35,983,945</u>	<u>\$ 46,679,978</u>	<u>\$ 292,337,751</u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2020

---

**Total fund balances - governmental funds** \$ 262,515,411

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost:	489,004,452	
Accumulated depreciation:	<u>(172,987,661)</u>	316,016,791

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (2,719,789)

In governmental funds, other postemployment benefits (OPEB) costs are recognized as expenditures in the period they are paid. In the government-wide statements, OPEB costs are recognized in the period that they are incurred. The total OPEB liability at the end of the period was: (46,458,574)

In governmental funds, deferred outflows and inflows of resources relating to pension and other postemployment benefits (OPEB) are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions and OPEB are reported. The deferred inflows and outflows for the period were:

Deferred outflows of resources	68,760,113	
Deferred inflows of resources	<u>(34,355,189)</u>	34,404,924

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to government-wide statements consist of:

General obligation bonds	138,978,298	
Certificates of participation	17,847,597	
Lighting project lease, Phase IV	15,500,000	
Capital leases	23,531	
Compensated absences	<u>4,534,739</u>	(176,884,165)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (255,933,080)

Internal Service Funds are used to conduct certain activities for which costs are charged to other funds on a full cost recovery basis. Because internal service funds operate for the benefit of governmental activities, assets and liabilities of the internal service fund are reported with governmental activities in the statement of net position. Net position for internal service funds is: 49,065,203

**Total net position - governmental activities** \$ 180,006,721

## HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

### Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2020

	General Fund	Adult Education Fund	Building Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
LCFF sources	\$ 190,077,518	\$ -	\$ -	\$ -	\$ 3,000,000	\$ 193,077,518
Federal sources	10,765,015	2,082,647	-	-	14,782,859	27,630,521
Other state sources	38,480,729	19,705,392	7,720	-	5,219,945	63,413,786
Other local sources	5,765,506	2,543,677	1,106,942	531,931	13,456,069	23,404,125
Total Revenues	<u>245,088,768</u>	<u>24,331,716</u>	<u>1,114,662</u>	<u>531,931</u>	<u>36,458,873</u>	<u>307,525,950</u>
<b>EXPENDITURES</b>						
Current:						
Instruction	136,296,540	13,628,244	-	-	6,454,622	156,379,406
Instruction-related services:						
Supervision of instruction	14,732,634	3,111,367	-	-	2,075,399	19,919,400
Instructional library, media and technology	784,378	-	-	-	1,124	785,502
School site administration	18,277,583	1,133,723	-	-	-	19,411,306
Pupil support services:						
Home-to-school transportation	2,788,008	-	-	-	-	2,788,008
Food services	209,814	-	-	-	11,476,459	11,686,273
All other pupil services	14,914,084	731,238	-	-	465,702	16,111,024
Ancillary services	1,465,431	-	-	-	-	1,465,431
Community services	118,761	-	-	-	-	118,761
Enterprise activities	2,601	-	-	-	-	2,601
General administration services:						
Data processing services	4,715,294	-	-	-	-	4,715,294
Other general administration	12,441,314	-	-	-	(17,347)	12,423,967
Plant services	24,922,214	1,194,926	1,032	-	1,149,489	27,267,661
Transfers of indirect costs	(1,842,537)	674,619	-	-	1,167,918	-
Capital outlay	2,059,707	1,299,257	14,524,265	-	7,429,959	25,313,188
Intergovernmental transfers	818,031	-	-	-	-	818,031
Debt service:						
Principal	-	-	-	2,766,335	10,990,000	13,756,335
Interest	-	-	-	930,436	6,369,436	7,299,872
Total Expenditures	<u>232,703,857</u>	<u>21,773,374</u>	<u>14,525,297</u>	<u>3,696,771</u>	<u>47,562,761</u>	<u>320,262,600</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>12,384,911</u>	<u>2,558,342</u>	<u>(13,410,635)</u>	<u>(3,164,840)</u>	<u>(11,103,888)</u>	<u>(12,736,110)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Interfund transfers in	-	-	-	7,400,000	100,287	7,500,287
Interfund transfers out	(7,500,287)	-	-	-	-	(7,500,287)
Proceeds from lease	-	-	-	-	15,500,000	15,500,000
All other financing sources	-	-	-	-	2,599,800	2,599,800
Total Other Financing Sources and Uses	<u>(7,500,287)</u>	<u>-</u>	<u>-</u>	<u>7,400,000</u>	<u>18,200,087</u>	<u>18,099,800</u>
Net Change in Fund Balances	<u>4,884,624</u>	<u>2,558,342</u>	<u>(13,410,635)</u>	<u>4,235,160</u>	<u>7,096,199</u>	<u>5,363,690</u>
Fund Balances, July 1, 2019, as originally stated	78,708,279	36,800,135	71,863,420	31,748,785	38,468,239	257,588,858
Adjustment for Restatement	-	-	-	-	(437,137)	(437,137)
Fund Balances, July 1, 2019, as restated	<u>78,708,279</u>	<u>36,800,135</u>	<u>71,863,420</u>	<u>31,748,785</u>	<u>38,031,102</u>	<u>257,151,721</u>
Fund Balances, June 30, 2020	<u>\$ 83,592,903</u>	<u>\$ 39,358,477</u>	<u>\$ 58,452,785</u>	<u>\$ 35,983,945</u>	<u>\$ 45,127,301</u>	<u>\$ 262,515,411</u>

## HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

### *Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2020*

**Total net change in fund balances - governmental funds** \$ 5,363,690

Amounts reported for governmental *activities* in the statement of activities are different because:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	25,554,422	
Depreciation expense	<u>(11,910,836)</u>	
Net:		13,643,586

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 13,756,335

In governmental funds, if debt is issued at a premium, the premium is recognized as an other financing source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period is: 1,022,997

In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statement of activities, proceeds from debt are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (15,500,000)

In governmental funds, postemployment benefits costs (OPEB) are recognized as expenditures in the period they are paid. In the government-wide statements, OPEB costs are recognized in the period that they are incurred. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (1,636,957)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (9,249,310)

In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 35,240

In the statement of activities, certain operating expenses - such as compensated absences, are 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). This year, compensated absences earned exceeded the amounts paid by: (343,829)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net change in internal service funds was: 7,949,354

**Change in net position of governmental activities** \$ 15,041,106



# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Statement of Net Position – Proprietary Funds

June 30, 2020

---

	<b>Governmental Activities Internal Service Funds</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 62,197,385
Accounts receivable	165,941
Prepaid expenses	<u>26,691</u>
Total assets	<u>62,390,017</u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	82,186
Unearned revenue	<u>39,628</u>
Total current liabilities	<u>121,814</u>
<b>Non-current liabilities:</b>	
Estimated liability for open and IBNR claims	<u>13,203,000</u>
Total liabilities	<u>13,324,814</u>
<b>NET POSITION</b>	
Restricted	<u><u>\$ 49,065,203</u></u>

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT***Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds  
For the Fiscal Year Ended June 30, 2020*

---

	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>OPERATING REVENUES</b>	
Self insurance premiums	\$ 27,626,403
Other revenues	7,880,478
Total operating revenues	<u>35,506,881</u>
<b>OPERATING EXPENSES</b>	
Payments for personnel costs	401,870
Payments for claims and other operating expenses	<u>28,001,404</u>
Total operating expenses	<u>28,403,274</u>
Operating income (loss)	7,103,607
<b>NON-OPERATING REVENUES</b>	
Interest income	<u>845,747</u>
Change in net position	7,949,354
Net position, July 1, 2019	<u>41,115,849</u>
Net position, June 30, 2020	<u><u>\$ 49,065,203</u></u>

## HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

### Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended June 30, 2020

---

	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from assessments made to other funds	\$ 27,626,403
Cash received from other activities	7,871,126
Cash paid for salaries and benefits	(401,431)
Cash paid for operating costs	<u>(27,975,399)</u>
Net cash provided (used) by operating activities	7,120,699
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	<u>959,375</u>
Net increase (decrease) in cash	8,080,074
Cash, July 1, 2019	<u>54,117,311</u>
Cash, June 30, 2020	<u><u>\$ 62,197,385</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 7,103,607
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase in prepaid expenses	(26,691)
Increase in accounts payable and accrued liabilities (IBNR)	53,135
Increase in unearned revenue	<u>(9,352)</u>
Net cash provided (used) by operating activities	<u><u>\$ 7,120,699</u></u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Statement of Fiduciary Net Position

June 30, 2020

---

	Agency Funds			Totals
	Payroll Clearing Fund	I.R.S. Workshop	Student Body Funds	
<b>ASSETS</b>				
Cash	\$ 238,209	\$ 1,735,578	\$ 721,460	\$ 2,695,247
Total assets	<u>\$ 238,209</u>	<u>\$ 1,735,578</u>	<u>\$ 721,460</u>	<u>\$ 2,695,247</u>
<b>LIABILITIES</b>				
Due to regulatory agencies	\$ 238,209	\$ 1,735,578	\$ -	\$ 1,973,787
Due to student groups	<u>-</u>	<u>-</u>	<u>721,460</u>	<u>721,460</u>
Total liabilities	<u>\$ 238,209</u>	<u>\$ 1,735,578</u>	<u>\$ 721,460</u>	<u>\$ 2,695,247</u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2020

---

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hacienda La Puente Unified School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education’s *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

### A. Reporting Entity

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 the District, this includes general operations, food service, and student-related activities of the District.

