**NEW ISSUE – BOOK ENTRY ONLY**

**INSURED RATING: S&P "AA"**
**UNDERLYING RATING: S&P: "A"**
**(See "RATINGS" herein)**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the portion of each Lease Payment constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Special Counsel, the portion of each Lease Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences relating to the Certificates.*

# $15,205,000
# BARSTOW UNIFIED SCHOOL DISTRICT
## Certificates of Participation
## (2018 School Financing Project)
## Evidencing the Fractional Interests of the
## Owners Thereof in Lease Payments to be Made by the
## BARSTOW UNIFIED SCHOOL DISTRICT

**Dated: Date of Delivery** **Due: June 1, as shown on the inside cover**

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

The Barstow Unified School District Certificates of Participation (2018 School Financing Project) (the "Certificates"), are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2018 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee, the Public Property Financing Corporation of California (the "Corporation") and the Barstow Unified School District (the "District"). The proceeds of the Certificates will be used to (i) finance capital improvements to District sites and facilities, (ii) purchase a municipal bond debt service reserve fund insurance policy for deposit in the debt service reserve fund established for the Certificates, and (iii) pay certain costs related to the execution and delivery of the Certificates.

Pursuant to a Site Lease, dated as of December 1, 2018, the District will lease certain real property of the District and the school facilities located thereon as further described herein (the "Property"), to the Corporation, and will lease the Property back from the Corporation pursuant to a Lease/Purchase Agreement, dated as of December 1, 2018 (the "Lease"), by and between the Corporation and the District. The Certificates evidence fractional interests in Lease Payments to be made by the District, as lessee under the Lease, for use and possession of the Property. The District has covenanted to budget and appropriate Lease Payments in each fiscal year in consideration of the use and occupancy of the Property from any source of legally available funds, and to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations therefor. **The District's obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Property.**

The Certificates will be delivered in book-entry form only, and will be initially delivered and registered in the name of Cede & Co. as nominee of the Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Certificates (the "Beneficial Owners") will not receive physical certificates representing their interest in the Certificates. The Certificates shall be dated their date of delivery and shall represent interest payable semiannually on each June 1 and December 1, commencing June 1, 2019. The Certificates shall be delivered in denominations of $5,000 principal amount or any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

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

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

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

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

*The Certificates are offered when, as and if delivered and received by the Underwriter, subject to the approval as to legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, as Special Counsel. Certain matters will be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, for the Underwriter by Katten Muchin Rosenman LLP and for the Trustee and the Corporation by their respective counsels. It is anticipated that the Certificates in book-entry form will be available for delivery to The Depository Trust Company in New York, New York on or about December 19, 2018.*

## Wells Fargo Securities

The date of this Official Statement is December 4, 2018.

## MATURITY SCHEDULE

**Base CUSIP[(1)]: 069082**

**$15,205,000**
**Barstow Unified School District**
**Certificates of Participation**
**(2018 School Financing Project)**

**$7,755,000 Serial Certificates**

| Maturity (June 1) | Principal Amount | Interest Rate | Yield | CUSIP[(1)] Suffix |
|---|---|---|---|---|
| 2020 | $260,000 | 5.000% | 1.930% | AA3 |
| 2021 | 275,000 | 5.000 | 2.020 | AB1 |
| 2022 | 285,000 | 5.000 | 2.120 | AC9 |
| 2023 | 300,000 | 5.000 | 2.220 | AD7 |
| 2024 | 315,000 | 5.000 | 2.320 | AE5 |
| 2025 | 330,000 | 5.000 | 2.410[(2)] | AF2 |
| 2026 | 350,000 | 5.000 | 2.520[(2)] | AG0 |
| 2027 | 365,000 | 5.000 | 2.640[(2)] | AH8 |
| 2028 | 385,000 | 5.000 | 2.750[(2)] | AJ4 |
| 2029 | 400,000 | 5.000 | 2.860[(2)] | AK1 |
| 2030 | 425,000 | 3.000 | 3.220 | AL9 |
| 2031 | 435,000 | 5.000 | 2.980[(2)] | AM7 |
| 2032 | 455,000 | 3.250 | 3.480 | AN5 |
| 2033 | 470,000 | 4.000 | 3.490[(2)] | AP0 |
| 2034 | 490,000 | 5.000 | 3.150[(2)] | AQ8 |
| 2035 | 515,000 | 5.000 | 3.210[(2)] | AR6 |
| 2036 | 540,000 | 5.000 | 3.260[(2)] | AS4 |
| 2037 | 570,000 | 4.000 | 3.810[(2)] | AT2 |
| 2038 | 590,000 | 5.000 | 3.350[(2)] | AU9 |

**$3,360,000 – 4.000% Term Certificates due June 1, 2043 – Yield: 4.050%; CUSIP[(1)] Suffix: AV7**

**$4,090,000 – 4.000% Term Certificates due June 1, 2048 – Yield: 4.070%; CUSIP[(1)] Suffix: AW5**

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. None of the Underwriter, the Municipal Advisor or the District is responsible for the selection, uses or correctness of the CUSIP numbers set forth herein. CUSIP numbers have been assigned by an independent company not affiliated with the District, the Municipal Advisor or the Underwriter and are included solely for the convenience of the registered owners of the applicable Certificates. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

(2) Yield to call at par on the June 1, 2024 call date.

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

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

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

When used in this Official Statement and in any continuing disclosure by the District in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced in this Official Statement, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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

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

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

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

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

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 "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES – Bond Insurance" and Appendix H - "SPECIMEN MUNICIPAL BOND INSURANCE POLICY"

**BARSTOW UNIFIED SCHOOL DISTRICT**

**Board of Education**

Julie Clemmer, *President*
Barbara Rose, *Vice President*
Ben Rosenberg, *Clerk*[(1)]
Kris Okamuro, *Member*
Ray Perea, *Member*[(1)]

**District Administration**

Jeff Malan, *Superintendent*
Reyna Garcia, *Business Manager/Chief Business Official*

**SPECIAL COUNSEL AND DISCLOSURE COUNSEL**

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

**MUNICIPAL ADVISOR**

Piper Jaffray & Co.
*El Segundo, California*

**TRUSTEE**

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

(1) At the November 6, 2018 general election, Trustees Rosenberg and Perea ran unopposed and were each re-elected to new, four-year terms on the Board of Education. They are expected to begin those terms starting at the December 2018 meeting of the Board of Education.

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**$15,205,000**
**BARSTOW UNIFIED SCHOOL DISTRICT**
**Certificates of Participation**
**(2018 School Financing Project)**

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

## INTRODUCTION

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

This Official Statement provides certain information concerning the sale and delivery of $15,205,000 of Barstow Unified School District Certificates of Participation (2018 School Financing Project) (the "Certificates"), evidencing the fractional interests of the Owners thereof (as hereinafter defined) in Lease Payments (as hereinafter defined) to be made by the Barstow Unified School District (the "District") pursuant to a Lease/Purchase Agreement, dated as of December 1, 2018 (the "Lease"), by and between the Public Property Financing Corporation of California, as lessor (the "Corporation"), and the District, as lessee, for the use and possession of the real property and school facilities thereon known as Barstow High School (the "Property").

### The District

The Barstow Unified School District (the "District") was established on July 1, 1885, as the Waterman Elementary District. The Barstow Unified School District was created on July 1, 1966. The District is located in the County of San Bernardino, California (the "County"), and serves a population of approximately 29,041 residents. The District operates six elementary schools, one junior high school, one intermediate school, one comprehensive high school, one continuation high school and one adult education school. For fiscal year 2018-19, the District has budgeted an average daily attendance ("ADA") of 5,792 students and an enrollment of 6,280 students.

The District is governed by a five-member Board of Education (the "Board"), each member of which is elected to a four-year term. Elections for positions on the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day-to-day District operations as well as the supervision of the District's other key personnel. Jeff Malan is currently the District's Superintendent.

For more information regarding the District, see also "BARSTOW UNIFIED SCHOOL DISTRICT" and "DISTRICT FINANCIAL MATTERS" herein. The District's audited financial statements for the fiscal year ended June 30, 2017 are attached hereto as Appendix C and should be read in their entirety.

**Purpose of the Certificates**

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

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

The Certificates are being executed and delivered pursuant to a Trust Agreement (the "Trust Agreement"), dated as of December 1, 2018, by and among the District, the Corporation and U.S. Bank National Association, as trustee (the "Trustee"). The District is required under the Lease to pay Lease Payments for the use and possession of the Property, as further described under the caption "THE PROPERTY" herein. The District is also required to pay any taxes and assessments, and is responsible for all maintenance and repair of the Property.

Pursuant to an Assignment Agreement, dated as of December 1, 2018 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners, substantially all of its rights under the Lease and a Site Lease, dated as of December 1, 2018 (the "Site Lease"), by and between the District and the Corporation, including its rights to receive and collect Lease Payments and prepayments from the District under the Lease and rights as may be necessary to enforce the payment of such Lease Payments and prepayments. All rights assigned by the Corporation pursuant to the Assignment Agreement shall be administered by the Trustee in accordance with the provisions of the Trust Agreement for the equal and proportionate benefit of all Owners.

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

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

**Description of the Certificates**

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

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

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

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

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

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

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

***Bond Insurance.*** The scheduled payment of principal and interest with respect to the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by ASSURED GUARANTY MUNICIPAL CORP ("AGM"). See "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES – Bond Insurance."

**Continuing Disclosure**

The District has covenanted for the benefit of the Owners and Beneficial Owners of the Certificates to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's Fiscal Year (presently ending on June 30) (the "Annual Report"), commencing with the report for the Fiscal Year ending June 30, 2018, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"). See "CONTINUING DISCLOSURE" herein and Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

**Professionals Involved in the Offering**

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

**Certificate Owners' Risks**

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

**Forward Looking Statements**

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

**Other Information**

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

Copies of the Lease, the Site Lease, the Trust Agreement and the Assignment Agreement are available, upon request, and upon payment to the District of a charge for copying, mailing and handling, from the Superintendent, Barstow Unified School District, 551 S. Avenue H, Barstow, California 92311.

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

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

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

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

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

## THE PROJECT

The net proceeds of the Certificates are expected to be used to complete the construction of a new Barstow Fine Arts Academy, located at 500 Avenue G, Barstow, California. The total construction cost of the Barstow Fine Arts Academy is currently estimated at $37,000,000, and, in addition to the net proceeds of the Certificates, is expected to be funded with proceeds received by the District from an insurance settlement claim and other surplus District funds. See also "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

## THE PROPERTY

Pursuant to the Site Lease, the District is leasing the Property to the Corporation and leasing the Property back from the Corporation pursuant to the Lease. The Property consists of the existing site and school facilities known as Barstow High School, located at 430 S. 1st Avenue, Barstow, California 92311. Barstow High School was originally constructed 1937, and modernized during 2000-2001 using proceeds from the sale of District general obligation bonds. The Property accommodates approximately 1,500 students, with a current enrollment of 1,471 students in grades 9 through 12. The site consists of a 32-acre site of approximately 198,491 square feet consisting of five permanent structures, including 102 classrooms, as well as a library, gymnasiums, cafeteria, playfields, covered and uncovered parking areas, and an administration building.

The improvements on the Property currently have a total estimated insured replacement value of approximately $36.8 million. See also "RISK FACTORS – Property Values" herein.

## THE CERTIFICATES

### General

The Certificates will be executed in the aggregate principal amount of $15,205,000. The Certificates will be dated the date of delivery (the "Date of Delivery"), and will be executed as fully registered book-entry Certificates, without coupons, in denominations of $5,000 principal amount or any integral multiple thereof, and will mature on June 1 of each year, as set forth on the inside cover page hereof.

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

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

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

**Prepayment**

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

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

***Optional Prepayment.*** The Certificates evidencing principal maturing on or after June 1, 2025 are subject to optional prepayment prior to their stated maturities, in whole or in part, on any day on or after June 1, 2024, from any lawfully available source of funds in the event the District exercises its option under the Lease to prepay the principal component of the Lease Payments (in integral multiples of $5,000), at the principal amount thereof, plus accrued interest to the date fixed for prepayment, without premium.

***Mandatory Sinking Fund Prepayment.*** The Certificates evidencing principal maturing on June 1, 2043, are subject to prepayment prior to maturity from mandatory sinking fund prepayments of the principal component of Lease Payments, on June 1 of each year on and after June 1, 2039, at a prepayment price equal to the principal amount thereof, plus accrued interest to the date fixed for prepayment, without premium. The principal component of such Lease Payments to be so prepaid and the dates therefor and the final payment date is as indicated in the following table:

| Year Ending June 1 | Principal Component To Be Prepaid |
|---|---|
| 2039 | $620,000 |
| 2040 | 645,000 |
| 2041 | 670,000 |
| 2042 | 700,000 |
| 2043[(1)] | 725,000 |

[(1)] Maturity.

The Certificates evidencing principal maturing on June 1, 2048, are subject to prepayment prior to maturity from mandatory sinking fund prepayments of the principal component of Lease Payments, on June 1 of each year on and after June 1, 2044, at a prepayment price equal to the principal amount thereof, plus accrued interest to the date fixed for prepayment, without premium. The principal component of such Lease Payments to be so prepaid and the dates therefor and the final payment date is as indicated in the following table:

| Year Ending June 1 | Principal Component To Be Prepaid |
|---|---|
| 2044 | $755,000 |
| 2045 | 785,000 |
| 2046 | 815,000 |
| 2047 | 850,000 |
| 2048[(1)] | 885,000 |

[(1)] Maturity.

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

**Prepayment Procedures**

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

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

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

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

"Information Services" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system.

Notice having been given to the Owners of the Certificates as aforesaid, and the moneys for the prepayment (including the interest to the applicable date of prepayment), having been set aside in the Prepayment Fund or as otherwise permitted by the Trust Agreement, the Certificates shall become due

and payable on said date of prepayment, and upon presentation and surrender thereof at the Principal Office of the Trustee, said Certificates shall be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment.

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

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

**Additional Certificates**

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

## SEMI-ANNUAL CERTIFICATE PAYMENT SCHEDULES

Lease Payments are required to be made by the District under the Lease on or before May 15 and November 15 of each year (each, a "Lease Payment Date") for the use and possession of the Property for the period commencing as of the Date of Delivery and terminating on June 1, 2048, or extended as provided in the Lease. The Lease requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee under the Trust Agreement (the "Lease Payment Fund"). On each Certificate Payment Date, the Trustee will withdraw from the Lease Payment Fund the aggregate amount of such Lease Payments and will apply such amounts to make principal and interest payments represented by the Certificates when due.