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. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, and thus are included in the financial statements using the blended presentation method as if they were part of the District’s operations because the Board of Trustees of the component units is essentially the same as the Board of Trustees 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 Hacienda La Puente USD Facilities Financing Authority (the “Authority”) financial activity is presented in the financial statements. Certificates of participation and other debt issued by the Authority are included as long-term liabilities in the District-wide financial statements. Individually prepared financial statements are not prepared for the Authority.

### B. Basis of Presentation, Basis of Accounting

#### 1. Basis of Presentation

##### Government-Wide Financial Statements

The statement of Net Position and the Statement of Activities display information about the primary government (the District) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2020

---

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### B. Basis of Presentation, Basis of Accounting (continued)

#### 1. Basis of Presentation (continued)

##### **Government-Wide Financial Statements (continued)**

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

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

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

##### **Major Governmental Funds**

The District maintains the following major governmental funds:

**General Fund:** This is the chief operating fund for the District. 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.

**Adult Education Fund:** This fund is used to account separately for federal, state, and local revenues that are restricted or committed for adult education programs.

**Building Fund:** This 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.

**Debt Service Fund:** This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

##### **Non-Major Governmental Funds**

The District maintains the following non-major governmental funds:

**Special Revenue Funds:** Special revenue funds are established 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.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2020

---

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### B. Basis of Presentation, Basis of Accounting (continued)

#### 1. Basis of Presentation (continued)

##### Non-Major Governmental Funds (continued)

###### Special Revenue Funds (continued):

**Child Development Fund:** This fund is used to account separately for federal, state, and local revenues to operate child development programs.

**Cafeteria Fund:** This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* sections 38090 and 38093).

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

**Capital Projects Funds:** Capital projects funds are established 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).

**Special Reserve Fund for Capital Outlay Projects:** This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to fund 21, 25, 30, 35, or 49.

**Debt Service Funds:** Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

**Bond Interest and Redemption Fund:** This fund is used for the repayment of bonds issued for the District (*Education Code* sections 15125-15262).

**Tax Override Fund:** This Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

###### Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

**Internal Service Funds:** These funds are used to account for services rendered on a cost-reimbursement basis within the District. The District operates workers' compensation and property and liability insurance programs that are accounted for in the Internal Service Fund. In addition, the District's health and welfare benefit programs are accounted for in the Internal Service Fund.

**Workers Compensation Fund:** This fund is used to account for resources committed to pay the costs of the District's self-insured workers compensation program.

**Medical/Dental Fund:** This fund is used to account for resources committed to pay the costs of the District's health and welfare benefits and claims for its employees.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. Basis of Presentation, Basis of Accounting (continued)

##### 1. Basis of Presentation (continued)

###### **Fiduciary Funds**

Fiduciary funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. 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. The District maintains the following fiduciary funds:

**Agency Funds:** The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not. The District also maintains agency funds for the payroll clearing fund, and a fund for the Innovative Rehabilitation Services (IRS) to account for the collection of revenues and expenditures for participating clients.

##### 2. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resource or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the District-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's proprietary funds and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The agency fund has no measurement focus and utilizes the accrual basis of accounting for reporting its assets and liabilities.



# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2020

---

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### B. Basis of Presentation, Basis of Accounting (continued)

#### 3. 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. 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.

### C. Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. 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. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

### D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

##### 1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

##### 2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

##### 3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

##### 4. 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.

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.

##### 5. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2020

---

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

#### 6. Compensated Absences

The liability for compensated absences reported in the District-wide statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

#### 7. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize 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.

#### 8. 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 District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition 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. Investments are reported at fair value.

#### 9. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**Nonspendable:** Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

**Restricted:** Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

**Committed:** The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

##### 9. Fund Balances (continued)

**Assigned:** Resources that are constrained by the District’s intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

**Unassigned:** Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District’s policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

##### 10. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted”.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

#### F. Minimum Fund Balance Policy

The District has not adopted a formal minimum fund balance policy, as recommended by GASB Statement No. 54; however, the District follows the guidelines recommended in the Criteria and Standards of Assembly Bill (AB) 1200, which recommend a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of total General Fund expenditures and other financing uses.

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.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

#### H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### I. New GASB Pronouncement

In May 2020, the GASB issued Statement No. 95. The primary objective of this Statement is to provide relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update-2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update-2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in *each* pronouncement as originally issued.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Future Accounting Pronouncements

GASB pronouncements which will be effective in future periods, are as follows:

1. 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, 2019.

2. 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 reporting periods beginning after June 15, 2021.

3. 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, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Future Accounting Pronouncements (continued)

4. In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

5. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.

Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Future Accounting Pronouncements (continued)

5. (continued)

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

6. In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.



# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Future Accounting Pronouncements (continued)

6. (continued)

- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

7. In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depending on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Future Accounting Pronouncements (continued)

8. In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA.

This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement).

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts.

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination.

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments at June 30, 2020, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 256,373,591
Proprietary funds	62,197,385
Governmental Activities	<u>318,570,976</u>
Fiduciary funds	2,695,247
Total deposits and investments	<u>\$ 321,266,223</u>

Deposits and investments as of June 30, 2020, consist of the following:

Cash on hand and in banks	\$ 2,457,163
Cash in revolving fund	50,000
Cash with fiscal agent	168,877
Investments	318,590,183
Total deposits and investments	<u>\$ 321,266,223</u>

#### Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2020, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

#### Custodial Credit Risk – Deposits

Custodial credit risk 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. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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.

#### Custodial Credit Risk – Deposits

As of June 30, 2020, \$2,176,194 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

### NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

#### Investments – Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2020 consist of the following:

	Reported Amount	Maturity		Fair Value Measurement	Rating
		Less Than One Year	One Year Through Five Years		
Investments:					
Bank of America Portfolio - cash	\$ 9,483,352	\$ 9,483,352	\$ -	Level 1	N/A
BNY Mellon - cash and short term investments	3,814,702	3,814,702	-	Level 1	N/A
County Pool	305,292,129	305,292,129	-	uncategorized	N/A
Total Investments	<u>\$ 318,590,183</u>	<u>\$ 318,590,183</u>	<u>\$ -</u>		

#### Investments – Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2019, all investments represented mutual funds and governmental securities which were issued, registered and held by the District's agent in the District's name.

#### Investments – Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer.

#### Fair Value Measurements

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

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

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

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

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2020

---

**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

**Fair Value Measurements (continued)**

Uncategorized – Investments in the Los Angeles 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.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2020, consisted of the following:

	General Fund	Adult Education Fund	Building Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Funds
Federal Government:							
Categorical aid programs	\$ 4,983,788	\$ 893,349	\$ -	\$ -	\$ 3,589,615	\$ 9,466,752	\$ -
State Government:							
LCFF	18,638,380	-	-	-	-	18,638,380	-
Lottery	902,586	-	-	-	-	902,586	-
Special education	1,429,213	-	-	-	-	1,429,213	-
Adult Ed Block Grant	-	1,440,634	-	-	-	1,440,634	-
Other state	441,161	-	-	-	357,481	798,642	-
Local:							
Other local	203,503	72,445	-	-	622	276,570	-
Interest	245,164	97,824	179,892	89,971	47,520	660,371	165,941
Total	<u>\$ 26,843,795</u>	<u>\$ 2,504,252</u>	<u>\$ 179,892</u>	<u>\$ 89,971</u>	<u>\$ 3,995,238</u>	<u>\$ 33,613,148</u>	<u>\$ 165,941</u>

**NOTE 4 – INTERFUND ACTIVITIES**

**Transfers To/From Other Funds**

Transfers to/from other funds during the year ended June 30, 2020, consisted of the following:

General Fund transfer to Cafeteria Fund for bad debt incurred for meal charges	\$ 100,287
General Fund transfer to Debt Service Fund for future debt payments	<u>7,400,000</u>
Total	<u>\$ 7,500,287</u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

### NOTE 5 – FUND BALANCES

At June 30, 2020, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Adult Education Fund	Building Fund	Debt Service Fund	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>						
Revolving cash	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ 50,000
Stores inventories	2,106,930	-	-	-	115,218	2,222,148
Prepaid expenditures	86,759	35,206	6,899	-	-	128,864
Total Nonspendable	<u>2,243,689</u>	<u>35,206</u>	<u>6,899</u>	<u>-</u>	<u>115,218</u>	<u>2,401,012</u>
<b>Restricted:</b>						
Categorical programs	51,448,938	-	-	-	-	51,448,938
Adult education program	-	39,225,447	-	-	-	39,225,447
Child development program	-	-	-	-	1,267,735	1,267,735
Child nutrition program	-	-	-	-	1,554,739	1,554,739
Capital projects	-	-	58,445,886	-	23,129,405	81,575,291
Debt service	-	-	-	35,983,945	11,711,860	47,695,805
Total Restricted	<u>51,448,938</u>	<u>39,225,447</u>	<u>58,445,886</u>	<u>35,983,945</u>	<u>37,663,739</u>	<u>222,767,955</u>
<b>Committed:</b>						
Adult education program	-	97,824	-	-	-	97,824
Child development program	-	-	-	-	313,882	313,882
Deferred maintenance program	-	-	-	-	7,034,462	7,034,462
Donations	500,000	-	-	-	-	500,000
Unused vacation balances	775,000	-	-	-	-	775,000
Total Committed	<u>1,275,000</u>	<u>97,824</u>	<u>-</u>	<u>-</u>	<u>7,348,344</u>	<u>8,721,168</u>
<b>Assigned:</b>						
Manage cashflow	20,047,240	-	-	-	-	20,047,240
Total Assigned	<u>20,047,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,047,240</u>
<b>Unassigned:</b>						
Remaining unassigned balances	8,578,036	-	-	-	-	8,578,036
Total Unassigned	<u>8,578,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,578,036</u>
<b>Total</b>	<u>\$ 83,592,903</u>	<u>\$ 39,358,477</u>	<u>\$ 58,452,785</u>	<u>\$ 35,983,945</u>	<u>\$ 45,127,301</u>	<u>\$ 262,515,411</u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

### NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance, July 1, 2019	Additions	Retirements	Balance, June 30, 2020
Capital assets not being depreciated:				
Land	\$ 6,162,576	\$ -	\$ -	\$ 6,162,576
Construction in progress	14,900,815	20,284,625	4,306,688	30,878,752
Total capital assets not being depreciated	<u>21,063,391</u>	<u>20,284,625</u>	<u>4,306,688</u>	<u>37,041,328</u>
Capital assets being depreciated:				
Improvement of sites	31,380,027	681,054	-	32,061,081
Buildings	377,840,910	8,542,116	-	386,383,026
Equipment	33,165,702	353,315	-	33,519,017
Total capital assets being depreciated	<u>442,386,639</u>	<u>9,576,485</u>	<u>-</u>	<u>451,963,124</u>
Accumulated depreciation for:				
Improvement of sites	(12,532,403)	(1,376,951)	-	(13,909,354)
Buildings	(128,524,715)	(9,433,532)	-	(137,958,247)
Equipment	(20,019,707)	(1,100,353)	-	(21,120,060)
Total accumulated depreciation	<u>(161,076,825)</u>	<u>(11,910,836)</u>	<u>-</u>	<u>(172,987,661)</u>
Total capital assets being depreciated, net	<u>281,309,814</u>	<u>(2,334,351)</u>	<u>-</u>	<u>278,975,463</u>
Governmental activities capital assets, net	<u>\$ 302,373,205</u>	<u>\$ 17,950,274</u>	<u>\$ 4,306,688</u>	<u>\$ 316,016,791</u>

### NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS

Changes in long-term debt for the year ended June 30, 2020, were as follows:

	Balance, July 1, 2019	Additions	Deductions	Balance, June 30, 2020	Amount Due Within One Year
General Obligation Bonds:					
Principal payments	\$ 141,335,000	\$ -	\$ 10,990,000	\$ 130,345,000	\$ 8,075,000
Unamortized premium	9,227,776	-	594,478	8,633,298	594,478
Total - Bonds	<u>150,562,776</u>	<u>-</u>	<u>11,584,478</u>	<u>138,978,298</u>	<u>8,669,478</u>
Certificates of Participation:					
Principal payments	18,410,000	-	2,705,000	15,705,000	2,840,000
Unamortized premium, net	2,571,116	-	428,519	2,142,597	428,519
Total - COP's	<u>20,981,116</u>	<u>-</u>	<u>3,133,519</u>	<u>17,847,597</u>	<u>3,268,519</u>
Lighting Project Lease	69,560	-	46,029	23,531	23,531
Lighting Project Lease, Phase IV	-	15,500,000	-	15,500,000	1,228,138
Capital Leases	15,306	-	15,306	-	-
Workers' Compensation Claims	13,203,000	-	-	13,203,000	-
Other Postemployment Benefits	46,771,891	4,254,969	4,568,286	46,458,574	-
Compensated Absences	4,190,910	343,829	-	4,534,739	-
Totals	<u>\$ 235,794,559</u>	<u>\$ 20,098,798</u>	<u>\$ 19,347,618</u>	<u>\$ 236,545,739</u>	<u>\$ 13,189,666</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Certificates of participation payments and lease payments are made by the Debt Service Fund. Employment benefits will be paid for by the fund for which the employee worked.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2020*

---

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**A. General Obligation Bonds**

**Election of 2016 (Measure BB)**

On November 8, 2016, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$148 million of general obligation bonds. The Bonds will be issued to upgrade/repair all neighborhood school classrooms and retain/attract quality teachers by renovating all science, technology, engineering, art/math labs/classrooms, and athletic facilities; ensuring drinking water safety; repairing, constructing, equipping/acquiring educational facilities to prepare students for college and 21st century vocational jobs/careers. At June 30, 2020, \$78 million of authorized bonds remain unissued.

**Prior-Year Defeasance of Debt**

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds were not included in the District’s financial statements. At June 30, 2020, none of the defeased debt remains outstanding.

A summary of outstanding bonds is shown below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2019	Additions	Deductions	Balance, June 30, 2020
2005 Refunding	6/16/2005	8/1/2024	3.5%-5.0%	31,725,000	\$ 22,600,000	\$ -	\$ 3,050,000	\$ 19,550,000
2007 Refunding	10/4/2007	8/1/2027	4.347%	55,485,000	53,580,000	-	2,480,000	51,100,000
2016A	7/11/2017	8/1/2047	2.0%-5.0%	70,000,000	65,155,000	-	5,460,000	59,695,000
					<u>\$ 141,335,000</u>	<u>\$ -</u>	<u>\$ 10,990,000</u>	<u>\$ 130,345,000</u>

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2020, are as follows:

Fiscal Year	Principal	Interest	Total
2020-2021	\$ 8,075,000	\$ 5,961,700	\$ 14,036,700
2021-2022	7,060,000	5,602,325	12,662,325
2022-2023	8,160,000	5,223,250	13,383,250
2023-2024	9,185,000	4,792,150	13,977,150
2024-2025	10,290,000	4,308,700	14,598,700
2025-2030	34,415,000	14,315,625	48,730,625
2030-2035	7,660,000	10,871,925	18,531,925
2035-2040	11,830,000	8,877,944	20,707,944
2040-2045	18,485,000	5,219,894	23,704,894
2045-2048	15,185,000	939,100	16,124,100
Total	<u>\$ 130,345,000</u>	<u>\$ 66,112,613</u>	<u>\$ 196,457,613</u>



**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2020

**NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)**

**B. Certificates of Participation**

On April 21, 2015, the Hacienda La Puente Unified School District Financing Authority issued certificates of participation in the amount of \$28,160,000. The certificates were issued to provide funds to enhance District infrastructure, fund a reserve account, and pay the costs of issuing the certificates. The interest rate of the certificates ranges from 2.0% and 5.0% and mature on June 1, 2025. At June 30, 2020, the principal balance outstanding was \$15,705,000.

Annual interest and redemption requirements for the Certificates of Participation outstanding at June 30, 2020, are as follows:

Fiscal Year	Principal	Interest	Total
2020-2021	\$ 2,840,000	\$ 785,250	\$ 3,625,250
2021-2022	2,985,000	643,250	3,628,250
2022-2023	3,135,000	494,000	3,629,000
2023-2024	3,290,000	337,250	3,627,250
2024-2025	3,455,000	172,750	3,627,750
Total	\$ 15,705,000	\$ 2,432,500	\$ 18,137,500

**C. Lighting Project Leases**

On June 18, 2014, the District approved a lighting project lease, authorizing approval of the execution and delivery of an equipment/lease purchase agreement, for \$5,705,025. The agreement is for the acquisition, purchase, financing and leasing of certain equipment for the public benefit. On August 29, 2019, the District approved an additional lighting lease for \$15,500,000.

Future payments due under the agreements are as follows:

**Lighting Project Lease**

Fiscal Year	Principal	Interest	Payment
2020-21	\$ 23,531	\$ 226	\$ 23,757

**Lighting Project Lease, Phase IV**

Fiscal Year	Principal	Interest	Payment
2020-21	\$ 1,228,138	\$ 684,639	\$ 1,912,777
2021-22	1,499,066	413,712	1,912,778
2021-23	1,544,016	368,762	1,912,778
2023-24	1,590,313	322,464	1,912,777
2024-25	1,637,999	274,778	1,912,777
2025-30	8,000,468	607,031	8,607,499
	\$ 15,500,000	\$ 2,671,386	\$ 18,171,386

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

#### D. Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2020, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

Pension Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 45,335,148	\$ 1,829,177	\$ 1,340,548	\$ 4,711,194
MPP Program	1,123,426	-	-	10,890
Total	<u>\$ 46,458,574</u>	<u>\$ 1,829,177</u>	<u>\$ 1,340,548</u>	<u>\$ 4,722,084</u>

The details of each plan are as follows:

#### District Plan

##### *Plan Description*

The District's single employer defined benefit OPEB plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

##### *Benefits Provided*

The postretirement health plans and the District's obligation are the same for certificated and classified (CSEA & SEIU) eligible retirees and their spouses. The District will pay for retiree health coverage (medical) including dependent coverage for five year fully paid, but not beyond age 65; or 50% paid until age 65. The annual maximum coverage provided by the District for 2018-19 was \$11,900. The required service for eligible retirees is 15 years with a minimum age of 55. CSEA members hired prior to January 1, 2003 may retire as early as age 50 with 10 years of service.