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

| Date | Principal | Interest | Semi-Annual Payments | Annual Payments |
|---|---|---|---|---|
| 6/1/2019 | -- | $296,499.38 | $296,499.38 | $296,499.38 |
| 12/1/2019 | -- | 329,443.75 | 329,443.75 | -- |
| 6/1/2020 | $260,000.00 | 329,443.75 | 589,443.75 | 918,887.50 |
| 12/1/2020 | -- | 322,943.75 | 322,943.75 | -- |
| 6/1/2021 | 275,000.00 | 322,943.75 | 597,943.75 | 920,887.50 |
| 12/1/2021 | -- | 316,068.75 | 316,068.75 | -- |
| 6/1/2022 | 285,000.00 | 316,068.75 | 601,068.75 | 917,137.50 |
| 12/1/2022 | -- | 308,943.75 | 308,943.75 | -- |
| 6/1/2023 | 300,000.00 | 308,943.75 | 608,943.75 | 917,887.50 |
| 12/1/2023 | -- | 301,443.75 | 301,443.75 | -- |
| 6/1/2024 | 315,000.00 | 301,443.75 | 616,443.75 | 917,887.50 |
| 12/1/2024 | -- | 293,568.75 | 293,568.75 | -- |
| 6/1/2025 | 330,000.00 | 293,568.75 | 623,568.75 | 917,137.50 |
| 12/1/2025 | -- | 285,318.75 | 285,318.75 | -- |
| 6/1/2026 | 350,000.00 | 285,318.75 | 635,318.75 | 920,637.50 |
| 12/1/2026 | -- | 276,568.75 | 276,568.75 | -- |
| 6/1/2027 | 365,000.00 | 276,568.75 | 641,568.75 | 918,137.50 |
| 12/1/2027 | -- | 267,443.75 | 267,443.75 | -- |
| 6/1/2028 | 385,000.00 | 267,443.75 | 652,443.75 | 919,887.50 |
| 12/1/2028 | -- | 257,818.75 | 257,818.75 | -- |
| 6/1/2029 | 400,000.00 | 257,818.75 | 657,818.75 | 915,637.50 |
| 12/1/2029 | -- | 247,818.75 | 247,818.75 | -- |
| 6/1/2030 | 425,000.00 | 247,818.75 | 672,818.75 | 920,637.50 |
| 12/1/2030 | -- | 241,443.75 | 241,443.75 | -- |
| 6/1/2031 | 435,000.00 | 241,443.75 | 676,443.75 | 917,887.50 |
| 12/1/2031 | -- | 230,568.75 | 230,568.75 | -- |
| 6/1/2032 | 455,000.00 | 230,568.75 | 685,568.75 | 916,137.50 |
| 12/1/2032 | -- | 223,175.00 | 223,175.00 | -- |
| 6/1/2033 | 470,000.00 | 223,175.00 | 693,175.00 | 916,350.00 |
| 12/1/2033 | -- | 213,775.00 | 213,775.00 | -- |
| 6/1/2034 | 490,000.00 | 213,775.00 | 703,775.00 | 917,550.00 |
| 12/1/2034 | -- | 201,525.00 | 201,525.00 | -- |
| 6/1/2035 | 515,000.00 | 201,525.00 | 716,525.00 | 918,050.00 |
| 12/1/2035 | -- | 188,650.00 | 188,650.00 | -- |
| 6/1/2036 | 540,000.00 | 188,650.00 | 728,650.00 | 917,300.00 |
| 12/1/2036 | -- | 175,150.00 | 175,150.00 | -- |
| 6/1/2037 | 570,000.00 | 175,150.00 | 745,150.00 | 920,300.00 |
| 12/1/2037 | -- | 163,750.00 | 163,750.00 | -- |
| 6/1/2038 | 590,000.00 | 163,750.00 | 753,750.00 | 917,500.00 |
| 12/1/2038 | -- | 149,000.00 | 149,000.00 | -- |
| 6/1/2039 | 620,000.00 | 149,000.00 | 769,000.00 | 918,000.00 |
| 12/1/2039 | -- | 136,600.00 | 136,600.00 | -- |
| 6/1/2040 | 645,000.00 | 136,600.00 | 781,600.00 | 918,200.00 |
| 12/1/2040 | -- | 123,700.00 | 123,700.00 | -- |
| 6/1/2041 | 670,000.00 | 123,700.00 | 793,700.00 | 917,400.00 |
| 12/1/2041 | -- | 110,300.00 | 110,300.00 | -- |
| 6/1/2042 | 700,000.00 | 110,300.00 | 810,300.00 | 920,600.00 |
| 12/1/2042 | -- | 96,300.00 | 96,300.00 | -- |
| 6/1/2043 | 725,000.00 | 96,300.00 | 821,300.00 | 917,600.00 |
| 12/1/2043 | -- | 81,800.00 | 81,800.00 | -- |
| 6/1/2044 | 755,000.00 | 81,800.00 | 836,800.00 | 918,600.00 |
| 12/1/2044 | -- | 66,700.00 | 66,700.00 | -- |
| 6/1/2045 | 785,000.00 | 66,700.00 | 851,700.00 | 918,400.00 |
| 12/1/2045 | -- | 51,000.00 | 51,000.00 | -- |
| 6/1/2046 | 815,000.00 | 51,000.00 | 866,000.00 | 917,000.00 |
| 12/1/2046 | -- | 34,700.00 | 34,700.00 | -- |
| 6/1/2047 | 850,000.00 | 34,700.00 | 884,700.00 | 919,400.00 |
| 12/1/2047 | -- | 17,700.00 | 17,700.00 | -- |
| 6/1/2048 | 885,000.00 | 17,700.00 | 902,700.00 | 920,400.00 |
| **Total** | $15,205,000.00 | $11,426,437.50 | $26,631,437.50 | $26,631,437.50 |

*Source: The Underwriter.*

## SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES

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

### General

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

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

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

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

### Lease Payments

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

use and possession of the Property, the Lease Payments to be due and payable on each Lease Payment Date.

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

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

**Bond Insurance**

***Bond Insurance Policy.*** Concurrently with the issuance of the Certificates, AGM will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal and interest with respect to the Certificates when due as set forth in the form of the Policy included as an APPENDIX H to this Official Statement.

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

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

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

*Current Financial Strength Ratings.*

On June 26, 2018, 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 May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On January 23, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

*Capitalization of AGM.*

At September 30, 2018:

- The policyholders' surplus of AGM was approximately $2,203 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately $1,187 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately $1,863 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

*Incorporation of Certain Documents by Reference.*

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

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018);

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018); and

(iv) (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 (filed by AGL with the SEC on November 9, 2018).

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

Any information regarding AGM included herein under the caption "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES – 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 "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES – Bond Insurance."

**Reserve Fund**

A debt service reserve fund (the "Reserve Fund") is established by the Trust Agreement, and the District shall maintain in the Reserve Fund an amount equal to the Reserve Requirement. With respect to the Certificates, the term "Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (i) maximum aggregate annual Lease Payments then payable under the Lease in any Certificate Year, (ii) 125% of the average annual aggregate Lease Payments then payable under the Lease (calculated based on Certificate Years), (iii) 10% of the face amount of the Certificates. Notwithstanding the foregoing, in the event of a redemption or partial defeasance of the Certificates, the Reserve Requirement shall thereafter be determined by the District and communicated to the Trustee in writing and any funds in excess of such redetermined Reserve Requirement shall be utilized as set forth in the Trust Agreement. In the event of a partial prepayment or defeasance of the Certificates, a proportionate amount in the Reserve Fund (determined on the basis of the principal evidenced by Certificates to be redeemed and the original aggregate principal evidenced by the Certificates, but not in excess of the

amount of funds available as a result of the re-determination of the Reserve Requirement) may be applied to the prepayment or defeasance of the Certificates as provided in the Trust Agreement.

Upon the delivery of the Certificates, the District expects to deposit into the Reserve Fund a municipal bond debt service reserve insurance policy (the "Reserve Policy") to be issued by AGM, in a face amount equal to the Reserve Requirement. The full amount available in the Reserve Fund may be used by the Trustee in the event of abatement or failure by the District to make Lease Payments with respect to the Certificates. Subject to the requirements and restrictions contained in the Trust Agreement, the District may substitute for the Reserve Policy, or any cash or other Reserve Facilities then-on deposit in the Debt Service Fund, another Reserve Facility or cash, or combination thereof, which in the aggregate makes funds available in the Reserve Fund in an amount equal to the Reserve Fund Requirement, as provided in the Trust Agreement.

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

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

The Reserve Requirement will initially be satisfied by the Reserve Policy. The premium on the Reserve Policy will be fully paid at or prior to the execution and delivery of the Certificates. The Reserve Policy will provide that, upon the later of (i) the Business Day next following the Business Day of receipt by AGM of a Notice of Nonpayment (as such term is defined in the Reserve Policy) presented by the Trustee to AGM; or (ii) the payment date with respect to the Certificates as specified in the Notice of Nonpayment, AGM will make a deposit of funds with the Trustee, or its successor, in an amount sufficient to pay principal and interest with respect to the Certificates, to the extent of amounts available under the Reserve Policy up to the Policy Limit (as such term is defined in the Reserve Policy). See also Appendix A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions" and "—The Trust Agreement – Reserve Fund" herein.

**Additional Payments**

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

**Insurance**

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

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

## ESTIMATED SOURCES AND USES OF PROCEEDS

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

| | Total |
|---|---|
| **Sources** | |
| Principal Amount | $15,205,000.00 |
| Plus Net Original Issue Premium | 504,789.50 |
| Total | $15,709,789.50 |
| **Uses** | |
| Building Fund[(1)] | $15,000,000.00 |
| Lease Payment Fund | 296,499.38 |
| Delivery Costs[(2)] | 413,290.12 |
| Total | $15,709,789.50 |

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

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

## RISK FACTORS

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

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

### General Considerations - Security for the Certificates

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

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

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

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

**Extraordinary Prepayment from Net Proceeds**

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

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

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

**Abatement**

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

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

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

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

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

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

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

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

**Other Limitations on Liability**

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

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

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

**No Acceleration Upon Default**

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

**Limited Recourse on Default**

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

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

**Substitution of Property**

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

**Risks Relating to Bond Insurance**

In the event that the District defaults in the payment of principal or interest with respect to the Certificates when due, the Owners will have a claim under the Policy obtained in connection with the Certificates. In the event that AGM becomes obligated to make payments with respect to the Certificates, no assurance can be given that such event will not adversely affect the market for the Certificates. In the event that AGM is unable to make payments of principal or interest with respect to the Certificates when due under the Policy, the Certificates will be payable solely as described herein. See "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES."

Neither the District nor the Underwriter will make an independent investigation of the claims paying ability of AGM, and no assurance or representation regarding the financial strength or projected financial strength thereof is being made by the District or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the Certificates, potential investors should carefully consider the ability of the District to pay principal and interest with respect to the Certificates, assuming that the Policy is not available, and the claims-paying ability of AGM through final maturity of the Certificates.

**Property Values**

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

The District previously commissioned and received an appraisal of all its school sites, including the Property. This appraisal was conducted in 2015, using a replacement cost approach. The appraisal concluded that replacement value of the Property was approximately $35.9 million. The appraisal excluded, among other things, assets of intangible nature, personal and leased property, and the value of the real property comprising the site of the Property. The appraisal was based upon a variety of assumptions and limiting conditions, and no representation can be made that a more recent appraisal would reach similar conclusions regarding the replacement cost of the Property. The estimates of value included herein (see "THE PROPERTY") are opinions of the District as of the date the Property was last insured.

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

## THE CORPORATION

The Public Property Financing Corporation of California, a nonprofit public benefit corporation, was incorporated on April 18, 1991 pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code). The Corporation was organized for the primary purpose of providing financial assistance to school districts and other public agencies in the State by acquiring, constructing, improving and financing various facilities, land and equipment, and by leasing facilities, land and equipment for the use of such public agencies. The Corporation's principal place of business is located at 23945 Calabasas Road, Suite 103, Calabasas, California 91302.

## DISTRICT FINANCIAL MATTERS

### State Funding of Education

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

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

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

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

| Fiscal Year | Average Daily Attendance[(1)] | Base Revenue Limit Per ADA[(2)] | Deficit Revenue Limit Per ADA[(2)] |
|---|---|---|---|
| 2008-09 | 6,227 | $6,136 | $5,655 |
| 2009-10 | 5,916 | 6,398 | 5,224 |
| 2010-11 | 5,683 | 6,373 | 5,229 |
| 2011-12 | 5,665 | 6,516 | 5,174 |
| 2012-13 | 5,591 | 6,728 | 5,230 |

Note: All numbers are rounded to the nearest whole.
(1) Reflects ADA as of the second principal reporting period ("P-2 ADA"), which ends on or before the last attendance month prior to April 15 of each school year. An attendance month is equal to each four-week period of instruction beginning with the first day of school for a particular school district.
(2) Deficit revenue limit funding, when provided for in State budgetary legislation, reduced the revenue limit allocations received by school districts by applying a deficit factor to the base revenue limit for the given fiscal year, and resulted from an insufficiency of appropriation funds in the State budget to provide for State aid owed to school districts. The State's practice of deficit revenue limit funding was most recently reinstated beginning in fiscal year 2008-09, and discontinued following the implementation of the LCFF (as defined herein).
*Source: Barstow Unified School District.*

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

The primary component of AB 97, as amended by SB 91, is the implementation of the Local Control Funding Formula ("LCFF"), which replaced the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations are now

provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Full implementation of the LCFF occurred over the course of several fiscal years, during which an annual transition adjustment was calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts had the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

The Base Grants per unit of ADA for each grade span are as follows: (i) $6,845 for grades K-3; (ii) $6,947 for grades 4-6; (iii) $7,154 for grades 7-8; and (iv) $8,289 for grades 9-12. Beginning in fiscal year 2013-14, and in each subsequent year, the Base Grants were adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. Beginning in fiscal year 2019-20, the first fiscal year following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels. See also "—State Budget Measures" for information on the adjusted Base Grants provided by current State budgetary legislation.

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

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

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

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

| | Average Daily Attendance[1] | | | | | Enrollment[2] | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | K-3 | 4-6 | 7-8 | 9-12 | Total ADA | Total Enrollment | % of EL/LI Enrollment[3] |
| 2012-13 | 2,018 | 1,284 | 737 | 1,532 | 5,571 | 5,929 | 75.08% |
| 2013-14 | 2,039 | 1,292 | 723 | 1,472 | 5,527 | 5,783 | 76.97 |
| 2014-15 | 2,004 | 1,148 | 987 | 1,455 | 5,593 | 5,920 | 78.69 |
| 2015-16 | 2,056 | 1,424 | 756 | 1,431 | 5,668 | 6,024 | 78.96 |
| 2016-17 | 2,113 | 1,449 | 804 | 1,408 | 5,775 | 6,154 | 79.50 |
| 2017-18 | 2,117 | 1,472 | 876 | 1,387 | 5,852 | 6,226 | 80.19 |
| 2018-19[4] | 2,117 | 1,472 | 876 | 1,387 | 5,852 | 6,280 | 78.96 |

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

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

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

(4) Budgeted.

*Source: Barstow Unified School District.*

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

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

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

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

***Accountability.*** The State Board of Education has promulgated regulations regarding the expenditure of supplemental and concentration funding, including a a requirement that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such districts on the basis of the number and concentration of such EL/LI students, as well as the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

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

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

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

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

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

**Other Revenue Sources**

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

***Developer Fees.*** The District currently collects impact fees on residential development to finance essential school facilities within the District. Residential development is assessed a fee of $3.36 per square foot. The District maintains a fund, separate and apart from the General Fund to account for developer fees collected by the District. State law requires that developer fees be spent only the construction or reconstruction of school facilities to accommodate growths in enrollment. The following table of developer fee revenues reflects the collection of fees from fiscal year 2012-13 through 2017-18 and a budgeted amount for fiscal year 2018-19.

**DEVELOPER FEES**
**Fiscal Years 2012-13 through 2018-19**
**Barstow Unified School District**

| Year | Total Revenues |
|---|---|
| 2012-13 | $826,881.15 |
| 2013-14 | -- |
| 2014-15 | 10,559.11 |
| 2015-16 | 137,839.93 |
| 2016-17 | 12,171.60 |
| 2017-18 | 71,159.09 |
| 2018-19[(1)] | 45,000.00 |

(1) Budgeted.
*Source: Barstow Unified School District.*

***Tax Offset Revenues and Pass-Through Revenues***. The District receives tax offset revenue from the County as a part of certain redevelopment projects within the boundaries of the District (the "Tax Offset Revenues"). The Tax Offset Revenues received by the District are deposited directly into the District's general fund and are offset against the State apportionment received by the District. The District also previously received pass-through tax increment revenue (the "Pass-Through Revenues") from the successors to the redevelopment agencies formerly within the District's boundaries. The Pass-Through Revenues do not offset State apportionment received by the District and are deposited into the general fund. The amount of Tax Offset Revenues and Pass-Through Revenues received by the District from fiscal years 2011-12 through 2017-18 and a budgeted amount for fiscal year 2018-19 are shown in the following table.

**TAX OFFSET REVENUES AND PASS-THROUGH REVENUES**
**Fiscal Years 2011-12 through 2018-19**
**Barstow Unified School District**

| Fiscal Year | Tax Offset Revenues | Pass-Through Revenues | Total |
|---|---|---|---|
| 2011-12 | $134,278.15 | $102,543.97 | $236,822.12 |
| 2012-13 | 20,221.32 | 15,442.37 | 35,663.69 |
| 2013-14 | 170,403.16 | 130,131.54 | 300,534.70 |
| 2014-15 | 114,275.54 | 87,268.61 | 201,544.15 |
| 2015-16 | 147,390.58 | 93,399.21 | 240,789.79 |
| 2016-17 | 142,372.39 | 104,238.64 | 246,611.03 |
| 2017-18 | 148,559.00 | 202,497.56 | 351,056.56 |
| 2018-19[(1)] | 148,559.00 | -- | 148,559.00 |

(1) Budgeted.
*Source: Barstow Unified School District.*

## State Budget Measures

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

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

To protect against potential future economic recessions, the 2018-19 Budget fully funds the BSA with a total deposit of over $4.4 billion, including a $2.6 billion optional deposit in addition to the Constitutionally-required deposit, and adds two additional reserves to State law: the Safety Net Reserve Fund, intended to save money specifically for future expenditures of the CalWORKs and Medi-Cal programs; and the Budget Deficit Savings Account, which for 2018-19 will temporarily hold the $2.6 billion optional BSA deposit until May 2019. In May 2019, the optional BSA deposit amount will be adjusted as necessary to reflect updated estimates of revenues, at which point it will be transferred to the BSA. The projected ending balance in the BSA at the end of the 2018-19 fiscal year is expected to equal the BSA's current constitutional maximum of 10 percent of the estimated general fund revenues for fiscal year 2018-19.

For fiscal year 2017-18, the 2018-19 Budget projects total general fund revenues and transfers of $129.8 billion and total expenditures of $127.0 billion. The State is projected to end the 2017-18 fiscal

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

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

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

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

- *Local Control Funding Formula* – An increase of $3.7 billion in Proposition 98 funding to fully implement the LCFF, reaching the target funding targets and funding the statutory 2.71% COLA to the adjusted Base Grants for the prior year. Additionally, the 2018-19 Budget provides nearly an extra 1 percentage point increase in the LCFF rates.

- *Low-Performing Students Block Grant* – $300 million in one-time Proposition 98 funding to provide resources to local education agencies to help certain low-performing students, with funding allocated to local education agencies based on the count of students who did not meet statewide standards in spring 2018 on assessments of reading and math and who are not foster youth, low-income students, English learners, or students with disabilities.

- *State System of Support* – An increase of $54 million in Proposition 98 funding for county offices of education to provide technical assistance to low-performing local educational agencies.

- *California Collaborative for Educational Excellence* – $12 million in ongoing Proposition 98 funding for the California Collaborative for Educational Excellence (the "Collaborative") to assist county offices of education and regional lead agencies. Additionally, the 2018-19 Budget re-appropriates $5.6 million from prior-year one-time Proposition 98 appropriations for use by the Collaborative for additional statewide trainings and technical assistance.

- *Special Education Local Plan Area (SELPA) Technical Assistance* – $10 million in Proposition 98 funding for up to ten SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance within the Statewide system of support.

- *Career Technical Education (CTE)* – $164 million in ongoing Proposition 98 funding to create a new K-12 CTE program funded through the Strong Workforce Program, which is administrated by California Community College Chancellor's Office, in consultation with the State Department of Education, as well as $150 million in ongoing Proposition 98 funding to make permanent the State's Career Technical Education Incentive Grant Program.

- *One-Time Discretionary Funding* – An increase of $1.1 billion in one-time Proposition 98 funding for school districts, charter schools and county offices of education to use at local discretion. Similar to features included in prior State budgets, these funds would offset any applicable mandate reimbursement claims for these entities.

- *Special Education, Bilingual, and STEM Teachers* – $75 million in one-time Proposition 98 funding to start new or expand existing teacher residency programs with $50 million earmarked for special education teachers and $25 million earmarked for bilingual and STEM teachers; and $50 million in one-time Proposition 98 funding to provide one-time competitive grants to local educational agencies to fund new or existing local efforts to recruit and retain special education teachers.

- *Classified School Employee Summer Assistance Program* – $50 million one-time Proposition 98 funding to provide state matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the 2019-20 school year, supplemented by State funding, and paid during the summer recess period.

- *Classified School Employee Professional Development Block Grant Program* – $50 million one-time Proposition 98 funding for professional development opportunities for classified staff, with a priority on professional development for the implementation of school safety plans.

- *Federal Funds for Academic Enrichment* – $165 million one-time federal ESSA Title IV funding for academic enrichment, with $121 million of such funds distributed to local education agencies based on their share of existing Title I funding, and the remainder distributed competitively.

- *Charter School Facility Grant Program* – $21 million one-time and $25 million ongoing Proposition 98 funding to reflect increases in programmatic costs.

- *Kids Code After School Program* – $15 million one-time Proposition 98 funding to fund the inclusion of computer coding in after-school curriculum.

- *Kindergarten Facilities* – $100 million one-time non-Proposition 98 general fund funding to help school districts cover facility costs associated with converting their part-day kindergarten programs into full-day programs.

- *Proposition 51* – a total allocation of $594 million in Proposition 51 bond funds for K-12 school facility projects.

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

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

**Investment of District Funds**

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

**Accounting Practices**

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

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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

**Comparative Financial Statements**

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The

District's audited financial statements for the year ended June 30, 2017 are included for reference in Appendix C hereto. The table on the following page shows a summary of the District's audited general fund revenues, expenditures and changes in fund balance for fiscal years 2012-13 through 2016-17.

**AUDITED GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES[(1)]**
**Fiscal Years 2012-13 through 2016-17**
**Barstow Unified School District**

| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Revenue limit sources/LCFF sources[(2)] | | | | | |
| State aid | $30,262,927 | $37,747,473 | $43,180,920 | $50,697,477 | $54,615,028 |
| Federal sources | 4,142,647 | 3,218,928 | 2,379,552 | 3,821,789 | 4,916,227 |
| Other State sources | 8,328,478 | 3,948,010 | 3,208,231 | 6,645,972 | 4,928,304 |
| Other local sources | 2,437,546 | 3,213,562 | 6,022,471 | 2,695,910 | 1,800,000 |
| **Total Revenues** | 45,171,598 | 48,127,973 | 54,791,174 | 63,861,148 | 66,259,559 |
| **EXPENDITURES** | | | | | |
| Current | | | | | |
| Instruction | 28,985,754 | 29,798,511 | 29,867,323 | 33,911,339 | 38,275,429 |
| Instruction-related services | | | | | |
| Instructional supervision and administration | 986,119 | 939,072 | 824,614 | 1,030,580 | 1,377,579 |
| Instructional library, media and technology | 390,686 | 389,591 | 393,429 | 419,458 | 602,065 |
| School site administration | 3,789,072 | 3,581,119 | 4,001,289 | 4,524,215 | 4,808,512 |
| Pupil services | | | | | |
| Home-to-school transportation | 2,298,654 | 2,259,514 | 2,645,422 | 2,614,203 | 2,818,054 |
| Food services | 485 | 5,567 | -- | 172 | 5,954 |
| All other pupil services | 1,916,940 | 1,732,128 | 1,942,741 | 2,085,938 | 2,220,569 |
| General administration | | | | | |
| Centralized data processing | 651,339 | 702,337 | 1,009,658 | 805,657 | 1,337,650 |
| All other general administration | 2,254,703 | 2,550,983 | 2,469,517 | 2,462,297 | 2,887,244 |
| Plant services | 5,973,942 | 5,997,730 | 6,242,245 | 6,539,475 | 6,551,356 |
| Facility acquisition and maintenance | 66,403 | 8,211 | 3,872 | 3,868 | 58,369 |
| Transfers to other agencies | 6,940 | 112,631 | 124,177 | 158,774 | 180,574 |
| Debt service | | | | | |
| Principal | 87,483 | 91,601 | 95,913 | 15,078 | -- |
| Interest and other | 11,377 | 70,051 | 2,889 | 2,166 | -- |
| **Total Expenditures** | 47,419,897 | 48,239,046 | 49,623,089 | 54,573,220 | 61,123,355 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (2,248,299) | (111,073) | 5,168,085 | 9,287,928 | 5,136,204 |
| **Other Financing Sources (Uses):** | | | | | |
| Transfers in | 39,689 | -- | -- | -- | -- |
| Other sources | -- | -- | -- | -- | -- |
| Transfers out | -- | -- | (3,880,999) | (2,000,000) | (2,000,000) |
| Other uses | -- | -- | -- | -- | -- |
| **Net Financing Sources (Uses)** | 39,689 | -- | (3,880,999) | (2,000,000) | (2,000,000) |
| **NET CHANGE IN FUND BALANCES** | (2,208,610) | (111,073) | 1,287,086 | 7,287,928 | 3,136,204 |
| **Fund Balance - Beginning** | 11,479,210 | 9,270,600 | 9,159,527 | 10,446,613 | 17,734,541 |
| **Fund Balance - Ending** | $9,270,600 | $9,159,527 | $10,446,613 | $17,734,541 | $20,870,745 |

(1) From the District's comprehensive audited financial statements for fiscal years 2012-13 through 2016-17, respectively. Reflects restricted and unrestricted general fund activity, as well as the activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits, pursuant to the fund type definitions promulgated by GASB Statement No. 54. All amounts rounded to nearest whole number.

(2) Prior to fiscal year 2013-14, reflects revenue limit sources. Beginning in fiscal year 2013-14, reflects LCFF sources. See "-State Funding of Education" herein.

*Source: Barstow Unified School District*

**Budget Process**

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

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

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

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

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

***General Fund Budgeting.*** The table on the following page show the District's general fund adopted budgets for the years 2014-15 through 2018-19, audited general fund results for the fiscal years 2014-15 through 2016-17, and unaudited ending results for the fiscal year 2017-18.

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## GENERAL FUND BUDGETING[1][5]
## Fiscal Years 2014-15 through 2018-19
## Barstow Unified School District

| | Fiscal Year 2014-15 | | Fiscal Year 2015-16 | | Fiscal Year 2016-17 | | Fiscal Year 2017-18 | | Fiscal Year 2018-19 |
|---|---|---|---|---|---|---|---|---|---|
| | Budgeted[2] | Audited[2] | Budgeted[2] | Audited[2] | Budgeted[2] | Audited[2] | Budgeted[3] | Unaudited Actuals[4] | Budgeted[5] |
| **REVENUES** | | | | | | | | | |
| LCFF/Revenue Limit Sources | $41,944,964 | $43,180,920 | $49,899,562 | $50,697,477 | $53,542,966 | $54,615,028 | $57,084,469 | $56,870,386 | $61,738,097 |
| Federal Sources | 3,105,138 | 2,379,552 | 3,467,093 | 3,821,789 | 3,469,076 | 4,916,227 | 4,196,895 | 5,202,798 | 5,231,124 |
| Other State Sources | 1,707,201 | 3,208,231 | 5,043,555 | 6,645,972 | 2,872,581 | 4,928,304 | 4,414,501 | 6,152,554 | 4,595,862 |
| Other Local Sources | 2,878,084 | 6,019,037 | 2,226,596 | 2,679,766 | 1,412,806 | 1,762,890 | 1,234,935 | 1,661,787 | 747,447 |
| **Total Revenues** | 49,635,387 | 54,787,740 | 60,636,806 | 63,845,004 | 61,297,429 | 66,222,449 | 66,930,800 | 69,887,525 | 72,312,530 |
| **EXPENDITURES** | | | | | | | | | |
| Current: | | | | | | | | | |
| Certificated Salaries | 21,194,993 | 20,209,493 | 22,906,422 | 21,910,018 | 22,540,666 | 23,332,101 | 26,839,197 | 25,305,530 | 28,606,982 |
| Classified Salaries | 8,074,774 | 8,251,664 | 8,531,557 | 8,924,026 | 9,134,684 | 9,384,807 | 10,555,470 | 10,499,929 | 11,487,607 |
| Employee Benefits | 9,798,169 | 9,720,709 | 10,283,641 | 11,996,423 | 11,905,544 | 12,940,288 | 16,539,902 | 14,873,680 | 17,847,567 |
| Books & Supplies | 2,331,801 | 2,465,686 | 3,813,445 | 2,902,707 | 4,073,721 | 5,469,235 | 4,791,844 | 3,463,891 | 4,458,935 |
| Services & Operating Expenditures | 8,346,022 | 8,867,462 | 10,791,739 | 8,737,532 | 10,652,647 | 9,956,350 | 10,801,121 | 10,994,569 | 10,438,817 |
| Capital Outlay | 9,553 | 15,096 | 12,000 | 45,496 | 62,000 | -- | -- | 35,341 | 100,000 |
| Other Outgo | 117,940 | 222,979 | 314,089 | 176,018 | 314,089 | 180,574 | 178,106 | 182,216 | 250,000 |
| Transfers of Indirect Costs | (100,000) | (130,000) | (100,000) | (119,000) | (122,500) | (140,000) | (165,000) | (130,000) | (139,000) |
| **Total Expenditures** | 49,773,252 | 49,623,089 | 56,552,893 | 54,573,220 | 58,560,851 | 61,123,355 | 69,540,640 | 65,225,155 | 73,050,908 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (137,865) | 5,164,651 | 4,083,913 | 9,271,784 | 2,736,578 | 5,099,094 | (2,609,840) | 4,662,369 | (738,378) |
| **Other Financing Sources (Uses)** | | | | | | | | | |
| Transfers In | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Transfers Out | -- | (5,140,999) | (3,300,000) | (4,700,000) | (2,000,000) | (3,400,000) | -- | (4,937,327) | (3,300,000) |
| Other Sources | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Other Uses | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Contributions | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| **Net Financing Sources (Uses)** | -- | (5,140,999) | (3,300,000) | (4,700,000) | (2,000,000) | (3,400,000) | -- | (4,937,327) | (3,300,000) |
| **Net Change in Fund Balance** | (137,865) | 23,652 | 783,913 | 4,571,784 | 736,578 | 1,699,094 | (2,609,840) | (274,958) | (4,038,378) |
| **Fund Balance – Beginning** | 7,466,817[6] | 8,287,769 | 9,652,713[6] | 8,311,421 | 8,991,139[6] | 12,883,206 | 13,049,376[6] | 14,582,301 | 14,766,152 |
| **Fund Balance - Ending** | $7,328,952 | $8,311,421 | $10,436,626 | $12,883,205 | $9,727,717 | $14,582,300 | $10,439,536 | $14,307,343 | $10,727,774 |

[1] Reflects combined unrestricted and restricted general fund. All amounts rounded to nearest whole number.
[2] From the District's audited financial statements for fiscal years 2013-14 through 2016-17, respectively.
[3] From the District's fiscal year 2017-18 Second Interim Report.
[4] From the District's unaudited actuals for fiscal year 2017-18.
[5] Reflects the District's adopted budget for fiscal year 2018-19, developed prior to the close of the prior fiscal year's books.
[6] Does not agree with the figures presented under "-Comparative Financial Statements", herein, because the amounts presented in such section include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

*Source: Barstow Unified School District.*

## District Debt Structure

***Long-Term Obligations.*** A schedule of changes in long-term debt for the year ended June 30, 2017, is shown below:

**SCHEDULE OF LONG TERM DEBT**
**As of June 30, 2017**
**Barstow Unified School District**

| | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| General obligation bonds | $12,459,459 | $298,682 | $585,000 | $12,173,141 |
| Capital leases | -- | -- | -- | -- |
| Compensated absences | 695,996 | 94,463 | -- | 790,459 |
| Net pension liability[(1)] | 38,871,045 | 9,126,949 | -- | 47,997,994 |
| **Total** | $52,026,500 | $9,520,094 | $585,000 | $60,961,594 |

[(1)] See "BARSTOW UNIFIED SCHOOL DISTRICT – District Retirement Systems - GASB Statement Nos. 67 and 68" herein.