##### *Employees Covered by Benefit Terms*

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	79
Active employees	<u>2,185</u>
Total	<u><u>2,264</u></u>

##### *Total OPEB Liability*

The District's total OPEB liability of \$45,335,148 for the Plan was measured as of June 30, 2020 and was determined by an actuarial valuation as of July 1, 2019. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

#### D. Other Postemployment Benefits (OPEB) Liability (continued)

##### District Plan (continued)

##### *Actuarial Assumptions and Other Inputs*

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2019
Inflation	2.75 percent
Salary increases	2.75 percent
Healthcare cost trend rates	5.90 percent for 2020; 5.80 percent for 2021; 5.70 percent for 2022; and decreasing 0.10 percent per year to an ultimate rate of 5.00 percent for 2029 and later years

##### *Discount Rate*

The discount rate of 2.45 percent reflects the following: the long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return; a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions above are not met.

##### *Mortality Rates*

Pre-retirement mortality rates for certificated employees were based on Mortality Rates for active employees from the CalSTRS Experience Analysis (2010-2015). Pre-retirement mortality rates for classified employees were based on Preretirement Mortality Rates from CalPERS Experience Study (1997-2015).

Postretirement mortality rates for certificated employees/retirees were based on Mortality Rates for retired members and beneficiaries from CalSTRS Experience Analysis (2010-2015). Postretirement mortality rates for classified employees/retirees were based on Post-retirement Mortality Rates for Healthy Recipients from CalPERS Experience Study (1997-2015).

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

	<b>Total</b>
	<b>OPEB Liability</b>
<b>Balance at July 1, 2019</b>	<u>\$ 45,659,355</u>
<b>Changes for the year:</b>	
Service cost	2,883,182
Interest	1,360,897
Changes of assumptions	(1,483,159)
Benefit payments	<u>(3,085,127)</u>
Net changes	(324,207)
<b>Balance at June 30, 2020</b>	<u><u>\$ 45,335,148</u></u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2020

---

## NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

### D. Other Postemployment Benefits (OPEB) Liability (continued)

#### District Plan (continued)

##### *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 one percentage-point lower or one percentage-point higher than the current discount rate:

Discount Rate	OPEB Liability
1% decrease	\$ 48,393,630
Current discount rate	\$ 45,335,148
1% increase	\$ 42,333,633

##### *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 one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Healthcare Cost Trend Rate	OPEB Liability
1% decrease	\$ 41,794,350
Current trend rate	\$ 45,335,148
1% increase	\$ 49,492,509

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$4,711,194. In addition, at June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 1,829,177	\$ 1,340,548
Total	\$ 1,829,177	\$ 1,340,548

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

#### D. Other Postemployment Benefits (OPEB) Liability (continued)

##### District Plan (continued)

##### *OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)*

The deferred outflows of resources related to changes of assumptions will be amortized over five years and will be recognized in OPEB expense as follows:

Year Ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2021	\$ 609,726	\$ 142,611
2022	609,726	142,611
2023	609,725	142,611
2024	-	142,611
2025	-	142,611
Thereafter	-	627,493
	<u>\$ 1,829,177</u>	<u>\$ 1,340,548</u>

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

###### *Plan Description*

The MPP Program is a cost-sharing multiple-employer other postemployment benefit (OPEB) plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefit Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation report, Medicare Premium Payment Program. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>.

###### *Benefits Provided*

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the 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 MPP Program is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

As of June 30, 2019, 5,744 retirees participated in the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be predetermined.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

#### D. Other Postemployment Benefits (OPEB) Liability (continued)

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

The MPP Program is funded on a pay-as-you-go basis from a portion of monthly employer 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.

##### *Total OPEB Liability*

At June 30, 2020, the District reported a liability of \$1,123,426 for its proportionate share of the net OPEB liability for the MPP Program. The total OPEB liability for the MPP Program as of June 30, 2019, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total OPEB liability to June 30, 2019. 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 and the State, actuarially determined. The District's proportions of the net OPEB liability for the two most recent measurement periods were:

	<u>Percentage Share of MPP Program</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2020</u>	<u>Fiscal Year Ending June 30, 2019</u>	
Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2018</u>	
Proportion of the Net OPEB Liability	0.301675%	0.290655%	0.011020%

For the year ended June 30, 2020, the District reported OPEB expense of \$10,890.

##### *Actuarial Assumptions and Other Inputs*

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

Measurement Date	June 30, 2019
Valuation Date	June 30, 2018
Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.00%
Healthcare Cost Trend Rates	3.70% for Medicare Part A, and 4.10% for Medicare Part B

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

#### D. Other Postemployment Benefits (OPEB) Liability (continued)

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

###### *Actuarial Assumptions and Other Inputs (continued)*

In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 380, or an average of 0.23% of the potentially eligible population (165,422).

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 our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table issued by the Society of Actuaries.

###### *Discount Rate*

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2019, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the California State Treasurer.

The discount rate used to measure the total OPEB liability was 3.50%. The MPP Program is funded on a pay-as-you-go basis as previously noted, 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 3.50%, which is the Bond Buyer's 20-Bond GO Index from Bondbuyer.com as of June 30, 2019, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.37% from 3.87% as of June 30, 2018.

###### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

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

Discount Rate	MPP OPEB Liability
1% decrease	\$ 1,225,914
Current discount rate	\$ 1,123,426
1% increase	\$ 1,029,192

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

#### D. Other Postemployment Benefits (OPEB) Liability (continued)

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

##### *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, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percentage-point lower or one percentage-point higher than the current rates:

Medicare Cost Trend Rates	MPP OPEB Liability
1% decrease	\$ 1,023,698
Current trend rate	\$ 1,123,426
1% increase	\$ 1,237,715

### NOTE 8 – PENSION PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated 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, 2020, 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	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 176,285,137	\$ 47,833,197	\$ 22,297,630	\$ 22,261,900
CalPERS	79,647,943	19,097,739	10,717,011	13,093,215
Total	<u>\$ 255,933,080</u>	<u>\$ 66,930,936</u>	<u>\$ 33,014,641</u>	<u>\$ 35,355,115</u>

The details of each plan are as follows:

#### A. 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, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>.



# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 8 – PENSION PLANS (continued)

#### A. California State Teachers' Retirement System (CalSTRS) (continued)

##### 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% of final compensation for each year of credited service.

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

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	<b>STRP Defined Benefit Program</b>	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Member Contribution Rate	10.25%	10.205%
Required Employer Contribution Rate	17.10%	17.10%
Required State Contribution Rate	10.328%	10.328%

##### Contributions

Required member District and State of California 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 June 2019, California Senate Bill 90 (SB 90) was signed into law and appropriated approximately \$2.2 billion in fiscal year 2018–19 from the state's General Fund as contributions to CalSTRS on behalf of employers. The bill requires portions of the contribution to supplant the amounts remitted by employers such that the amounts remitted will be 1.03 and 0.70 percentage points less than the statutorily required amounts due for fiscal years 2019–20 and 2020–21, respectively. The remaining portion of the contribution is allocated to reduce the employers' share of the unfunded actuarial obligation of the DB Program.

The contribution rates for each program for the year ended June 30, 2020, are presented above, and the District's total contributions were \$16,170,976.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

### NOTE 8 – PENSION PLANS (continued)

#### A. California State Teachers' Retirement System (CalSTRS)

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

At June 30, 2020, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 176,285,137
State's proportionate share of the net pension liability associated with the District	<u>96,175,311</u>
Total	<u>\$ 272,460,448</u>

The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2020</u>	<u>Fiscal Year Ending June 30, 2019</u>	
Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2018</u>	
Proportion of the Net Pension Liability	0.195187%	0.184830%	0.010357%

For the year ended June 30, 2020, the District recognized pension expense of \$22,261,900. In addition, the District recognized pension expense and revenue of \$2,631,322 for support provided by the State. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 16,170,976	\$ -
Net change in proportionate share of net pension liability	8,514,988	10,133,573
Difference between projected and actual earnings on pension plan investments	405,989	7,196,547
Changes of assumptions	22,296,217	-
Differences between expected and actual experience	445,027	4,967,510
Total	<u>\$ 47,833,197</u>	<u>\$ 22,297,630</u>

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 8 – PENSION PLANS (continued)

#### A. California State Teachers' Retirement System (CalSTRS) (continued)

##### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 7 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2021	\$ 6,863,188	\$ 4,090,487
2022	6,863,188	8,804,254
2023	6,863,188	4,154,898
2024	7,275,033	2,269,078
2025	1,290,598	1,752,445
Thereafter	2,507,025	1,226,468
Total	<u>\$ 31,662,221</u>	<u>\$ 22,297,630</u>

##### **Actuarial Methods and Assumptions**

The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	June 30, 2018
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price of 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 our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table issued by the Society of Actuaries.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 8 – PENSION PLANS (continued)

#### A. California State Teachers' Retirement System (CalSTRS) (continued)

##### Actuarial Methods and Assumptions (continued)

The long-term investment 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) as inputs 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' independent consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	4.8%
Fixed Income	12%	1.3%
Real Estate	13%	3.6%
Private Equity	13%	6.3%
Risk Mitigating Strategies	9%	1.8%
Inflation Sensitive	4%	3.3%
Cash/Liquidity	2%	(0.4%)

##### Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 262,503,161
Current discount rate (7.10%)	176,285,137
1% increase (8.10%)	104,793,976

##### On-Behalf Contributions

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954 and 22955.1 of the Education Code and Public Resources Code Section 6217.5. In addition, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated supplemental contributions.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 8 – PENSION PLANS (continued)

#### A. California State Teachers' Retirement System (CalSTRS) (continued)

##### On-Behalf Contributions (continued)

Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is \$13,415,523.

#### B. California Public Employees Retirement System (CalPERS)

##### Plan Description

Qualified employees are eligible to participate in the Schools Pool and the Safety Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation reports, Schools Accounting Valuation Report and Safety Risk Pool Valuation Report. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/employers/actuarial-resources/gasb>.

##### Benefits Provided

##### Schools

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	On or before December 31, 2012	On or after 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	2.0 – 2.5%	2.0 – 2.5%
Required Employee Contribution Rate	7.00%	7.00%
Required Employer Contribution Rate	19.721%	19.721%

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2020

---

## NOTE 8 – PENSION PLANS (continued)

### B. California Public Employees Retirement System (CalPERS) School Pool (continued)

#### Benefits Provided (continued)

##### Safety

The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Classic members and PEPRSA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRSA Miscellaneous members 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 death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	<u>Safety Risk Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	3% at 50	2.7% at 57
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50	57
Monthly Benefits as a Percentage of Eligible Compensation	3.0%	2.0%-2.7%
Required Employee Contribution Rate	10.10%	9.50%-15.25%
Required Employer Contribution Rate	Varies	Varies

##### **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 contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2020 are presented above, and the total District contributions were \$7,876,076.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

### NOTE 8 – PENSION PLANS (continued)

#### B. California Public Employees Retirement System (CalPERS) (continued)

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$79,647,943. The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Schools Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019	
	Measurement Date	June 30, 2019	
Proportion of the Net Pension Liability	0.270317%	0.267315%	0.003002%

	Percentage Share of Safety Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019	
	Measurement Date	June 30, 2019	
Proportion of the Total Pension Liability	0.017114%	0.016763%	0.000351%
Proportion of the Fiduciary Net Position	0.018289%	0.017744%	0.000545%

For the year ended June 30, 2020, the District recognized pension expense of \$13,093,215. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 7,876,076	\$ -
Net change in proportionate share of net pension liability	661,481	8,989,392
Difference between projected and actual earnings on pension plan investments	973,660	1,719,074
Changes of assumptions	3,794,048	8,545
Differences between expected and actual experience	5,792,474	-
Total	\$ 19,097,739	\$ 10,717,011

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 8 – PENSION PLANS (continued)

#### B. California Public Employees Retirement System (CalPERS) (continued)

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

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and 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 4.1 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2021	\$ 6,971,811	\$ 4,569,678
2022	2,667,424	5,455,232
2023	1,102,787	688,551
2024	463,507	3,227
2025	16,134	323
Thereafter	-	-
Total	<u>\$ 11,221,663</u>	<u>\$ 10,717,011</u>

##### Actuarial Methods and Assumptions

Total pension liability for the Schools and Safety Risk Pools were determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuations as of June 30, 2018 used the following methods and assumptions, applied to all prior periods included in the measurements:

Valuation Date	June 30, 2018
Experience Study	1997-2015
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.50%
Wage Growth	Varies by entry age and service

Post-retirement mortality rates are based on CalPERS experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries. These tables are used to estimate the value of benefits expected to be paid for service and disability retirements. For disability retirements, impaired longevity is recognized by a separate table.



# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 8 – PENSION PLANS (continued)

#### B. California Public Employees Retirement System (CalPERS) (continued)

##### Actuarial Methods and Assumptions (continued)

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 and forecasted information for all the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

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

##### Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The discount rate is not adjusted for administrative expenses. The fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return for the pension plan's investments was applied to all periods of projected benefit payments to determine the 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%)	\$ 113,558,812
Current discount rate (7.15%)	79,647,943
1% increase (8.15%)	49,931,901

#### C. 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.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 8 – PENSION PLANS (continued)

#### D. Payables to the Pension Plans

At June 30, 2020, the District reported payables of \$493,457 and \$670,129 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, for the fiscal year ended June 30, 2020.

### NOTE 9 – RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2020, Hacienda La Puente Unified School District was self-insured for property losses. The District is a member of Southern California ReLiEF for any claims over the member retained limit of \$25,000. Southern California ReLiEF (JPA) will pay any claims up to \$250,000 and claims exceeding \$250,000 are handled by Schools Association for Excess Risk (SAFER) (JPA) up to \$249,750,000. The District is self-insured for liability losses. The District is a member of Southern California ReLiEF (JPA) for any claims over the member retained limit of \$10,000. Southern California ReLiEF (JPA) pays any liability claims up to \$1,000,000. Claims over \$1,000,000 are handled by SAFER (JPA) up to \$20,000,000.

#### Workers' Compensation

For fiscal year 2019, the District was self-funded for workers compensation, with excess coverage for claims over \$500,000 provided by the Schools Alliance for Workers' Compensation Excess (SAWCX) public entity risk pool.

#### Employee Medical Benefits

The District is self-funded for medical, dental, and vision benefits.

#### Claims Liability

The District records an estimated liability for workers' compensation 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 District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses.

The following represent the changes in approximate aggregate liabilities for the District from July 1, 2018 to June 30, 2020:

	Workers' Compensation
Liability Balance, July 1, 2018	\$ 12,699,000
Claims and changes in estimates	29,029,316
Claims payments	(28,525,316)
Liability Balance, June 30, 2019	13,203,000
Claims and changes in estimates	28,001,404
Claims payments	(28,001,404)
Liability Balance, June 30, 2020	\$ 13,203,000
Assets available to pay claims at June 30, 2020	\$ 62,390,017

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2020

---

### NOTE 10 – JOINT VENTURES

The Hacienda La Puente Unified School District participates in the Riverside County Employer/Employee Partnership (REEP) for Benefits (JPA) public entity risk pools for health benefits. The Hacienda La Puente Unified School District pays monthly premiums for each of its group health insurance plans.

The JPA is governed by a board consisting of a representative from each member district. Each governing board member controls the operations of its district independent of any influence by the Hacienda La Puente Unified School District beyond the District's representation on the governing boards.

The member districts are independently accountable for their fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationship between the Hacienda La Puente Unified School District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

Audited financial information for REEP is shown below:

	REEP JPA June 30, 2019
Total Assets	\$ 33,198,709
Total Liabilities	8,006,484
Net Position	<u>\$ 25,192,225</u>
Total Revenues	\$ 198,637,317
Total Expenses	192,429,481
Net Increase (decrease) in Net Position	<u>\$ 6,207,836</u>

### NOTE 11 – COMMITMENTS AND CONTINGENCIES

#### A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

#### B. Construction Commitments

As of June 30, 2020, the District had commitments with respect to unfinished capital projects of approximately \$16.5 million to be paid from local funds.

#### C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30.

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

*Notes to Financial Statements*

*June 30, 2020*

---

## NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

### D. Accounts Payable Contingencies

Funding was received for a District operated program in prior years but is still under routine review by the CDE. A General Fund account payable was accrued for the full amount of this funding, \$13.9 million, as a contingency in the event of possible reversal of any amount received. The District reversed a portion of this accrual in 2019-20, leaving a balance of \$7,273,592 at year end. The District intends to reverse this amount during the 2020-21 fiscal year if contingencies do not materialize.

### E. Impact of COVID-19

On March 13, 2020, a presidential emergency was declared due to the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. The declaration made federal disaster assistance available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act to the State of California to supplement the local recovery efforts by the K-12 education community. On that same date, Governor Newsom issued Executive Order N-26-20, guaranteeing continued State funding, holding LEAs harmless from several regulations, and providing guidelines for LEAs to operate under a “distance learning” environment.

In response, the District announced the closing of all schools in mid-March. With nearly all districts in California shut down to stem the spread of COVID-19, officials statewide hastily put in place plans to deliver “grab and go” meals with minimal contact between cafeteria staff, volunteers and families in need. In addition, the District worked to implement distance learning for all students for the remainder of the 2019-20 school year. Several planned construction projects were placed on hold until work could resume.

A companion bill to Executive Order N-26-20, Senate Bill 117 changed the method used by the District to calculate average daily attendance (ADA) for both the P-2 and Annual period apportionment to include all full school months from July 1, 2019 to February 29, 2020. As events unfold and changes are made on a daily basis, the future impacts of COVID-19 on the District’s operations are not fully known at this time.