*Source: Barstow Unified School District.*

***General Obligation Bonds.*** The District has previously issued general obligation bonds pursuant to two voter-approved authorizations, as well as two issuances of general obligation refunding bonds to refinance then-outstanding portions of prior bonds. District general obligation bonds are payable solely from the levy of *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to levy such *ad valorem* property taxes upon all property within the District subject to taxation thereby, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates). The District's general fund is not a source of repayment for such bonds.

The following table summarizes the prior outstanding general obligation bond issuances of the District.

**SUMMARY OF OUTSTANDING BONDED DEBT**
**Barstow Unified School District**

| Issuance | Initial Principal Amount | Principal Currently Outstanding[(1)] | Date of Delivery |
|---|---|---|---|
| Election of 2001, Series B | $5,961,852.75 | $1,941,853.75 | July 14, 2004 |
| 2011 Refunding Bonds | 5,275,000.00 | 3,595,000.00 | December 15, 2011 |
| 2013 Refunding Bonds | 3,585,000.00 | 2,740,000.00 | May 17, 2013 |
| Election of 2016, Series A | 15,000,000.00 | 15,000,000.00 | October 18, 2016 |
| Election of 2016, Series B | 12,995,504.95 | 12,995,504.95 | October 30, 2018 |

[(1)] As of November 1, 2018.

The table on the following page shows the combined debt service schedule with respect to the District's total outstanding general obligation bonded debt, assuming no optional redemptions are made.

**COMBINED GENERAL OBLIGATION BONDED INDEBTEDNESS**
**Barstow Unified School District**

| Year Ending August 1 | 2001 Series B Bonds | 2011 Refunding Bonds | 2013 Refunding Bonds | 2016 Series A Bonds | 2016 Series B Bonds | Total Annual Debt Service |
|---|---|---|---|---|---|---|
| 2019 | -- | $548,015.00 | $328,500.00 | $683,846.26 | $403,956.11 | $1,964,317.37 |
| 2020 | -- | 547,660.00 | 342,000.00 | 678,846.26 | 517,700.00 | 2,086,206.26 |
| 2021 | -- | 521,750.00 | 370,000.00 | 576,846.26 | 465,200.00 | 1,933,796.26 |
| 2022 | -- | 521,210.00 | 382,125.00 | 576,846.26 | 510,200.00 | 1,990,381.26 |
| 2023 | -- | 520,115.00 | 403,750.00 | 596,846.26 | 532,950.00 | 2,053,661.26 |
| 2024 | -- | 523,465.00 | 409,625.00 | 621,446.26 | 554,450.00 | 2,108,986.26 |
| 2025 | --- | 521,075.00 | 415,125.00 | 645,546.26 | 579,700.00 | 2,161,446.26 |
| 2026 | -- | 508,130.00 | 420,250.00 | 674,146.26 | 598,450.00 | 2,200,976.26 |
| 2027 | $1,000,000.00 | -- | -- | 699,146.26 | 625,950.00 | 2,325,096.26 |
| 2028 | 1,000,000.00 | -- | -- | 727,646.26 | 646,700.00 | 2,374,346.26 |
| 2029 | 1,000,000.00 | -- | -- | 759,396.26 | 670,950.00 | 2,430,346.26 |
| 2030 | 1,025,000.00 | -- | -- | 789,146.26 | 700,950.00 | 2,515,096.26 |
| 2031 | 1,025,000.00 | -- | -- | 821,896.26 | 725,950.00 | 2,572,846.26 |
| 2032 | 1,025,000.00 | -- | -- | 852,396.26 | 760,950.00 | 2,638,346.26 |
| 2033 | 1,050,000.00 | -- | -- | 885,646.26 | 790,950.00 | 2,726,596.26 |
| 2034 | 1,050,000.00 | -- | -- | 921,396.26 | 820,950.00 | 2,792,346.26 |
| 2035 | 1,050,000.00 | -- | -- | 959,396.26 | 850,950.00 | 2,860,346.26 |
| 2036 | 1,075,000.00 | -- | -- | 994,396.26 | 890,950.00 | 2,960,346.26 |
| 2037 | 1,075,000.00 | -- | -- | 1,036,396.26 | 920,950.00 | 3,032,346.26 |
| 2038 | 1,075,000.00 | -- | -- | 1,079,896.26 | 955,950.00 | 3,110,846.26 |
| 2039 | -- | -- | -- | 1,119,646.26 | 997,950.00 | 2,117,596.26 |
| 2040 | -- | -- | -- | 1,163,906.26 | 1,037,950.00 | 2,201,856.26 |
| 2041 | -- | -- | -- | 1,215,218.76 | 1,077,950.00 | 2,293,168.76 |
| 2042 | -- | -- | -- | 1,263,831.26 | 1,117,950.00 | 2,381,781.26 |
| 2043 | -- | -- | -- | 1,309,743.76 | 1,170,450.00 | 2,480,193.76 |
| 2044 | -- | -- | -- | 1,362,956.26 | 1,213,450.00 | 2,576,406.26 |
| 2045 | -- | -- | -- | 1,418,131.26 | 1,262,200.00 | 2,680,331.26 |
| 2046 | -- | -- | -- | 1,475,100.00 | 1,311,400.00 | 2,786,500.00 |
| 2047 | -- | -- | -- | 1,536,975.00 | 1,362,000.00 | 2,898,975.00 |
| 2048 | -- | -- | -- | -- | 2,828,800.00 | 2,828,800.00 |
| Total | $12,450,000.00 | $4,211,420.00 | $3,071,375.00 | $27,446,634.02 | $26,904,856.11 | $74,084,285.13 |

*Source: Barstow Unified School District*

### *Ad Valorem* Property Taxation

District property taxes are assessed and collected by the County at the same time and on the same tax rolls as County, city and special district taxes. Assessed valuations are the same for both District and County taxing purposes.

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." A supplemental roll is developed when property changes hands or new construction is completed. Each county levies and collects all property taxes for property falling within that county's taxing boundaries.

The valuation of secured property is established as of January 1 and is subsequently equalized in August. Property taxes are payable in two installments, due November 1 and February 1 respectively and become delinquent on December 10 and April 10 respectively. A 10% penalty attaches to any delinquent installment, plus a minimum $10 cost on the second installment, plus any additional amount determined by the county treasurer-tax collector. Property on the secured roll with delinquent taxes is declared tax-defaulted on or about June 30 of the calendar year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a $15 redemption fee and a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the tax-collecting authority of the relevant county.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if they are not paid by August 31. In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien may be recorded against the assesse. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the assesse; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on specific property of the assesse; (3) filing a certificate of delinquency for record in the county recorder's office in order to obtain a lien on specified property of the assesse; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assesse. See also "—Secured Tax Charges and Delinquencies" herein.

State law exempts from taxation $7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

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

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies, including school districts, will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

## Assessed Valuations

The following table represents a ten-year history of assessed valuations in the District, as of the date the equalized assessment tax roll is established in August at each year, together with a preliminary assessed valuation for fiscal year 2018-19.

**ASSESSED VALUATIONS**
**Fiscal Years 2008-09 through 2018-19**
**Barstow Unified School District**

| | Local Secured | Utility | Unsecured | Total |
|---|---|---|---|---|
| 2008-09 | $1,914,924,825 | $3,072,036 | $142,980,509 | $2,060,977,370 |
| 2009-10 | 1,949,969,505 | 2,956,991 | 150,570,431 | 2,103,496,927 |
| 2010-11 | 1,842,231,530 | 2,992,098 | 144,253,554 | 1,989,477,182 |
| 2011-12 | 1,795,161,158 | 3,008,097 | 157,841,616 | 1,956,010,871 |
| 2012-13 | 1,750,882,060 | 2,991,348 | 165,213,327 | 1,919,086,735 |
| 2013-14 | 1,628,787,982 | 1,505,349 | 230,054,938 | 1,860,348,269 |
| 2014-15 | 1,616,392,257 | 29,565,856 | 188,634,268 | 1,834,592,381 |
| 2015-16 | 1,656,701,088 | 42,765,699 | 282,332,773 | 1,981,799,560 |
| 2016-17 | 1,688,551,344 | 46,226,733 | 276,701,002 | 2,011,479,079 |
| 2017-18 | 1,790,278,096 | 47,512,917 | 271,989,380 | 2,109,780,393 |
| 2018-19 | 1,914,459,153 | 47,868,516 | 198,110,456 | 2,160,438,125 |

*Source: California Municipal Statistics, Inc.*

Economic and other factors beyond the District's control, such as general market decline in property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, fire, drought, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District.

## Alternative Method of Tax Apportionment

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special assessment districts which provide for accelerated judicial foreclosure of property for which assessments are delinquent.

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

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences

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

**Statement of Direct and Overlapping Debt**

Set forth on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. effective as of November 8, 2018 for debt outstanding as of November 1, 2018. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. The table also shows the corresponding portion of the overlapping entity's existing debt payable from property taxes levied within the District. The total amount of debt for each overlapping entity is not given in the table.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**
**Barstow Unified School District**

**2018-19 Assessed Valuation:** $2,160,438,125

| **DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:** | **% Applicable** | **Debt 11/1/18** |
|---|---|---|
| Barstow Unified School District | 100.000% | $36,272,358 |
| Mojave Water Agency | 6.073 | 383,206 |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | $36,655,564 |
| **OVERLAPPING GENERAL FUND DEBT:**[(1)] | | |
| San Bernardino County General Fund Obligations | 0.971% | $3,254,355 |
| San Bernardino County Pension Obligation Bonds | 0.971 | 2,804,503 |
| San Bernardino County Flood Control District General Fund Obligations | 0.971 | 609,982 |
| TOTAL OVERLAPPING GENERAL FUND DEBT | | $6,668,840 |
| **OVERLAPPING TAX INCREMENT DEBT (Successor Agency):** | | $3,060,000 |
| COMBINED TOTAL DEBT | | $46,384,404[(2)] |

**Ratios to 2018-19 Assessed Valuation:**

| | |
|---|---|
| **Direct Debt ($36,272,358)** | **1.68%** |
| Total Direct and Overlapping Tax and Assessment Debt | 1.70% |
| Combined Total Debt | 2.15% |

**Ratio to Redevelopment Incremental Valuation ($552,015,028):**

| | |
|---|---|
| Total Overlapping Tax Increment Debt | 0.55% |

(1) Excludes the Certificates.

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

*Source: California Municipal Statistics, Inc.*

## BARSTOW UNIFIED SCHOOL DISTRICT

### Introduction

The District was established on July 1, 1885, as the Waterman Elementary District. The Barstow Unified School District was created on July 1, 1966. The District is located in the County of San Bernardino, California, and serves a population of approximately 29,041 residents. The District operates six elementary schools, one junior high school, one intermediate school, one comprehensive high school, one continuation high school and one adult education school. For fiscal year 2018-19, the District has budgeted an ADA of 5,792 students and an enrollment of 6,280 students.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of subsequent audited financial reports of the District may be obtained by contacting: Barstow Unified School District, Attention: Superintendent, 551 South Avenue H, Barstow, California 92311.

### Administration

The District is governed by a five-member Board, each member of which is elected to a four-year term. Elections for positions on the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their offices and the dates their terms expire, are listed below:

**BOARD OF EDUCATION**
**Barstow Unified School District**

| Name | Office | Term Expires |
|---|---|---|
| Julie Clemmer | President | December, 2020 |
| Barbara Rose | Vice President | December, 2020 |
| Ben Rosenberg | Clerk | December, 2018[(1)] |
| Kris Okamuro | Member | December, 2020 |
| Ray Perea | Member | December, 2018[(1)] |

(1) At the November 6, 2018 general election, Trustees Rosenberg and Perea ran unopposed and were each re-elected to new, four-year terms on the Board. They are expected to begin those terms starting at the December 2018 meeting of the Board.

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. Brief biographies of the Superintendent and the Business Manager/Chief Business Official follow:

***Jeff Malan, Superintendent.*** Mr. Malan has served as the District's Superintendent since November 2011. Mr. Malan has been an employee of the District since August 1990, serving as the Assistant Superintendent of Personnel Services for three years, Director Technology & Information Services for three years, Principal at Barstow Junior High School and Barstow Middle School for six years, Assistant Principal at Barstow Middle School for three years, and a teacher of Language Arts/Social Studies & Physical Education for seven years. Mr. Malan holds a Master of Arts Degree from California State University San Bernardino in Educational Administration, and a Bachelor of Arts Degree in Education from Western New Mexico University.

***Reyna Garcia, Business Manager/Chief Business Official.*** Mrs. Garcia was appointed to serve as the Business Manager/Chief Business Official in June 2017. Mrs. Garcia began her career with the District in October 2013 as the Director of Fiscal Services. Prior to joining the District, Mrs. Garcia

worked for San Bernardino Service office as a Tax Accountant, preparing and auditing personal and corporate taxes as well as serving as the Business Manager for the organization. Mrs. Garcia holds Bachelors in Business Administration and Master in Accountancy from University of Phoenix and Chief Business Official Certification from University of California Riverside.

## Charter Schools

The State Legislature enacted the Charter Schools Act of 1992 (California Education Code Sections 47600-47616.5) to permit teachers, parents, students, and community members to establish schools that would be free from most state and district regulations. Revised in 1998, the State's charter school law states that local boards are the primary charter approving agency and that county panels can appeal a denied charter. State education standards apply, and charter schools are required to use the same student assessment instruments. The charter school is exempt from state and local education rules and regulations, except as specified in the legislation.

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

There are currently two independent charter schools currently operating within the District. The District can make no representations regarding how many District students will transfer to charter schools in the future or back to the District from the charter schools and the corresponding financial impact on the District.

## Labor Relations

The District currently employs 318 full-time certificated employees and 230 full-time classified employees. In addition, the District employs 142 part-time classified staff. District employees, except for management and hourly/at-will employees, are represented by two employee bargaining units as shown below.

**BARGAINING UNITS**
**Barstow Unified School District**

| Name of Bargaining Unit | Number of Employees Represented | Current Contract Expiration Date |
|---|---|---|
| Barstow Teachers Association | 277 | June 30, 2019 |
| California School Employees Association | 339 | June 30, 2019 |

*Source: Barstow Unified School District.*

**District Retirement Systems**

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

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer nor State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State passed the legislation described below to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by such statutes to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed AB 1469 ("AB 1469") into law as a part of the State's fiscal year 2014-15 budget. AB 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the "2014 Liability"), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing July 1, 2014, the employee contribution rate increased over a three-year phase-in period in accordance with the following schedule:

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

| Effective Date | STRS Members Hired Prior to January 1, 2013 | STRS Members Hired After January 1, 2013 |
|---|---|---|
| July 1, 2014 | 8.150% | 8.150% |
| July 1, 2015 | 9.200 | 8.560 |
| July 1, 2016 | 10.250 | 9.205 |

*Source: AB 1469.*

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

Pursuant to AB 1469, K-14 school districts' contribution rate will increase over a seven-year phase-in period in accordance with the following schedule:

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

| Effective Date | K-14 school districts |
|---|---|
| July 1, 2014 | 8.88% |
| July 1, 2015 | 10.73 |
| July 1, 2016 | 12.58 |
| July 1, 2017 | 14.43 |
| July 1, 2018 | 16.28 |
| July 1, 2019 | 18.13 |
| July 1, 2020 | 19.10 |

*Source: AB 1469.*

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter the STRS Teachers' Retirement Board (the "STRS Board"), is required to increase or decrease the K-14 school districts' contribution rate to reflect the contribution required to eliminate the remaining 2014 Liability by June 30, 2046; provided that the rate cannot change in any fiscal year by more than 1% of creditable compensation upon which members' contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. In addition to the increased contribution rates discussed above, AB 1469 also requires the STRS Board to report to the State Legislature every five years (commencing with a report due on or before July 1, 2019) on the fiscal health of the STRS Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability.

The District's contributions to STRS were $1,571,094 in fiscal year 2013-14, $1,743,770 in fiscal year 2014-15, $2,287,321 in fiscal year 2015-16, $2,845,397 in fiscal year 2016-17, and $5,406,333 (unaudited) in fiscal year 2017-18. The District budgets $7,077,074 for its contribution to STRS for fiscal year 2018-19. The figures above exclude the State's on behalf payments STRS.

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

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

***PERS.*** Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of

retirement plans including the Public Employees Retirement Fund ("PERF"). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2017 included 1,624 public agencies and 1,366 K-14 school districts and charter schools. PERS acts as the common investment and administrative agent for the member agencies. The State and K-14 school districts (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for K-14 school districts throughout the State (the "Schools Pool").

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently required to contribute to PERS at an actuarially determined rate, which is 18.062% of eligible salary expenditures or fiscal year 2018-19. Participants enrolled in PERS prior to January 1, 2013 contribute at a rate established by statute, which is 7% of their respective salaries in fiscal year 2017-18 and fiscal year 2018-19, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 6.5% in fiscal year 2017-18 and will be 7% in fiscal year 2018-19. See "—California Public Employees' Pension Reform Act of 2013" herein.

The District's contributions to PERS were $840,022 in fiscal year 2013-14, $904,043 in fiscal year 2014-15, $977,720 in fiscal year 2015-16, $1,187,190 for fiscal year 2016-17, and $1,492,787 (unaudited) in fiscal year 2017-18. The District budgets $1,866,772 for its contribution to PERS for fiscal year 2018-19.

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

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

**FUNDED STATUS**
**STRS (Defined Benefit Program) and PERS (Schools Pool)**
**(Dollar Amounts in Millions) [1]**
**Fiscal Years 2010-11 through 2016-17**

**STRS**

| Fiscal Year | Accrued Liability | Value of Trust Assets (MVA)[2] | Unfunded Liability (MVA)[2] | Value of Trust Assets (AVA)[3] | Unfunded Liability (AVA)[3] |
|---|---|---|---|---|---|
| 2010-11 | $208,405 | $147,140 | $68,365 | $143,930 | $64,475 |
| 2011-12 | 215,189 | 143,118 | 80,354 | 144,232 | 70,957 |
| 2012-13 | 222,281 | 157,176 | 74,374 | 148,614 | 73,667 |
| 2013-14 | 231,213 | 179,749 | 61,807 | 158,495 | 72,718 |
| 2014-15 | 241,753 | 180,633 | 72,626 | 165,553 | 76,200 |
| 2015-16 | 266,704 | 177,914 | 101,586 | 169,976 | 96,728 |
| 2016-17 | 286,950 | 197,718 | 103,468 | 179,689 | 107,261 |

**PERS**

| Fiscal Year | Accrued Liability | Value of Trust Assets (MVA) | Unfunded Liability (MVA) | Value of Trust Assets (AVA)[3] | Unfunded Liability (AVA)[3] |
|---|---|---|---|---|---|
| 2010-11 | $58,358 | $45,901 | $12,457 | $51,547 | $6,811 |
| 2011-12 | 59,439 | 44,854 | 14,585 | 53,791 | 5,648 |
| 2012-13 | 61,487 | 49,482 | 12,005 | 56,250 | 5,237 |
| 2013-14 | 65,600 | 56,838 | 8,761 | --[4] | --[4] |
| 2014-15 | 73,325 | 56,814 | 16,511 | --[4] | --[4] |
| 2015-16 | 77,544 | 55,785 | 21,759 | --[4] | --[4] |
| 2016-17 | 84,416 | 60,865 | 23,551 | --[4] | --[4] |

(1) Amounts may not add due to rounding.
(2) Reflects market value of assets, including the assets allocated to the SBPA reserve. Since the benefits provided through the SBPA are not a part of the projected benefits included in the actuarial valuations summarized above, the SBPA reserve is subtracted from the STRS Defined Benefit Program assets to arrive at the value of assets available to support benefits included in the respective actuarial valuations.
(3) Reflects actuarial value of assets.
(4) Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets.
*Source: PERS Schools Pool Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.*

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

Based on the change in actuarial assumptions adopted by the STRS Board, including the adoption of a 7% investment rate of return, recent investment experience and the insufficiency of the contributions received in fiscal year 2016-17 to cover interest on the unfunded actuarial obligation, the 2017 STRS Actuarial Valuation reports that the unfunded actuarial obligation increased by $10.6 billion since the June 30, 2016 actuarial valuation and the funded ratio decreased by 1.1% to 62.6% over such time period. As a result, it is currently projected that there will be a need for higher contributions from the State, employers and members in the future to reach full funding by 2046.

According to the 2017 STRS Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with a projected ending funded ratio in fiscal year ending June 30, 2046 of 99.6%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990, for which AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption.

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

On March 14, 2012, the PERS Board voted to lower the PERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "PERS Discount Rate") from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% 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 (defined below) will also see their contribution rates rise.

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

Also, on February 20, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the PERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The new actuarial assumptions were first reflected in the Schools Pool in the June 30, 2015 actuarial valuation. The increase in liability due to the new assumptions will be

amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year 2016-17. The new demographic assumptions affect the State, K-14 school districts and all other public agencies.

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

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

The Schools Pool Actuarial Valuation as of June 30, 2017, reported that, based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with the expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the projected contribution rate for 2019-20 is projected to be 20.7%, with annual increases thereafter, resulting in a projected 25.5% employer contribution rate for fiscal year 2025-26.

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

***California Public Employees' Pension Reform Act of 2013.*** On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the

final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

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

The District's proportionate shares of the net pension liabilities, pension expense, deferred outflow of resources and deferred inflow of resources for STRS and PERS, as of June 30, 2017, are as shown in the following table.

| Pension Plan | Net Pension Liability | Deferred Outflows Related to Pensions | Deferred Inflows Related to Pensions | Pension Expense |
|---|---|---|---|---|
| STRS | $34,433,110 | $8,064,050 | $839,957 | $3,821,668 |
| PERS | 13,564,884 | 3,875,444 | 684,105 | 1,619,737 |
| Total | $47,997,994 | $11,939,494 | $1,524,062 | $5,441,405 |

*Source: Barstow Unified School District.*

For additional information regarding the Statements, see also Appendix C – "2016-17 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 10" herein.

**Other Post-Employment Benefits**

The District does not offer other post-retirement benefits to current or former District employees that are subject to the provisions of Governmental Accounting Standards Board Statements #45, #74 or #75.

**Risk Management**

The District's risk management activities are recorded in the general fund. The District participates in the Southern California Schools Risk Management workers' compensation program and purchases liability insurance through the JPA. The District participates in Schools' Excess Liability Fund public entity risk pool for the purchase of excess liability coverage and Riverside County Employer/Employee Partnership for Benefits (REEP for Benefits) for medical, dental, and vision health care benefits. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING TAXES AND APPROPRIATIONS

**Article XIIIA of the California Constitution**

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

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

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

**Legislation Implementing Article XIIIA**

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

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

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

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

**Unitary Property**

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

**Article XIIIB of the California Constitution**

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

(a) "change in the cost of living" with respect to school districts to mean the percentage change in the State per capita income from the preceding year, and

(b) "change in population" with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

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

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

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

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

Article XIIIB also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See "Propositions 98 and 111" below.

**Article XIIIC and Article XIIID of the California Constitution**

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

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

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by

limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

**Proposition 26**

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

**Propositions 98 and 111**

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

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

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

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

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

a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in State per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIIIB are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over $15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

d. Recalculation of Appropriations Limit. The Article XIIIB appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of

(1) 40.9% of State general fund revenues (the "Test 1") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "Test 2"). Under Proposition 111, schools will receive the greater of (1) Test 1, (2) Test 2, or (3) a third test ("Test 3"), which will replace Test 2 in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in State per capital personal income. Under Test 3, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 will become a "credit" to schools (also referred to as a "maintenance factor") which will be paid in future years when State general fund revenue growth exceeds personal income growth.

**Jarvis v. Connell**

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

**Proposition 1A and Proposition 22**

On November 2, 2004, State voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State can not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation

bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the LAO on July 15, 2010, the reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was expected to be approximately $1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately $1 billion annually for several decades.

**Proposition 55**

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

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

**Proposition 2**

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

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

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

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

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

**Proposition 51**

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

***K-12 School Facilities.*** Proposition 51 includes $3 billion for the new construction of K-12 facilities and an additional $3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school districts lack sufficient local funding, it may apply for additional State grant funding, up to 100% of the project costs. In addition, a total of $1 billion will be available for the modernization and new construction of charter school ($500 million) and technical education ($500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for State loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, State grants are capped at $3 million for a new facility and $1.5 for a modernized facility. Charter schools must be deemed financially sound before project approval.

***Community College Facilities.*** Proposition 51 includes $2 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment. In order to receive funding, community college districts must submit project proposals to the Chancellor of the community college system, who then decides which projects to submit to the Legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and Legislature will select among eligible projects as part of the annual State budget process.

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

**Future Initiatives**

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

## TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Lease Payment constituting interest with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Special Counsel, the portion of each Lease Payment constituting interest with respect to the Certificates is exempt from State of California personal income tax.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated prepayment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. The amount of original issue discount that accrues to the owner of the Certificate is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) on the Certificates is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of each Lease Payment constituting interest (and original issue discount) on the Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Lease Payment constituting interest (and original issue discount) on the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar certificates).

SUBSEQUENT TO THE ISSUANCE OF THE CERTIFICATES THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE CERTIFICATES INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE CERTIFICATES. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE CERTIFICATES. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE CERTIFICATES STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE CERTIFICATES, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE CERTIFICATES.

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

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

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

## CERTAIN LEGAL MATTERS

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

## ENHANCED REPORTING REQUIREMENTS

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to/ file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

## FINANCIAL STATEMENTS

The financial statements with supplemental information for the year ended June 30, 2017, the independent auditor's report of the District, and the related statements of activities and of cash flows for the year then ended, and the report of Christy White & Associates (the "Auditor"), are included in this Official Statement as Appendix C. In connection with the inclusion of the financial statements and the report of the Auditor thereon in this Official Statement, the District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

## CONTINUING DISCLOSURE

***Current Undertaking.*** The District will covenant in a Continuing Disclosure Certificate for the benefit of the holders and Beneficial Owners of the Certificates to provide Annual Reports, commencing with the report of Fiscal Year ending June 30, 2018, and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board through its Electronic Market Municipal Access ("EMMA"), located at www.emma.msrb.com. The information on such website is not incorporated herein by any reference. The specific nature of the information to be contained in the Annual Report and the notice of

enumerated events is set forth in Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

***Prior Undertakings.*** In the past five years, the District has instances of failures to comply with prior undertakings entered into pursuant to the Rule, as described below: (i) the District failed to file portions of its annual reports for fiscal years 2013-14 and fiscal year 2014-15 as required by its then-existing continuing disclosure obligations, (ii) the District failed to timely file its annual report for fiscal year 2015-16 as required by its then-existing continuing disclosure obligations. In connection with the reports described above, within the past five years, the District has never filed a notice of a failure to provide annual financial information, on or before the date specified in its prior continuing disclosure agreements. Piper Jaffray & Co. will assist the District in preparing and filing the annual reports and notices of listed events required under its existing continuing disclosure obligations, including those in connection with the Certificates.

## ABSENCE OF MATERIAL LITIGATION

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

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

## RATINGS

The Certificates are expected to be assigned a rating of "AA," with a stable outlook, by S&P, based upon the issuance of the Policy by AGM on the delivery date of the Certificates. The Certificates have also been assigned an underlying rating of "A" from S&P. The ratings reflect only the views of such rating agency, and any explanation of the significance of such ratings should be obtained therefrom. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal.

Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

The District has covenanted in a Continuing Disclosure Certificate to file on EMMA notices of any rating changes on the Certificates. See Appendix D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. Notwithstanding such covenant, information relating to rating changes on the Certificates may be publicly available from S&P prior to such information being provided to the

District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the Certificates are directed to S&P, its website and official media outlets for the most current rating changes with respect to the Certificates after the initial execution and delivery thereof.

## UNDERWRITING

***Purchase of Certificates.*** The Certificates are being purchased by Wells Fargo Bank, National Association, as Underwriter. The Underwriter has agreed, pursuant to a purchase contract (the "Purchase Contract") by and between the District and the Underwriter, to purchase the Certificates at the purchase price of $15,615,601.85 (reflecting a principal amount of $15,205,000.00, plus net original issue premium of $504,789.50, less an underwriting discount of $94,187.65). The Purchase Contract provides that the Underwriter will purchase all of the Certificates, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such Contract of Purchase.

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

***Underwriter Disclosures.*** The Underwriter has provided the following paragraph for inclusion in this Official Statement. The District does not guarantee the accuracy or completeness of the following information, and the inclusion thereof should be construed as a representation of the District:

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), the sole underwriter of the Certificates, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Certificates. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Certificates with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Certificates. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

## MISCELLANEOUS

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

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

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

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

**BARSTOW UNIFIED SCHOOL DISTRICT**

By: /s/ Jeff Malan
Superintendent

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# APPENDIX A

## SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

### DEFINITIONS

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

"Accountant" means a nationally recognized firm of certified public accountants acceptable to the Insurer.

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

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

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

"Administrative Costs" means any and all reasonable charges, fees, costs, losses, liabilities and expenses that the Insurer may pay or incur, including, but not limited to, fees and expenses of the Insurer's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Trust Agreement or the Certificates. For purposes of the foregoing, costs and expenses will include a reasonable allocation of compensation and overhead attributable to the time of employees of the Insurer spent in connection with the actions described in the preceding sentence.

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

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

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

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

"Certificate" or "Certificates" means the Barstow Unified School District, Certificates of Participation (2018 School Financing Project), and any Additional Certificates executed and delivered by the Trustee pursuant to the Trust Agreement.

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

"Certificate Payment Date" means June 1 and December 1 of each year commencing June 1 with respect to the interest payments evidenced by the Certificates and June 1 of each year commencing June 1, 2019 with respect to the principal payments evidenced by the Certificates.

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

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

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

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

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

"Contract of Purchase" means that certain contract for the purchase of the Certificates dated as of December 4, 2018 by and between the District and the Original Purchaser, relating to the sale and delivery of the Certificates.

"Corporation" means the Public Property Financing Corporation of California, a nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

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

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

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

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

"Depository" means DTC; or, such other securities depositories or to such depositories as the District may designate in writing to the Trustee, or any other securities depository acting as Depository pursuant to the Trust Agreement.

"District" means the Barstow Unified School District, a school district organized and existing under the laws and Constitution of the State, and its successors and assigns.

"District Representative" means the Superintendent of the District, the Chief Business Officer of the District, or any other person authorized by the Superintendent or the Chief Business Officer of the District to act on behalf of the District with respect to the Lease or the Trust Agreement.

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

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

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

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

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

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

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

"Information Services" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System.

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

"Insurance Policy" or "Policy" means the municipal bond insurance policy issued by the Insurer guaranteeing the scheduled payment of principal and interest with respect to the Certificates when due.

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

"Insurer Advances" means the total of all amounts paid by the Insurer under the Insurance Policy.

"Insurer Reimbursement Amounts" means interest on all 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.

"Insurer's Fiscal Agent" means the designated agent (if any) of the Insurer for purposes of the Trust Agreement.

"Late Payment Rate" means the lesser of (i) the greater of (a) the Prime Rate plus 3%, and (b) the then applicable highest rate of interest with respect to the Certificates and (ii) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate will be computed on the basis of the actual number of days elapsed over a year of 360 days.

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

"Lease" means the Lease/Purchase Agreement related to the Certificates, dated as of December 1, 2018, by and between the District and the Corporation, and any duly authorized and executed amendments thereto.

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

"Lease Payment Date" means the Lease Payment Date defined in the Lease.

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

"Lease Proceeds" means any proceeds of re-letting or any other disposition of the Property pursuant to the Lease.

"Lease Year" means the period extending from June 1 of each calendar year to May 31 of the subsequent calendar year (as applicable), provided that the first Lease Year will commence on the Closing Date and end on May 31, 2019.

"Lessor" means the Public Property Financing Corporation of California, a nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

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

"Moody's" means Moody's Investors Service, or any successors or assigns thereto.

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

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

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

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

"Original Purchaser" means Wells Fargo Bank, National Association, as original purchaser of the Certificates on the Closing Date.