## NOTE 12 – ADJUSTMENT FOR RESTATEMENT

The beginning fund balance in the Special Reserve Fund for Capital Outlay Projects was restated by (\$437,137) to correct for a prior year Certificate of Participation cash drawdown. The restatement also affects the net position on the District-wide Statement of Activities at July 1, 2019.

*(This page intentionally left blank)*

---

---

*Required Supplementary Information*

---

---

*(This page intentionally left blank)*

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – General Fund*  
*For the Fiscal Year Ended June 30, 2020*

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget - Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
LCFF Sources	\$ 191,682,548	\$ 191,645,488	\$ 190,077,518	\$ (1,567,970)
Federal Sources	11,531,325	13,776,491	10,765,015	(3,011,476)
Other State Sources	30,824,731	35,563,391	38,480,729	2,917,338
Other Local Sources	867,943	3,649,038	5,765,506	2,116,468
<b>Total Revenues</b>	<b>234,906,547</b>	<b>244,634,408</b>	<b>245,088,768</b>	<b>454,360</b>
<b>Expenditures</b>				
Current:				
Certificated Salaries	101,764,769	107,322,424	109,264,907	(1,942,483)
Classified Salaries	36,348,902	37,306,702	34,762,914	2,543,788
Employee Benefits	62,632,850	62,432,723	62,379,036	53,687
Books and Supplies	14,739,323	21,365,248	6,269,959	15,095,289
Services and Other Operating Expenditures	25,198,041	24,218,361	19,473,540	4,744,821
Capital Outlay	5,261,500	6,996,719	1,560,660	5,436,059
Intergovernmental Transfers	(1,323,371)	(1,176,000)	(1,007,159)	(168,841)
<b>Total Expenditures</b>	<b>244,622,014</b>	<b>258,466,177</b>	<b>232,703,857</b>	<b>25,762,320</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(9,715,467)	(13,831,769)	12,384,911	26,216,680
<b>Other Financing Sources and Uses</b>				
Interfund Transfers Out	(2,100,000)	(2,100,000)	(7,500,287)	(5,400,287)
<b>Total Other Financing Sources and Uses</b>	<b>(2,100,000)</b>	<b>(2,100,000)</b>	<b>(7,500,287)</b>	<b>(5,400,287)</b>
Net Change in Fund Balance	(11,815,467)	(15,931,769)	4,884,624	20,816,393
Fund Balances, July 1, 2019	78,708,279	78,708,279	78,708,279	-
Fund Balances, June 30, 2020	\$ 66,892,812	\$ 62,776,510	\$ 83,592,903	\$ 20,816,393



**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – Adult Education Fund*  
*For the Fiscal Year Ended June 30, 2020*

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget - Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Federal Sources	\$ 2,855,874	\$ 3,501,909	\$ 2,082,647	\$ (1,419,262)
Other State Sources	17,190,940	17,190,940	19,705,392	2,514,452
Other Local Sources	1,777,477	1,777,477	2,543,677	766,200
<b>Total Revenues</b>	<b>21,824,291</b>	<b>22,470,326</b>	<b>24,331,716</b>	<b>1,861,390</b>
<b>Expenditures</b>				
Current:				
Certificated Salaries	5,484,815	7,198,296	5,765,322	1,432,974
Classified Salaries	3,039,072	3,626,924	2,919,747	707,177
Employee Benefits	3,951,726	4,897,302	3,779,487	1,117,815
Books and Supplies	2,672,044	2,898,443	1,484,419	1,414,024
Services and Other Operating Expenditures	5,838,348	6,476,341	5,693,583	782,758
Capital Outlay	6,270,067	2,779,051	1,456,197	1,322,854
Intergovernmental Transfers	923,772	950,678	674,619	276,059
<b>Total Expenditures</b>	<b>28,179,844</b>	<b>28,827,035</b>	<b>21,773,374</b>	<b>7,053,661</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,355,553)	(6,356,709)	2,558,342	8,915,051
Fund Balances, July 1, 2019	36,800,135	36,800,135	36,800,135	-
Fund Balances, June 30, 2020	<u>\$ 30,444,582</u>	<u>\$ 30,443,426</u>	<u>\$ 39,358,477</u>	<u>\$ 8,915,051</u>

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Schedule of Proportionate Share of the Net Pension Liability*  
*For the Fiscal Year Ended June 30, 2020*

	<i>Last Ten Fiscal Years*</i>					
	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
<b>CalSTRS</b>						
District's proportion of the net pension liability	<u>0.1952%</u>	<u>0.1848%</u>	<u>0.1905%</u>	<u>0.1950%</u>	<u>0.2010%</u>	<u>0.1910%</u>
District's proportionate share of the net pension liability	<u>\$ 176,285,137</u>	<u>\$ 169,872,124</u>	<u>\$ 176,161,712</u>	<u>\$ 157,717,950</u>	<u>\$ 135,321,240</u>	<u>\$ 111,614,670</u>
State's proportionate share of the net pension liability associated with the District	<u>96,175,311</u>	<u>97,259,736</u>	<u>104,215,780</u>	<u>89,799,235</u>	<u>71,569,827</u>	<u>67,398,433</u>
Totals	<u>\$ 272,460,448</u>	<u>\$ 267,131,859</u>	<u>\$ 280,377,492</u>	<u>\$ 247,517,185</u>	<u>\$ 206,891,067</u>	<u>\$ 179,013,103</u>
District's covered-employee payroll	<u>\$ 104,463,329</u>	<u>\$ 101,220,908</u>	<u>\$ 101,569,253</u>	<u>\$ 98,597,027</u>	<u>\$ 91,961,700</u>	<u>\$ 87,301,552</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>168.75%</u>	<u>167.82%</u>	<u>173.44%</u>	<u>159.96%</u>	<u>147.15%</u>	<u>127.85%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>73%</u>	<u>71%</u>	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
<b>CalPERS</b>						
District's proportion of the net pension liability	<u>0.2703%</u>	<u>0.2673%</u>	<u>0.2770%</u>	<u>0.2804%</u>	<u>0.2914%</u>	<u>0.3113%</u>
District's proportionate share of the net pension liability	<u>\$ 79,647,943</u>	<u>\$ 71,274,538</u>	<u>\$ 62,105,509</u>	<u>\$ 55,379,173</u>	<u>\$ 42,952,648</u>	<u>\$ 35,340,130</u>
District's covered-employee payroll	<u>\$ 38,482,217</u>	<u>\$ 37,378,340</u>	<u>\$ 37,103,334</u>	<u>\$ 34,508,373</u>	<u>\$ 34,206,006</u>	<u>\$ 32,664,333</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>204.72%</u>	<u>190.68%</u>	<u>167.39%</u>	<u>160.48%</u>	<u>125.57%</u>	<u>108.19%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>71%</u>	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>

\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Schedule of Pension Contributions*  
*For the Fiscal Year Ended June 30, 2020*

	<i>Last Ten Fiscal Years*</i>					
	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
<b>CalSTRS</b>						
Contractually required contribution	\$ 16,170,976	\$ 17,006,630	\$ 14,606,177	\$ 12,777,412	\$ 10,579,461	\$ 8,166,197
Contributions in relation to the contractually required contribution	<u>16,170,976</u>	<u>17,006,630</u>	<u>14,606,177</u>	<u>12,777,412</u>	<u>10,579,461</u>	<u>8,166,197</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 94,567,111</u>	<u>\$ 104,463,328</u>	<u>\$ 101,220,908</u>	<u>\$ 101,569,253</u>	<u>\$ 98,597,027</u>	<u>\$ 91,961,700</u>
Contributions as a percentage of covered-employee payroll	<u>17.10%</u>	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>						
Contractually required contribution	\$ 7,876,076	\$ 6,950,658	\$ 5,805,230	\$ 5,152,911	\$ 4,088,207	\$ 4,026,389
Contributions in relation to the contractually required contribution	<u>7,876,076</u>	<u>6,950,658</u>	<u>5,805,230</u>	<u>5,152,911</u>	<u>4,088,207</u>	<u>4,026,389</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 39,937,508</u>	<u>\$ 38,482,219</u>	<u>\$ 37,378,340</u>	<u>\$ 37,103,334</u>	<u>\$ 34,508,373</u>	<u>\$ 34,206,006</u>
Contributions as a percentage of covered-employee payroll	<u>19.721%</u>	<u>18.062%</u>	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT***Schedule of Changes in the District's Total OPEB Liability and Related Ratios**For the Fiscal Year Ended June 30, 2020*

Last 10 Fiscal Years\*

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Total OPEB liability</b>			
Service cost	\$ 2,883,182	\$ 2,948,281	\$ 2,869,373
Interest	1,360,897	1,408,975	1,307,636
Changes of assumptions or other inputs	(1,483,159)	3,048,629	-
Benefit payments	(3,085,127)	(1,325,189)	(1,429,074)
<b>Net change in total OPEB liability</b>	<b>(324,207)</b>	<b>6,080,696</b>	<b>2,747,935</b>
<b>Total OPEB liability - beginning</b>	<b>45,659,355</b>	<b>39,578,659</b>	<b>36,830,724</b>
<b>Total OPEB liability - ending</b>	<b>\$ 45,335,148</b>	<b>\$ 45,659,355</b>	<b>\$ 39,578,659</b>
<b>Covered-employee payroll</b>	<b>\$ 140,764,028</b>	<b>\$ 148,413,000</b>	<b>\$ 144,440,747</b>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<b>32.21%</b>	<b>30.77%</b>	<b>27.40%</b>

**Notes to Schedule:**

*\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT***Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program**For the Fiscal Year Ended June 30, 2020*

---

Last 10 Fiscal Years\*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability	0.3017%	0.2907%	0.3032%
District's proportionate share of net OPEB liability	\$ 1,123,426	\$ 1,112,536	\$ 1,275,487
Covered-employee payroll	N/A	N/A	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total OPEB liability	(0.81%)	0.40%	0.01%

**Notes to Schedule:**

*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.*

*\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2020

---

### 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 States 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 adoptions 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 the District's Proportionate Share of the Net Pension Liability**

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

*Change in benefit terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

*Change of assumptions* - There were no changes in economic assumptions since the previous valuations for either CalSTRS or CalPERS.

#### **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.

#### **Schedule of Changes in the District's Total OPEB Liability and Related Ratios**

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, and the total 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.

*Change of assumptions* – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life. The discount rate at the end of the fiscal year changed from 3.13 to 2.45 percent.

## HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

*Notes to the Required Supplementary Information*

*For the Fiscal Year Ended June 30, 2020*

---

### NOTE 1 – PURPOSE OF SCHEDULES (continued)

#### **Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program**

This schedule presents information on the District's proportionate share of the net OPEB liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

*Change in benefit terms* – There were no changes in benefit terms since the previous valuation.

*Change of assumptions* – The discount rate was changed from 3.87 percent to 3.50 percent since the previous valuation.

---

---

*Supplementary Information*

---

---



*(This page intentionally left blank)*

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Local Educational Agency Organization Structure

June 30, 2020

---

The Hacienda La Puente Unified School District was established on July 1, 1970, and is comprised of an area of approximately 20 square miles located in Los Angeles County. There were no changes in the boundaries of the District during the current year. The District serves students in the diverse communities of City of Industry, Hacienda Heights, La Puente and portions of Valinda and West Covina. The District also has the largest correctional education program in the nation, serving students at eight correctional facilities throughout Los Angeles County. Learning facilities include: four comprehensive high schools, one alternative high school, one Community Day School, one special education school, seventeen K-5 elementary schools, six K-8 schools, four middle schools, one orthopedic unit for students with disabilities and extensive child development and early primary programs and three main Adult Education facilities. The District also maintains an Administration Center, an Instructional Services Center, a Student Services Center, a Multilingual Assessment Center and a Curriculum Lab.

### **BOARD OF EDUCATION**

---

<b><u>Member</u></b>	<b><u>Office</u></b>	<b><u>Term Expires</u></b>
Anthony Duarte	President	November, 2022
Joseph Chang, Ph.D.	Vice President	November, 2022
Gino Kwok, Esq.	Clerk	November, 2020
Martin G. Medrano	Member	November, 2020
Jeffrey De La Torre	Member	November, 2022

### **DISTRICT ADMINISTRATORS**

Dr. Alfonso Jimenez,  
*Superintendent*

Annie Bui,  
*Associate Superintendent, Business Services*

Dr. Judy Fancher, Ed.D.,  
*Assistant Superintendent, Curriculum, Assessment and Instruction, Pre K-12*

Jill Rojas,  
*Assistant Superintendent, Human Resources*

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Schedule of Average Daily Attendance

For the Fiscal Year Ended June 30, 2020

---

	<b>Second Period Report</b>	<b>Annual Report</b>
	Certificate No. 9B80C704	Certificate No. 6F9AD5D0
<b>Regular ADA &amp; Extended Year:</b>		
Grades TK-3	5,287.73	5,287.73
Grades 4-6	3,899.70	3,899.70
Grades 7-8	2,646.90	2,646.90
Grades 9-12	5,251.58	5,251.58
Total Regular ADA	17,085.91	17,085.91
<b>Special Education, Nonpublic, Nonsectarian Schools:</b>		
Grades TK-3	3.10	3.10
Grades 4-6	0.90	0.90
Grades 7-8	3.48	3.48
Grades 9-12	7.74	7.74
Total Special Education, Nonpublic, Nonsectarian Schools ADA	15.22	15.22
<b>Community Day School:</b>		
Grades 9-12	9.47	8.17
Total Community Day School ADA	9.47	8.17
Total ADA	17,110.60	17,109.30

## HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

### *Schedule of Instructional Time*

*For the Fiscal Year Ended June 30, 2020*

---

<u>Grade Level</u>	<u>Required</u>	<u>2019-20 Minutes Offered</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	50,400	180	Complied
Grade 1	50,400	50,400	180	Complied
Grade 2	50,400	50,400	180	Complied
Grade 3	50,400	50,400	180	Complied
Grade 4	54,000	54,000	180	Complied
Grade 5	54,000	54,000	180	Complied
Grade 6	54,000	54,000	180	Complied
Grade 7	54,000	54,486	180	Complied
Grade 8	54,000	54,486	180	Complied
Grade 9	64,800	64,896	180	Complied
Grade 10	64,800	64,896	180	Complied
Grade 11	64,800	64,896	180	Complied
Grade 12	64,800	64,896	180	Complied

## HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

### Schedule of Financial Trends and Analysis

For the Fiscal Year Ended June 30, 2020

General Fund	(Budget)	2020	2019	2018
	2021 <sup>3</sup>			
Revenues and other financing sources	\$ 220,876,231	\$ 245,088,768	\$ 250,403,123	\$ 233,975,165
Expenditures	235,819,238	232,703,857	237,500,724	218,900,546
Other uses and transfers out	100,000	7,500,287	7,495,287	7,400,000
Total outgo	235,919,238	240,204,144	244,996,011	226,300,546
Change in fund balance (deficit)	(15,043,007)	4,884,624	5,407,112	7,674,619
Ending fund balance	\$ 68,549,896	\$ 83,592,903	\$ 78,708,279	\$ 73,301,167
Available reserves <sup>1</sup>	\$ 6,271,049	\$ 8,578,036	\$ 7,349,880	\$ 6,789,016
Available reserves as a percentage of total outgo	2.7%	3.6%	3.0%	3.0%
Total long-term debt	\$ 465,017,291	\$ 492,478,819	\$ 476,941,221	\$ 446,025,451
Average daily attendance at P-2 <sup>2</sup>	N/A	17,111	17,377	17,693

The General Fund balance has increased by \$10,291,736 over the past two years. The fiscal year 2020-21 adopted budget projects a decrease of \$15,043,007. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in each of the past three years, but anticipates incurring an operating deficit during the 2020-21 fiscal year. Long-term debt has increased by \$34,047,684 over the past two years.

Average daily attendance has decreased by 582 over the past two years.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> Excludes Adult Education ADA. Also, ADA will not be reported in 2020-21.

<sup>3</sup> As of September, 2020.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2020*

---

	<u>General Fund</u>
June 30, 2020, annual financial and budget report (SACS) fund balances	\$ 81,292,838
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Clearing Prior Year LCFF payable	<u>2,300,065</u>
Net adjustments and reclassifications	<u>2,300,065</u>
June 30, 2020, audited financial statement fund balances	<u><u>\$ 83,592,903</u></u>

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

*Reconciliation of Head Start Expenditures*

*For the Fiscal Year Ended June 30, 2020*

---

	Federal Expenditures	Local In-Kind Match*
Basic Program 12.0-52100.0	\$ 4,298,823	\$ 830,000
Training & Technical Assistance (T&TA) 12.0-52102.0	30,273	-
2019-20 Federal Expenditures, per audit	<u>\$ 4,329,096</u>	<u>\$ 830,000</u>