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

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

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

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

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

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

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

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

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

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

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

(i) Federal Housing Administration debentures.

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

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

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

(iv) Deposits in banks which have capital and surplus of at least $15 million.

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

(vi) Money market funds rated in the highest rating category by S&P and Moody's, including funds for which the Trustee, its parent company, if any, or any affiliates or subsidiaries of the Trustee provide investment advising or other management services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. the repurchase agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Insurer;

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

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

7. the repurchase agreement will provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Trustee (who will give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the District or Trustee.

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

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

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

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

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

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

5. the investment agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Insurer;

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

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

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

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

structured financing (with a market value approach); or (b) repay the principal of and accrued but unpaid interest on the investment, and

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

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

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

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

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

"Policy Costs" means costs owed to the Insurer and representing the repayment of draws on the Reserve Policy and the payment of expenses and accrued interest thereon, at the Late Payment Rate.

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

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

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

"Prime Rate" means 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 (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank). In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, the Prime Rate will be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify.

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

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

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

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

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

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

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

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

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

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

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

"Reserve Policy" means the municipal bond debt service reserve insurance policy issued by the Insurer to initially satisfy the Reserve Requirement.

"Reserve Replenishment Rent" means Reserve Replenishment Rent payable pursuant to the Lease.

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

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

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

"Site Lease" means the Site Lease related to the Certificates, dated as of December 1, 2018, by and between the Corporation and the District.

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

"State" means the State of California.

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

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

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

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

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

## THE LEASE AGREEMENT

### ACQUISITION, CONSTRUCTION AND INSTALLATION OF THE PROJECT

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

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

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

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

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

**Compliance with Law.**

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

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

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

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

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

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

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

**Term**. The Term of the Lease will commence on the date of execution thereof and will end on June 1, 2048, unless extended pursuant to the Lease, or unless terminated prior thereto upon the earliest of any of the following events:

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

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

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

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

**Extension of Lease Term**. If on June 1, 2048, the Certificates shall not be fully paid, or if the Lease Payments thereunder shall have been abated at any time and for any reason, or amounts shall be due to the Insurer with respect to the Policy or Reserve Policy, respectively, then the Term will be extended until all Certificates, Lease Payments or amounts due to the Insurer shall be fully paid, except that the Term will in no event be extended beyond June 1, 2058.

**Lease Payments**.

(a) Time and Amount. Subject to the provisions of the Lease regarding abatement in event of loss of use of any portion of the Property, regarding option to purchase and regarding prepayment of Lease Payments, the District has agreed to pay to the Lessor, its successors and assigns, as annual rental for the use and possession of the Property, the Lease Payments (denominated into components of principal and interest, the interest component being paid semiannually) in the amounts specified in the Lease, to be due and payable in arrears on the fifteenth (15th) day

of the month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Dates as specified in the Lease (the "Lease Payment Date") which are sufficient in both time and amount to pay when due the annual principal and semiannual interest represented by the Certificates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Additional Payments**. In addition to the Lease Payments, the District will also pay such amounts ("Additional Payments") as will be required for the payment of all administrative costs of the Lessor relating to the Property or the Certificates, including without limitation, amounts due by the District to the Insurer, including all amounts due pursuant to the Trust Agreement (and excepting for Reserve Replenishment Rent due pursuant to provisions summarized under the heading "—Lease Payments – Reserve Replenishment Rent herein), all expenses, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, all fees and expenses owed to the Lessor under the Lease, taxes of any sort whatsoever payable by the Lessor as a result of its interest in the Property or undertaking of the transactions contemplated therein or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, all other necessary administrative costs of the Lessor or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement including premiums or insurance maintained pursuant to the Lease or to indemnify the Lessor and its employees, officers and directors, the Corporation and its agents, successors and assigns and the Trustee.

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

## INSURANCE

**Public Liability and Property Damage**.

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

(b) Limits. Said policy or policies will provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $150,000 (subject to a deductible clause of not to exceed $50,000) for damage to property resulting from each accident or event. Such public liability and property

damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the liability limits set forth therein.

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

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

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

**Casualty and Theft Insurance**.

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

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

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

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

**Rental Interruption Insurance**.

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

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

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

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

**General Insurance Provisions**.

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

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

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

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

(e) Self Insurance. Subject to the written consent of the Insurer (so long as the Insurer is not in default of its payment obligations under the Policy), the District may only elect to self insure pursuant to the Trust Agreement and, only if and to the extent such self-insurance method or plan of protection will afford reasonable protection to the Lessor and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by other schools districts in the State other than the District. Any self-insurance maintained by the District pursuant to the Lease will comply with the following terms:

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

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

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

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

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

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

**Application of Net Proceeds**.

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

(b) Disbursement for Replacement or Repair of the Property. Upon receipt of the certification described in paragraph (i) below, the requisition described in paragraph (ii) below, and the prior written consent of the Insurer (so long as the Insurer is not in default of its payment obligations under the Policy), the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in the requisition as provided in the Trust Agreement.

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

(A) Sufficiency of Net Proceeds. The Net Proceeds available for such purpose, together with any other funds supplied by the District to the Trustee in a subaccount of the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair (or such lesser percentage as may be consented to by the Insurer) as demonstrated in an attached reconstruction budget, and

(B) Timely Completion. In the event that damage, destruction or taking results or is expected to result in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds, as described in the Lease together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in an attached reconstruction schedule.

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

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

(c) Disbursement for Prepayment. If the District Representative notifies the Trustee in writing of the District's determination that the certification provided in the Lease cannot be made or that replacement or repair of any portion of the Property is not economically feasible or in the best interest of the District, then the Trustee will (with the prior written consent of the Insurer), promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of the Certificates as provided in the Trust Agreement and prepayment of Lease Payments as provided in the Lease; provided that in the event of damage or

destruction in whole of the Property and in the event such Net Proceeds, together with funds then on hand in the Lease Payment Fund and Reserve Fund are not sufficient to prepay all the Certificates then Outstanding, then the District will not be permitted to certify that repair, replacement or improvement of all of the Property is not economically feasible or in the best interest of the District. In such event, the District will proceed to repair, replace or improve the Property as described therein from legally available funds in the then-current Fiscal Year and will make the required notification to the Trustee pursuant to the Trust Agreement and the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm, or corporation named in the requisition as provided therein.

## COVENANTS WITH RESPECT TO THE PROPERTY

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

**Interest in the Property and the Lease**.

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

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

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

**Quiet Enjoyment**. During the Term, the Lessor will provide the District with quiet use and enjoyment of the Property, and the District will during such Term peaceably and quietly have and hold and enjoy the 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. The Lessor will, at the request of the District, join in any legal action in which the District asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor will have the right to inspect the Property as provided in the Lease.

**Installation of the District's Personal Property**. The District may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal

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

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

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

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

(b) Tax and Assessments; Utility Charges. The District will also pay or cause to be paid all taxes and assessments, including but not limited to utility charges, of any type or nature charged to the Lessor or the District or levied, assessed or charged against any portion of the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District will be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

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

**Modification of the Property**.

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

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

(c) Replacements, Redevelopment and Renovation. Following completion of the Project, the District will (and with the consent of the Insurer, so long as the Insurer is not in default of its payment obligations under the Policy), at its own expense, have the right to make replacements, or make additional redevelopments, replacements or renovations to all or a portion of the Property if the conditions in the Trust Agreement, and summarized below, are satisfied:

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

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

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

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

**Encumbrances; Alternative Financing Methods**.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Environmental Compliance**.

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

(b) The District will comply with, and will cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Property to comply with, all Environmental Regulations, and will keep the Property free and clear of any liens imposed pursuant thereto; provided, however, that notwithstanding that a portion

of the covenant summarized in this subsection is limited to the District's use of its best efforts, the District will remain solely responsible for ensuring such compliance and such limitation will not diminish or affect in any way the District's obligations contained in the Lease. Upon receipt of any notice from any person with regard to the Release of Hazardous Materials on, from or beneath the Property, the District will give prompt written notice thereof to the Trustee and the Insurer prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

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

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

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

## ASSIGNMENT, SUBLEASING AND AMENDMENT

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

**Assignment and Subleasing by the District**.

(a) Assignment. The Lease may be assigned by the District, with the prior written consent of the Insurer, so long as such assignment does not, in the opinion of Special Counsel, in and of itself, adversely affect the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest

component of the Lease Payments or affect the validity of the Lease. In the event that the Lease is assigned by the District, the obligation to make Lease Payments under the Lease will remain the obligation of the District.

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

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

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

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

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

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

## EVENTS OF DEFAULT AND REMEDIES

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

(a) Payment Default.

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

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

In determining whether a default has occurred under the provisions summarized in (i) and (ii) above, no effect will be given to payments made under the Policy.

(b) Covenant Default. Failure by the District to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed therein or otherwise with respect thereto or in the Trust Agreement or in the Site Lease, other than as described in clause (a) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Lessor, the Trustee, the Insurer or the Owners of not less than twenty percent (20%) in aggregate principal amount of Certificates then Outstanding (with a copy to the Insurer); provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Lessor or such Owners, as the case may be, will not unreasonably withhold their consent to an extension of such time, if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected, except that such grace period will not exceed 30 days without the prior written consent of the Insurer.

(c) Bankruptcy or Insolvency. The filing by the District of a case in bankruptcy, or the subjection of any right or interest of the District under the Lease to any execution, garnishment or attachment, or adjudication of

the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may hereafter be enacted.

**Remedies on Default**. Whenever any event of default referred to in the Lease shall have happened and be continuing, it will be lawful for the Lessor to exercise any and all remedies available pursuant to law or granted pursuant to the Lease, including writs of mandamus. Notwithstanding anything therein or in the Trust Agreement to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default thereunder, the District will surrender possession of the Property to the Lessor, if requested to do so by the Lessor, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement. Notwithstanding any other provision of the Trust Agreement. So long as the Insurer is not in default of its payment obligations under the Insurance Policy, the Insurer will control all remedies upon an event of default under the Trust Agreement. The Owners' and Lessor's direction of remedies upon default are subject to the prior written consent of the Insurer.

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

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

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

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

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

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

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

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

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

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

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

**Trustee and Owners to Exercise Rights**. Such rights and remedies as are given to the Lessor under the Lease have been assigned by the Lessor to the Trustee under the Assignment Agreement, to which assignment the District consents. Such rights and remedies will be exercised by the Trustee, the Insurer and the Owners as provided in the Trust Agreement. To the extent that the Lease confers upon or gives or grants to the Trustee any right,

remedy or claim under or by reason of the Lease, the Trustee has been explicitly recognized as being a third-party beneficiary under the Lease and may enforce any such right, remedy or claim conferred, given or granted under the Lease.

## MISCELLANEOUS

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

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

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

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

## THE TRUST AGREEMENT

**Transfer and Exchange.**

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

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

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

**Certificates Mutilated, Lost, Destroyed or Stolen.** If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of said Certificate, will execute and deliver a new Certificate of like tenor and maturity in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee will be cancelled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and, if an indemnity, satisfactory to the Trustee indemnifying the Trustee, the Corporation and the District, will be given, the Trustee, at the expense of the Certificate Owner, will execute and deliver a new Certificate of like tenor and maturity and numbered as the Trustee will determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an

appropriate fee for each new Certificate delivered under the provisions of the Trust Agreement summarized in this subsection and of the expenses which may be incurred by the Trustee in carrying out the duties under the Trust Agreement. Any Certificate executed under the provisions of the Trust Agreement summarized by this paragraph in lieu of any Certificate alleged to be lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. The Trustee will not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered under or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate will be treated as one and the same. Notwithstanding any other provision of the Trust Agreement summarized in this paragraph, in lieu of delivering a new Certificate in place of one which has been mutilated, lost, destroyed or stolen, and which has matured, or has been called for prepayment, the Trustee may make payment with respect to such Certificate upon receipt of the above-mentioned indemnity.

**Payment.** Subject to the provisions of the Letter of Representation, payment of interest with respect to any Certificate on any Certificate Payment Date or prepayment date will be made to the person appearing on the registration books of the Trustee as the Owner thereof as of the Record Date immediately preceding such Certificate Payment Date or prepayment date, as the case may be, such interest to be paid by wire transfer to the bank and account number within the United States of America on file with the Trustee as of the Record Date. Payments of defaulted interest will be paid by check of the Trustee mailed by first class mail to the registered Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which will be given to the Owners not less than 15 days prior to such special record date. Subject to the provisions of the Letter of Representation, the principal payable upon maturity or prepayment with respect to the Certificates will be payable upon surrender at the Principal Office. Said amounts will be payable in lawful money of the United States of America. The Trustee has been authorized to pay or prepay the Certificates when duly presented for payment at maturity or on prepayment and to cancel all Certificates upon payment thereof.

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

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

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

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

Certificates (provided, however, that such other revisions will not prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement);

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

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

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

(g) The Trustee will have received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease comply in all respects with the requirements of the Trust Agreement, (ii) said supplemental agreement and said amendments to the Lease have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in rendering the opinions set forth in the Trust Agreement and summarized in this clause (ii), will be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease), (iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said supplemental agreement, and the Lease, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such supplemental agreement and said amendments to the Lease, and performance by the parties thereunder, will not result in the inclusion of the interest portion of any Lease Payments payable with respect to the Certificates, including Additional Certificates, theretofore prepared, executed and delivered, in the gross income of the Owners of the Certificates for purposes of federal income taxation;

(h) The District shall have provided each Rating Agency written notice of the proposed execution and delivery of such Additional Certificates.

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

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

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

Upon delivery to the Trustee of the foregoing instruments, the Trustee will cause to be executed and delivered Additional Certificates representing the aggregate principal amount specified in such supplemental agreement, and such Additional Certificates will be equally and ratably secured with all Certificates, including any Additional Certificates, theretofore prepared, executed and delivered, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate, including Additional Certificates, over any other; provided, however, that no provision of the Trust Agreement will

require the District to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the District to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, will be in the sole discretion of the District.

## PROJECT FUND

**Establishment of Project Fund.** The Trustee will establish a special fund designated as the "Barstow Unified School District Certificates of Participation (2018 School Financing Project) Project Fund," referred to in the Trust Agreement as the "Project Fund"; will keep the Project Fund separate and apart from all other funds and moneys held by it; and will administer such fund as provided in the Trust Agreement. The Project Fund will be held and applied by the Trustee in accordance therewith.

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

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

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

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

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

## LEASE PAYMENTS; LEASE PAYMENT FUND

**Security Provisions**.

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

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

(c) Pledge of Lease Payments and Lease Proceeds. The Lease Payments and any Lease Proceeds are have been irrevocably pledged pursuant to the Trust Agreement to and will be used for the punctual payment of the interest and principal represented by the Certificates and the Lease Payments and Lease Proceeds will not be used for any other purpose while any of the Certificates remain Outstanding. The pledge contained in the Trust Agreement and summarized in this subsection will constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms thereof, subject to the Lease.

**Establishment of Lease Payment Fund**. The Trustee will establish a special fund designated as the "Barstow Unified School District Certificates of Participation (2018 School Financing Project) Lease Payment Fund." All moneys at any time, from whatever sources deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as thereinafter set forth.

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

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

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

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

## RESERVE FUND

**Establishment of Reserve Fund**. The Trustee will establish a special fund designated as the "Barstow Unified School District Certificates of Participation (2018 School Financing Project) Reserve Fund," referred to therein as the "Reserve Fund." All moneys at any time on deposit in the Reserve Fund (including any Reserve Facility thereafter provided to satisfy the Reserve Requirement in whole or in part) will be held by the Trustee in trust for the benefit of the Owners of the Certificates, as a reserve for the payment when due of all the Lease Payments to be paid pursuant to the Lease and of all payments with respect to the Certificates and applied solely as provided therein.