\*The District was approved for a waiver for not meeting the 20% Local In-Kind Match for the 2019-20 fiscal year.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2020*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,835,215	
National School Lunch Program	10.555	13523	5,485,914	
USDA Donated Foods	10.555	N/A	<u>775,490</u>	
Subtotal Child Nutrition Cluster				\$ 8,096,619
Fresh Fruits and Vegetable Program	10.582	14968		102,380
Child and Adult Care Food Program Cluster:				
Child and Adult Care Food Program	10.558	13393	977,412	
Cash in Lieu of Commodities	10.558	N/A	<u>68,734</u>	
Subtotal Child and Adult Food Program Cluster				<u>1,046,146</u>
Total U.S. Department of Agriculture				<u>9,245,145</u>
U.S. Department of Education:				
PELL Grants	84.063	N/A		628,415
Passed through California Dept. of Education (CDE):				
Adult Basic Education (ABE):				
Adult Basic Education & ESL	84.002A	14508	257,285	
Adult Secondary Education	84.002	13978	100,129	
English Literacy & Civics Education	84.002A	14109	<u>155,479</u>	
Subtotal Adult Education Cluster				512,893
Every Student Succeeds Act (ESSA):				
Title I Cluster				
Title I, Part A, Basic Grants	84.010	14329	4,636,419	
Title I, Part A, Program Improvement LEA Corrective Action	84.010	14957	<u>15,558</u>	
Subtotal Title I, Part A Cluster				4,651,977
Title I, Part C, Migrant Ed, Regular and Summer Program	84.011	14838		11,662
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341		645,446
Title III, Limited English Proficient (LEP) Student Program	84.365	10084		362,227
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14681		543,019
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396		199,522
Title IX, Part A, McKinney-Vento Homeless Assistance Grants	84.196	14332		36,123
Career Technical Education Cluster:				
Vocational and Applied Tech Secondary II, Carl Perkins Act	84.048	13924	150,006	
Carl D. Perkins Career and Technical Education: Adult, Section 132	84.048	14893	<u>941,339</u>	
Subtotal Career Technical Education Cluster				1,091,345
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425	15536		<u>806,529</u>
Passed through the Puente Hills SELPA:				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,682,121	
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	33,346	
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	98,600	
Mental Health Services, Part B, Sec 611	84.027A	14468	202,430	
We Can Work	84.027A	01110	63,004	
Preschool Staff Development, Part B, Section 619	84.173A	13431	<u>1,000</u>	
Subtotal Special Education Cluster (IDEA)				4,080,501
Early Intervention Grants	84.181	23761		<u>84,532</u>
Total U.S. Department of Education				<u>13,654,191</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Center Development Block Grant	93.596	13609		1,208,618
Passed through Los Angeles County Office of Education:				
Head Start	93.600	10016		<u>4,329,096</u>
Total U.S. Department of Health & Human Services				<u>5,537,714</u>
Total Expenditures of Federal Awards				<u>\$ 28,437,050</u>



# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2020

---

## NOTE 1 – PURPOSE OF SCHEDULES

### 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.

### Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 Part 26 of the *Education Code*. The instructional time presented in this schedule includes the days that the District was closed due to the COVID-19 pandemic.

### 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.

### Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

### Reconciliation of Head Start Expenditures

This schedule provides information on the detail of Head Start Expenditures that are reported on the Schedule of Expenditures of Federal Awards.

### Schedule of Expenditures of Federal Awards

The 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 the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a 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 represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2020.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 27,630,521
Differences between Federal Revenues and Expenditures:		
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425	<u>806,529</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 28,437,050</u>

---

---

*Other Independent Auditors' Reports*

---

---

*(This page intentionally left blank)*



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Hacienda La Puente Unified School District  
City of Industry, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hacienda La Puente Unified School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Hacienda La Puente Unified School District's basic financial statements, and have issued our report thereon dated December 23, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hacienda La Puente Unified School District's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hacienda La Puente Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hacienda La Puente 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.

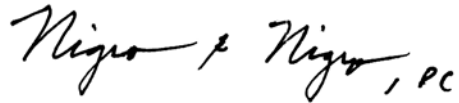
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Hacienda La Puente Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California  
December 23, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Hacienda La Puente Unified School District  
City of Industry, California

**Report on Compliance for Each Major Federal Program**

We have audited Hacienda La Puente Unified School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Hacienda La Puente Unified School District's major federal programs for the year ended June 30, 2020. Hacienda La Puente Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Hacienda La Puente 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 Hacienda La Puente 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 Hacienda La Puente Unified School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Hacienda La Puente 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, 2020.

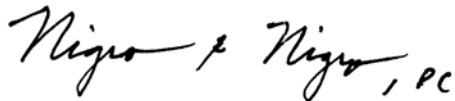
### **Report on Internal Control Over Compliance**

Management of Hacienda La Puente 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 Hacienda La Puente 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 the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.



Murrieta, California  
December 23, 2020



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Hacienda La Puente Unified School District
City of Industry, California

Report on State Compliance

We have audited Hacienda La Puente Unified School District's compliance with the types of compliance requirements described in the 2019-20 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 Hacienda La Puente Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Hacienda La Puente Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Hacienda La Puente 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 state program. However, our audit does not provide a legal determination of Hacienda La Puente Unified School District's compliance.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Table with 2 columns: Description, Procedures Performed. Rows include Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (No (see below)), Continuation Education (Yes), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).



Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Yes
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for independent study because the ADA was under the level that requires testing.

***Unmodified Opinion on Compliance with State Programs***

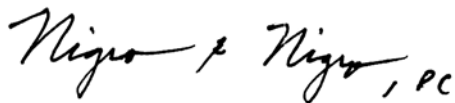
In our opinion, Hacienda La Puente Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2020.

***Other Matter(s)***

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying schedule of findings and questioned costs as Finding 2020-001. Our opinion on each state program is not modified with respect to these matters.

***District's Response to Finding***

Hacienda La Puente Unified School District's response to the compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hacienda La Puente Unified School District's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.



Murrieta, California  
December 23, 2020

---

---

*Findings and Questioned Costs*

---

---

*(This page intentionally left blank)*

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2020*

---

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

***Federal Awards***

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>10.558</u>	<u>Child and Adult Care Food Program Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 853,112</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

***State Awards***

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
---	-------------------

# HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT

## Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2020

---

### SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

*There were no financial statement findings in 2019-20.*

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs*

*For the Fiscal Year Ended June 30, 2020*

---

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings or questioned costs in 2019-20.*

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2020*

---

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

**Finding 2020-001: CALPADS Unduplicated Pupil Count (40000)**

**Criteria:** Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

**Condition:** During our testing of the students who receive Free and Reduced-Price Meals (FRPM) reported in the CALPADS 1.17 and 1.18 reports, we noted 10 students who were classified as free or reduced but did not have an application or income eligibility form on file to support the designation prior to October 31.

**Context:** We noted 10 exceptions out of 91 FRPM only students tested. Exceptions were noted at five sites. We extrapolated the error rate at each site to arrive at a total extrapolated exception count of 79.

**Cause:** The District mistakenly imported a 2018/19 direct certification file from CALPADS into the 2019/20 year. Several of the students who were eligible for direct certification status in 2018/19 were no longer eligible in 2019/20 and therefore were noted as exceptions during audit.

**Effect:** There is a questioned cost of \$157,550 calculated using the CDE audit penalty calculator. The unduplicated pupil counts in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes:

<b>Program/Site:</b>	<b>Adjusted based on</b>		<b>Adjusted Total</b>
	<b>CALPADS</b>	<b>eligibility for: FRPM</b>	
Cedarlane Academy	428	(7)	421
La Puente High	913	(39)	874
Newton Middle	350	(10)	340
Valley Alternative High	93	(13)	80
Wing Lane Elementary	275	(10)	265
Aggregate remaining sites	10,881	-	10,881
District-wide	12,940	(79)	12,861

Total enrollment of 17,826 was not adjusted based on the results of our procedures.

**Recommendation:** We recommend that the District implement a procedure to ensure proper document retention as well as reviewing the CALPADS information prior to the report's submission to the California Department of Education.

**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**

*Schedule of Audit Findings and Questioned Costs*

*For the Fiscal Year Ended June 30, 2020*

---

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)**

**Finding 2020-001: CALPADS Unduplicated Pupil Count (40000) (continued)**

**Views of Responsible Officials:** Network & Computer Services Department and Food Services Department recognize that it is an interdepartmental effort to ensure compliance for the unduplicated pupil count. Both departments will implement annual training on processing and uploading of the DC list to ensure accuracy and compliance.



**HACIENDA LA PUENTE UNIFIED SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2020*

---

*There were no findings or questioned costs in 2018-19.*



To the Board of Education  
Hacienda La Puente Unified School District  
City of Industry, California

In planning and performing our audit of the basic financial statements of Hacienda La Puente Unified School District for the fiscal year ending June 30, 2020, 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 23, 2020, on the financial statements of Hacienda La Puente Unified School District.

#### ASSOCIATED STUDENT BODY (ASB) FUNDS

**Observation:** During our cash receipts testing at **Wilson High, Los Altos High, and Cedarlane Academy** we noted receipts that lacked sufficient supporting documentation.

**Recommendation:** We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

#### DISTRICT OFFICE

**Observation:** The collective bargaining agreement with CSEA specifies that by the end of the fiscal year, employees shall not have an earned vacation balance that exceeds more than can be earned in a fiscal year unless the employee has the written approval of the superintendent or a designee. While the maximum amount differs based on employees' years of service, the maximum amount for any CSEA employee is 24 days, or 192 hours. Management employees do not have a stated maximum, but "best practices" dictate that the same limits should apply to management employees. A significant number of classified employees, both CSEA members and non-members, are carrying accrued vacation balances significantly in excess of 24 days. The liability for those accrued vacation balances continues to grow each year as each employee's hourly rate of pay is increased for step and column changes, as well as negotiated salary increases. At June 30, 2020, the liability for accrued vacation balances exceeds \$4.5 million.

**Recommendation:** In order to prevent the liability from continuing to grow to excessive amounts, the District should investigate either requiring employees to take more vacation, paying off some of the excessive balances, or enforcing the cap limitation so that once employees reach the accrued vacation cap, they may not accrue additional vacation.

We will review the status of the current year comments during our next audit engagement.

*Nigro & Nigro, PC*

Murrieta, California  
December 23, 2020

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX I**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100