**Funding**.

(a) Reserve Requirement. There will be maintained in the Reserve Fund an amount equal to the Reserve Requirement. Notwithstanding the foregoing, in the event of a partial prepayment or defeasance of the Certificates, the Reserve Requirement will thereafter be determined by the District and communicated to the Trustee in writing and any funds in excess of such redetermined Reserve Requirement shall be utilized as set forth in the Trust Agreement. On the Closing Date, there will be deposited in the Reserve Fund the Reserve Policy, making an amount available thereunder and in the Reserve Fund equal to the Reserve Requirement. The Reserve Requirement may thereafter be satisfied by the District crediting to the Reserve Fund moneys or, with notice to each Rating Agency, another Reserve Facility or Facilities, or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement; provided, however, the long-term unsecured debt or claim-paying ability or financial strength, as the case may be, of the provider of any such Reserve Facility, must be rated by any Rating Agency, at the time of deposit, no lower than that of the District.

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

(b) Reserve Facility. Any amounts paid pursuant to the Reserve Policy and any other amounts paid pursuant to any other Reserve Facility will be deposited in the Reserve Fund. The District may substitute moneys for all or part of the amount available to be drawn under a Reserve Facility so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities (taking into account any reduction in the amount available under such Reserve Facility to be made in connection with said substitution) will be at least equal to the Reserve Requirement. The District will not substitute any Reserve Facility in lieu of all or any portion of moneys on deposit in the Reserve Fund without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

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

(c) Delinquent Lease Payments. If there are no amounts currently due to the Insurer in connection with the Reserve Policy, and the sum of the amount on deposit in the Reserve Fund, plus the amount available under any Reserve Facilities, shall be reduced below the Reserve Requirement, the first payments of Lease Payments thereafter payable by the District and not needed to pay interest and principal components of Lease Payments payable to the Certificate Owners on the next Certificate Payment Date will be used to first, reimburse the Insurer

and the provider of any other Reserve Facility for any payment or repayment obligation owing thereto for any draw on such other Reserve Facility to the Reserve Fund and second, to increase the balance in the Reserve Fund to an amount which, when added to the amount available under the Reserve Policy and any other Reserve Facilities, is equal to the Reserve Requirement.

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

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

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

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

**Application of Reserve Fund in Event of Deficiency in Lease Payment Fund**.

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

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

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

(d) The Trustee will repay any draws under the Reserve Policy (including interest accrued thereon at the Late Payment Rate) from Reserve Replenishment Rent paid by the District pursuant to the Lease. The Trustee will also pay all related reasonable expenses incurred by the Insurer (including interest accrued thereon at the Late Payment Rate), and all other Policy Costs, from Additional Payments paid by the District pursuant to the Lease. If the interest provisions of the Trust Agreement summarized in this subparagraph (d) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Trust Agreement, then all sums in excess of those lawfully collectible as interest for the period in question

will, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding under the Trust Agreement to the extent that interest otherwise due under the Trust Agreement for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess will be applied upon principal immediately upon receipt of such moneys by the Insurer, with the same force and effect as if the District 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 will any agreed-to or actual exaction as consideration for the indebtedness created in the Trust Agreement exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

(e) Repayment of Policy Costs will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw. Payment of any reimbursements of amounts with respect to other Reserve Facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund.

(f) Amounts in respect of Policy Costs paid to the Insurer will 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.

(g) If the District shall fail to pay any Policy Costs in accordance with the requirements of the Trust Agreement, the Insurer will 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 will not be discharged or terminated until all Policy Costs owing the Insurer shall have been paid in full. The obligation to pay such amounts will expressly survive the payment in full of the Certificates.

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

## NET PROCEEDS FUND

**Establishment of Net Proceeds Fund; Deposits**. The Trustee will establish when required a special fund designated as the "Barstow Unified School District Certificates of Participation (2018 School Financing Project) Net Proceeds Fund," referred to therein as the "Net Proceeds Fund," to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided therein. The Trustee will deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease.

**Disbursements**.

(a) Casualty Insurance. The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the District Representative as provided in the Lease. Pending such application, such Net Proceeds may be invested by the Trustee as directed by the District in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement. After all of the Certificates have been paid and the entire amount of principal and interest with respect to the Certificates has been paid in full, or provision made for

payment satisfactory to the Trustee, including provision for all amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, the Trustee will pay any remaining moneys in the Net Proceeds Fund to the District after payment of any amounts due to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease.

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

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

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

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

## MONEYS IN FUNDS; INVESTMENT

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

**Investments Authorized**.

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

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

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

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

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

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

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

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

**Valuation and Disposition of Investments**.

(a) Valuation. For the purpose of determining the amount in any fund, all Permitted Investments (except investment agreements) credited to such fund will be valued at the lower of the cost or the market price, exclusive of accrued interest. With respect to all funds and accounts, investments will be valued by the Trustee (i) not less often than annually, and as otherwise directed by the District, and (ii) upon a draw on the Reserve Fund. In making any such valuations, the Trustee may utilize, and conclusively rely upon, such valuation services as may be available to the Trustee, including those within its regular accounting system.

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

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

## THE TRUSTEE

**Appointment of Trustee**.

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

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

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

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

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

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

**Protection of the Trustee**.

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

The Trustee has agreed to accept and act upon instructions or directions pursuant to the Trust Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District has agreed to assume all risks arising out of the use

of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

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

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

**Rights of the Trustee**.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

inaction, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

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

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

## MODIFICATION OR AMENDMENT OF AGREEMENTS

**Amendments Permitted**.

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

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

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

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

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

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

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

(i) to add to the covenants and agreements of the District and the Corporation thereunder,

(ii) to cure, correct or supplement any ambiguous or defective provision contained therein,

(iii) in regard to matters arising thereunder, as the parties thereto may deem necessary or desirable (which may be based upon opinions as provided in the Trust Agreement), will not adversely affect the interest of the Owners,

(iv) to substitute the Property, or a portion thereof, in accordance with the Lease,

(v) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates,

(vi) to add to the rights of the Trustee,

(vii) to maintain the rating or ratings assigned to the Certificates, or

(viii) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement.

No such modification or amendment, however, will modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement will become effective upon execution and delivery by the parties thereto as the case may be. The Trustee may rely upon an opinion of counsel that each amendment is authorized or permitted by the Trust Agreement

**Procedure for Amendment with Written Consent of the Owners**. The Trust Agreement, the Site Lease or the Lease may be amended by supplemental agreement as provided in the Trust Agreement in the event the consent of the Owners is required pursuant to the Trust Agreement. Such supplemental agreement, together with a request to the Owners for their consent thereto, will be mailed by the Trustee to each Owner of a Certificate at his address as set forth in the Certificate registration books maintained pursuant to the Trust Agreement, but failure to receive copies of such supplemental agreement and request so mailed will not affect the validity of the supplemental agreement when assented to as in the Trust Agreement provided.

Such supplemental agreement will not become effective unless there will be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement) and notices will been mailed as thereinafter in the Trust Agreement provided. Any such consent will be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice thereinafter in the Trust Agreement provided for has been mailed.

After the Owners of the required percentage of Certificates shall have filed their consent to such supplemental agreement, the Trustee will mail a notice to the Owners of the Certificates in the manner provided in the Trust Agreement for the mailing of such supplemental agreement, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in the Trust Agreement (but failure to mail copies of said notice will not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by the Trust Agreement to be filed with the Trustee, will be proof of the matters therein stated until the contrary is proved. The Trustee may obtain and conclusively rely on an opinion of counsel with regard to such matters.

**Disqualified Certificates**. Certificates owned or held by or for the account of the District or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the District or the Corporation (except any Certificates held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement. Upon request of the Trustee, the District and the Corporation will specify in a certificate to the Trustee those Certificates disqualified pursuant to the Trust Agreement and the Trustee may conclusively rely on such certificate.

The District or the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement will be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

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

**Endorsement or Replacement of Certificates Delivered After Amendments**. The Trustee may determine that Certificates delivered after the effective date of any action taken as provided in the Trust Agreement will bear a notation, by endorsement, in form approved by the District, as to such action. In that case, upon demand of the Owner of any Outstanding Certificate at such effective date and presentation of his Certificate for such purpose at the Principal Office, a suitable notation will be made on such Certificate. The District may determine that new Certificates, so modified as in the opinion of the District is necessary to conform to such Owner's action, will be prepared, executed and delivered. In that case, upon demand of the Owner of any Certificate then Outstanding, such new Certificate will be exchanged in the Principal Office without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Certificate.

**Amendatory Endorsement of Certificates**. Subject to the Trust Agreement, the provisions of the Trust Agreement will not prevent an Owner from accepting any amendment as to the particular Certificates held by him, provided that due notification thereof is made on such Certificates.

**Copies of Amendments Delivered to Moody's and S&P**. Copies of any modifications or amendments to the Trust Agreement, the Lease, the Site Lease or the Assignment Agreement will be delivered by the District to Moody's and S&P at least 10 days prior to the effective date thereof.

## COVENANTS; NOTICES

**Compliance With and Enforcement of the Lease**. The District has covenanted and agreed with the Owners and the Insurer to perform all obligations and duties imposed on it under the Lease. The Corporation has covenanted and agreed with the Owners to perform all obligations and duties imposed on it under the Lease.

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

**Payment of Taxes**. The District will pay all taxes as provided in the Lease.

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

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

**District Budgets**. In accordance with the Lease, the District Representative will certify to the Trustee on or before July 1 of each year that the District has included all Lease Payments (other than Lease Payments of advance rental), Reserve Replenishment Rent and Additional Payments due under the Lease in the Fiscal Year covered by its annual budget and the amount so included. If the District fails to certify that it has included all such Lease Payments, Reserve Replenishment Rent and Additional Payments in such annual budget, the Trustee will promptly provide the District written notice specifying that the District has failed to observe and perform its covenant and agreement in the Lease and requesting that such failure be remedied within 30 days, or such failure will constitute an Event of Default under the Lease. The Trustee will forward a copy of such notice to the Corporation and the Insurer. Upon receipt of such notice, the District will notify the Trustee of the proceedings proposed to be taken by the District, and will keep the Trustee advised of all proceedings thereafter taken by the District.

**Further Assurances**. The Corporation and the District will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming unto the Owners and the Insurer the rights and benefits provided therein.

**Continuing Disclosure**. The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default or an event of default thereunder; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under the Trust Agreement and the Continuing Disclosure Certificate.

## LIMITATION OF LIABILITY

**Limited Liability of the District**. Except for the payment of Lease Payments, Reserve Replenishment Rent, Additional Payments and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the District contained therein and in the Lease, the District will have no obligation or liability to any of the other parties or to the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

**No Liability of the District or Corporation for Trustee Performance**. Except as expressly provided therein, neither the District nor the Corporation will have any obligation or liability to any other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

**Limited Liability of Trustee**.

(a) No Investment Advice. The Trustee will have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates.

(b) Sufficiency of the Trust Agreement or Lease Payments. The Trustee makes no representations as to the validity or sufficiency of the Certificates, will incur no responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Certificates assigned to or imposed upon it. The Trustee will not be responsible for the sufficiency or enforceability of the Lease, the Site Lease or the Assignment Agreement. The Trustee will not be liable for the sufficiency or collection of any Lease Payments or other moneys

required to be paid to it under the Lease (except as provided in the Trust Agreement), its right to receive moneys pursuant to said Lease, or the value of or title to the Property.

(c) Actions of Corporation and the District. The Trustee will have no obligation or liability to any of the other parties or the Owners with respect to the Trust Agreement or failure or refusal of any other party to perform any covenant or agreement made by any of them under the Trust Agreement or the Lease, but will be responsible solely for the performance of the duties and obligations expressly imposed upon it thereunder as provided in the Trust Agreement.

(d) Recitals and Agreements of Corporation and the District. The recitals of facts, covenants and agreements therein and in the Certificates contained will be taken as statements, covenants and agreements of the District or the Corporation (as the case may be), and the Trustee assumes no responsibility for the correctness of the same.

**Limitation of Rights to Parties and Certificate Owners**. Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or will be construed to give any person other than the District, the Corporation, the Trustee, the Insurer and the Owners, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision thereof; and all such covenants, conditions and provisions are and will be for the sole and exclusive benefit of the District, the Corporation, the Trustee, the Insurer and the Owners.

**No Liability of the Corporation to the Owners**. Except as expressly provided therein, the Corporation will not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the District or with respect to the observance or performance by the District of the other agreements, conditions, and covenants imposed upon the District by the Lease or by the Trust Agreement.

## EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS

**Assignment of Rights**. The parties thereto acknowledge that pursuant to the Assignment Agreement the Corporation has transferred, assigned and set over to the Trustee for the benefit of the Owners, certain of the Corporation's rights under the Lease and the Site Lease.

**Events of Default**.

(a) Remedies. If an Event of Default will happen, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease, including writs of mandamus; provided, however, that notwithstanding anything therein or in the Lease to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. The Lease has been incorporated by reference; provided further that so long as the Insurer shall not be in default of its payment obligations under the Policy, the Insurer will control all remedies available upon an Event of Default.

(b) Actual Knowledge. The Trustee will not be deemed to have knowledge of any Event of Default unless and until a Responsible Officer shall have actual knowledge thereof, or shall have received written notice thereof at its Principal Office.

(c) Action on Default. If an Event of Default (within the meaning of the Lease) will happen, then such Event of Default will constitute an Event of Default thereunder. The Trustee may give notice, as assignee of the Corporation, of an Event of Default under the Lease or under the Trust Agreement to the District, and will do so if directed to do so by the Insurer or Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding. In each and every case during the continuance of an Event of Default, the Trustee (a) may, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding and with the consent of the Insurer, and (b) will, at the direction of the Insurer and after being

indemnified to its satisfaction, upon notice in writing to the District and the Corporation, exercise any of the remedies granted to the Corporation under the Lease and may, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

**Application of Funds**. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Lease, will be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable under the Trust Agreement and the Lease in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, Costs and Expenses: to the payment of the costs, fees and expenses of the Trustee and then of the Owners in declaring such Event of Default and in performing its duties thereunder, including reasonable compensation to its or their agents, attorneys and counsel;

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

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

Fourth, Insurance: to the extent not included in clauses First, Second and Third in the Trust Agreement and summarized above, to the payment of all amounts then due to the Insurer, as certified in writing to the Trustee. The Trustee may conclusively rely on a certification of the Insurer.

**Institution of Legal Proceedings**. If one or more Events of Default will happen and be continuing, the Trustee may, and, upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or the Lease, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties thereunder; provided that such written request will not be otherwise than in accordance with provisions of law and the Trust Agreement and that the Trustee will have the right to decline to follow any such written request if the Trustee will be advised by counsel that the action or proceeding so requested may not be taken lawfully or if the Trustee in good faith will determine that the action or proceeding so requested would be unjustly prejudicial to the Certificate Owners not a party to such written request or expose the Trustee to liability.

**Non Waiver**. Nothing in the Trust Agreement or in the Certificates will affect or impair the obligation of the District which is absolute and unconditional, to pay or prepay the Lease Payments or Additional Payments as provided in the Lease. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time and as often as will be deemed expedient by the Trustee or the Owners.

**Remedies Not Exclusive**. No remedy therein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given thereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

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

**Limitation on Certificate Owners' Right to Sue**. No Owner of any Certificate executed thereunder will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) such Owner will, so long as the Insurer is not in default of its payment obligations under the Policy, have secured the Insurer's consent to such institution, (c) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers thereinbefore granted or to institute such action, suit or proceeding in its own name; (d) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (e) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (f) there shall have been a default in the payment of such Owner's proportionate interest in the Lease Payments as the same become due.

Such notification, request, tender of indemnity, refusal or omission, and default are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy thereunder; it being understood and intended that no one or more Owners will have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner therein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of the Trust Agreement or any other provision of the Trust Agreement.

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

## MISCELLANEOUS

**Defeasance**.

(a) Methods. If and when any Outstanding Certificates will be paid and discharged in any one or more of the following ways -

(i) Payment or Prepayment: by well and truly paying or causing to be paid the principal, interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(ii) Cash: prior to maturity, by depositing with the Trustee (or such other independent escrow agent as the District shall select), in trust, an amount of cash which (including cash then on deposit in the Lease Payment Fund in the event of prepayment or provision for payment of all Outstanding Certificates, and cash then on deposit Reserve Fund (in the event of prepayment or provision for payment of all Outstanding Certificates or as otherwise provided in the Trust Agreement) is fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date; or

(iii) Defeasance Securities: prior to maturity, by irrevocably depositing with the Trustee (or such other independent escrow agent as the District shall select), in trust, Defeasance Securities together with cash, if required (including cash then on deposit in the Lease Payment Fund in the event of prepayment or provision for payment of all Outstanding Certificates, and cash then on deposit Reserve Fund (in the event of prepayment or provision for payment of all Outstanding Certificates or as otherwise provided in the Trust Agreement), in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon, be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date;

and all other amounts due thereunder have been paid in full, then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to such Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited pursuant to provisions of the Trust Agreement summarized in (i) and (iii) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to the provisions of the Trust Agreement summarized in (ii) and (iii) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease.

(b) Surplus Moneys. Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to the one of the procedures of the Trust Agreement described in paragraphs (a)(i) through (a)(iii) above, which are not required for the payment to be made to Owners, will be paid over to the District, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement, and any other Additional Payments due under the Lease.

(c) Surviving Provisions. Notwithstanding the satisfaction and discharge thereof, the Trustee will retain such rights, powers and privileges thereunder as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, with respect to the Certificates and for the registration, transfer and exchange of the Certificates.

(d) Opinions and Reports. Prior to any defeasance becoming effective under the Trust Agreement, the District will cause to be delivered (i) an executed copy of a report, addressed to the Trustee, the District and the Insurer, in form and substance acceptable to the Trustee, the Insurer and the District of an Accountant, verifying that the Defeasance Securities and cash, if any, satisfy the requirements of the Trust Agreement, (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance acceptable to the Insurer, (iii) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee, the Insurer and the District, in form and substance acceptable to the District, covering the validity and enforceability of the escrow agreement and substantially to the effect that such Certificates are no longer Outstanding under the Trust Agreement, and (iv) a certificate of discharge of the Certificates from the Trustee.

Notwithstanding any other provision therein, the Trust Agreement will not be discharged until all Policy Costs owing to the Insurer and all amounts due or to become due to the Insurer shall have been paid in full. The District's obligation to pay such amounts will expressly survive payment in full of the Certificates.

The Insurer will be entitled to receive copies of substantially final drafts of the above-referenced documents not less than five (5) Business Days prior to the funding of the escrow.

**Non-Presentment of Certificates**. In the event any Certificate will not be presented for payment when the principal with respect thereto becomes due, either at maturity, or at the date fixed for prepayment thereof, if moneys

sufficient to pay such Certificate shall have been deposited in the Prepayment Fund or Lease Payment Fund, as applicable, all liability of the District to the Owner thereof for payment of such Certificate will forthwith cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Certificate who will thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on, or with respect to, said Certificate.

Any moneys so deposited with and held by the Trustee not so applied to the payment of interest or principal with respect to Certificates within two (2) years after the date on which the same shall have become due will be paid by the Trustee to the District, free from the trusts created by the Trust Agreement. In addition, Trustee will be indemnified from and against any and all liabilities to third parties resulting from its actions under the Trust Agreement. Thereafter, Owners will be entitled to look only to the District for payment, and then only to the extent of the amount so repaid by the Trustee. The District will not be liable for any interest on the sums paid to it pursuant to the provisions of the Trust Agreement summarized in this paragraph and will not be regarded as a trustee or trustees of such money.

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

**Records**. The Trustee will keep complete and accurate records of all moneys received and disbursed by it under the Trust Agreement, which will be available for inspection by the District, the Corporation and any Owner, or the agent of any of them, at any time during regular business hours upon reasonable prior notice.

**Waiver of Notice**. Whenever in the Trust Agreement the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

**Separability of Invalid Provisions**. In case any one or more of the provisions contained in the Trust Agreement or in the Certificates will for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability will not affect any other provision of the Trust Agreement, and the Trust Agreement will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The parties thereto declare that they would have entered into the Trust Agreement and each and every other section, paragraph, sentence, clause or phrase thereof and authorized the delivery of the Certificates pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Trust Agreement may be held illegal, invalid or unenforceable.

**Provisions Relating to Certificate Insurance.** Notwithstanding any other provision in the Trust Agreement to the contrary, the provisions of the Trust Agreement summarized below will apply for the benefit of the Insurer:

(a) Any notice that is required to be given to any Owners, Information Services, or the Depository will be given to the Insurer.

(b) Notwithstanding any other provision in the Trust Agreement, in determining whether the rights of the Owners will be adversely affected by an action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee will consider the effect of such action on the Owners as if there were no Insurance Policy.

(c) The Insurer will be deemed to be the sole Owner of all of the Certificates for purposes of

(i) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and

(ii) granting any consent, direction or approval, exercising any privilege, casting any vote, or taking any action permitted by or required under the Trust Agreement, as the case may be, to be granted or taken by the Owners of the Certificates pertaining to defaults and remedies, or the duties and obligations of the Trustee.

(d) As a term of the Trust Agreement and each Certificate, the Trustee and Owners have appointed the Insurer as their agent and attorney-in-fact with respect to the Certificates and agreed that the Insurer may at any time during the continuation of any Insolvency Proceeding direct all matters relating to such Insolvency Proceeding, including without limitation all matters relating to any (i) Claim, (ii) the direction of any appeal of any order relating to any Claim, (iii) the posting of any surety, supersedeas or performance bond pending any such appeal, and (iv) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and Owners have delegated and assigned to the Insurer, to the fullest extent permitted by law, their rights 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.

(e) Any provision in the Trust Agreement expressly recognizing or granting rights in and to the Insurer may not be amended in any manner that affects the rights of the Insurer without the prior written consent of the Insurer.

(f) Whenever the consent of the Owners of Certificates is required pursuant to the provisions in the Trust Agreement, the Insurer's prior written consent will also be required.

(g) Payment Procedures Under the Insurance Policy.

(i) If, on the third Business Day prior to a Certificate 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 and interest with respect to the Certificates due on such Certificate Payment Date, the Trustee will give notice to the Insurer and to the Insurer's Fiscal Agent by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Certificate Payment Date, there continues to be a deficiency in the amount available to pay the principal and interest with respect to the Certificates due on such Certificate Payment Date, the Trustee will make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest with respect to the Certificates and the amount required to pay principal with respect to the Certificates, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(ii) The Trustee will designate any portion of payment of principal evidenced by Certificates paid by the Insurer, whether by virtue of mandatory sinking fund prepayment, if any, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Certificates registered to the then current Certificate Owner, whether DTC or its nominee or otherwise, and will 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 will have no effect on the amount of principal or interest payable by the District with respect to any Certificate or the subrogation rights of the Insurer.

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

(iv) Upon payment of a claim under the Insurance Policy, the Trustee will establish the Policy Payments Account. The Trustee will receive any amount paid under the Insurance Policy in trust on behalf of Certificate Owners and will 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 will be disbursed by the Trustee to Certificate Owners 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 in the Trust Agreement to the contrary, the District has agreed to pay to the Insurer, to the extent permitted by law and subject to the Lease, (i) a sum equal to the total of all Insurer Advances; and (ii) interest on such Insurer Advances equal to the

Insurer Reimbursement Amounts. The Late Payment Rate will be computed on the basis of the actual number of days elapsed over a year of 360 days. The District has covenanted and agreed that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the funds on deposit with the Trustee and payable from such funds on a parity with interest and principal due with respect to the Certificates.

Funds held in the Policy Payments Account will 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 said Policy Payments Account following a Certificate Payment Date will promptly be remitted to the Insurer.

(h) The Insurer will, to the extent it makes any payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. Each obligation of the District to the Insurer under the Trust Agreement and each Related Document will survive discharge or termination of such Related Document.

(i) The District will pay or reimburse the Insurer, to the extent permitted by law and subject to the Lease, any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Trust Agreement or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Trust Agreement or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Trust Agreement or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer has reserved 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 any other Related Document.

(j) The Insurer will 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 by the District (as such terms are defined in the Insurance Policy), whether or not the Insurer has received a Notice of Nonpayment or a claim upon the Insurance Policy.

(k) The rights granted to the Insurer under the Trust Agreement or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and will not be construed or deemed to be taken for the benefit, or on behalf, of the Certificate Owners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Certificate Owners or any other person is required in addition to the consent of the Insurer.

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

(m) Amounts paid by the Insurer pursuant to the Insurance Policy will not be deemed paid for the purposes of the Trust Agreement and the Certificates relating to such payments will remain Outstanding and the principal and interest evidenced thereby will continue to be due and owing until paid by the District in accordance herewith.

(n) The Trustee will notify the Insurer of any failure of the District to provide notices, certification and other information under the Trust Agreement.

(o) So long as any Certificates insured by the Insurer remain Outstanding or any amounts are owed to the Insurer by the District, the District will not enter into any interest rate exchange agreement, cap, collar, floor, ceiling or other agreement or instrument involving reciprocal payment obligations between the District and a counterparty based on interest rates applied to a notional amount of principal, without the prior written consent of the Insurer.

(p) No contract will be entered into or any action taken by which the rights of the Insurer may be impaired or prejudiced in any material respect, except upon the prior written consent of the Insurer.

**Information to be Provided to the Insurer.** The District will furnish to the Insurer the following:

(a) Annual audited financial statements within 180 days after the end of the District's fiscal year (together with a certification of the District that it is not aware of any default or Event of Default under the Trust Agreement or the Lease), and the District's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

(b) Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of Certificates;

(c) Notice of any default known to the Trustee or District within five Business Days after knowledge thereof;

(d) Prior notice of the advance refunding or prepayment of any of the Certificates, including the principal amount, maturities and CUSIP numbers thereof;

(e) Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(f) Notice of the commencement of any Insolvency Proceeding by or against the District;

(g) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal or interest with respect to the Certificates;

(h) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents;

(i) All reports, notices and correspondence to be delivered to Certificate Owners under the terms of the Related Documents;

(j) All information furnished pursuant to the Continuing Disclosure Certificate will be provided simultaneously to the Insurer; and

(k) The Insurer will have the right to receive such additional information as it may reasonably request.

**Interested Parties**.

(a) Insurer as Third Party Beneficiary. The Insurer has been deemed to be a third-party beneficiary of the Trust Agreement.

(b) Parties Interested therein. Nothing in the Trust Agreement expressed or implied is intended or will be construed to confer upon, or to give grant to any person or entity, other than the District, the Corporation, the Trustee, the Insurer and the Owners of the Certificates, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the District will be for the sole and exclusive benefit of the District, the Corporation, the Trustee, the Insurer and the registered owners of the Certificates.

If an Insurer Default 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 Policy, to the extent of such payment the Insurer will be treated like any other holder of the Certificates for all purposes, including giving of consents; and (2) if the Insurer has not made any payment under the Policy, the Insurer

will have no further consent rights until the particular Insurer Default is no longer continuing or the Insurer makes a payment under the Policy, in which event, the clause summarized under item (1) will control.

The rights granted to the Insurer under the Trust Agreement and the Certificates to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and will not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Certificates and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the holders of the Certificates or any other person is required in addition to the consent of the Certificates.

## THE ASSIGNMENT AGREEMENT

The Assignment Agreement provides for the transfer, assignment and setting over by the Corporation to the Trustee, for the benefit of the Owners of Certificates, all of the Corporation's rights under the Lease (excepting only the Corporation's rights to recover attorneys' fees and expenses in the event the Corporation is a non-defaulting party to the Lease after a default), including, without limitation, (1) the right to receive and collect all of the Lease Payments, Additional Payments and Prepayments from the District under the Lease; (2) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease, or any condemnation award rendered with respect to the Property or any lease of the Property in the event of a default by the District under the Lease; (3) the right to take all actions and give all consents under the Lease; (4) the right to exercise such rights and remedies conferred on the Corporation under the Lease as may be necessary or convenient (a) to enforce payment of the Lease Payments, Additional Payments, Prepayments and any other amounts required to be deposited in the Lease Payment Fund, the Prepayment Fund, the Net Proceeds Fund or any other fund established under the Trust Agreement, or (b) otherwise to protect the interests of the Corporation in the event of a default by the District under the Lease; and (5) the right of the Corporation to receive rentals in excess of Lease Payments as compensation for re-letting the Property upon events of default under the Lease. The Trustee accepts such assignment for the benefit of the Owners of the Certificates, subject to the provisions of the Trust Agreement.

## THE SITE LEASE

Pursuant to the Site Lease, the District, as lessor, leases to the Corporation, as lessee, all of its right, title and interest in the Property. The term of the Site Lease will commence as of the date of the Lease and will remain in effect until the expiration of the term of such Lease. The Property will be simultaneously leased back to the District under the Lease, and title will remain in the District.

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**APPENDIX B**

**PROPOSED FORM OF OPINION OF SPECIAL COUNSEL FOR THE CERTIFICATES**

December 19, 2018

Board of Education
Barstow Unified School District

**$15,205,000**
**BARSTOW UNIFIED SCHOOL DISTRICT**
**Certificates of Participation**
**(2018 School Financing Project)**
**Evidencing the Fractional Interests of the Owners Thereof in Lease Payments to be Made by the**
**BARSTOW UNIFIED SCHOOL DISTRICT**

Members of the Board of Education:

We have examined a certified copy of the record of the proceedings relative to the execution and delivery of $15,205,000 principal amount of Barstow Unified School District Certificates of Participation (2018 School Financing Project) and dated the Date of Delivery (the "Certificates"), evidencing the fractional interests of the registered owners thereof in the right to receive certain Lease Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Lease/Purchase Agreement (the "Lease"), dated as of December 1, 2018, between the Barstow Unified School District (the "District") and the Public Property Financing Corporation of California, a nonprofit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), all of which right to receive such Lease Payments has been assigned without recourse by the Corporation to U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), pursuant to the Trust Agreement, dated as of December 1, 2018, by and among the District, the Corporation and the Trustee (the "Trust Agreement"), which Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to certify the same by independent investigation.

In our opinion, such proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement and the Lease under the laws of the State of California now in force, and the Lease and the Trust Agreement have been duly authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Trustee and the Corporation as appropriate, are

valid and binding obligations of the District, enforceable against the District in accordance with their respective terms. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the District to make the Lease Payments under the Lease does not constitute a debt of the District or the State of California, or of any political subdivision thereof, within the meaning of any constitutional debt limit or restriction, does not violate any statutory debt limitation, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

We are further of the opinion that under existing statutes, regulations, rulings and judicial decisions, the portion of each Lease Payment constituting interest with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

We are further of the opinion that the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates is exempt from State of California personal income tax.

We are further of the opinion that the difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificates constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues to the Certificate owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Certificates.

The opinions expressed herein as to the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that such portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the Certificates there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Certificates or the market value of the Certificates. No assurance can be given that subsequent to the issuance of the Certificates such changes or interpretations will not occur.

With respect to the opinions expressed herein, the rights and obligations under the Certificates, the Lease and the Trust Agreement are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

STRADLING YOCCA CARLSON & RAUTH

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**APPENDIX C**

**2016-17 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT**

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# BARSTOW UNIFIED SCHOOL DISTRICT

## AUDIT REPORT

**JUNE 30, 2017**

San Diego

Los Angeles

San Francisco
Bay Area

christy white associates
A PROFESSIONAL
ACCOUNTANCY CORPORATION

**BARSTOW UNIFIED SCHOOL DISTRICT**
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**FOR THE YEAR ENDED JUNE 30, 2017**

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# FINANCIAL SECTION

christy white associates
A PROFESSIONAL ACCOUNTANCY CORPORATION

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California State Board of Accountancy*

# INDEPENDENT AUDITORS' REPORT

Governing Board
Barstow Unified School District
Barstow, 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 the Barstow Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Barstow Unified School District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Barstow Unified School District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Barstow Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of Barstow Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Barstow Unified School District's internal control over financial reporting and compliance.

San Diego, California
December 13, 2017

**BARSTOW UNIFIED SCHOOL DISTRICT**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## INTRODUCTION

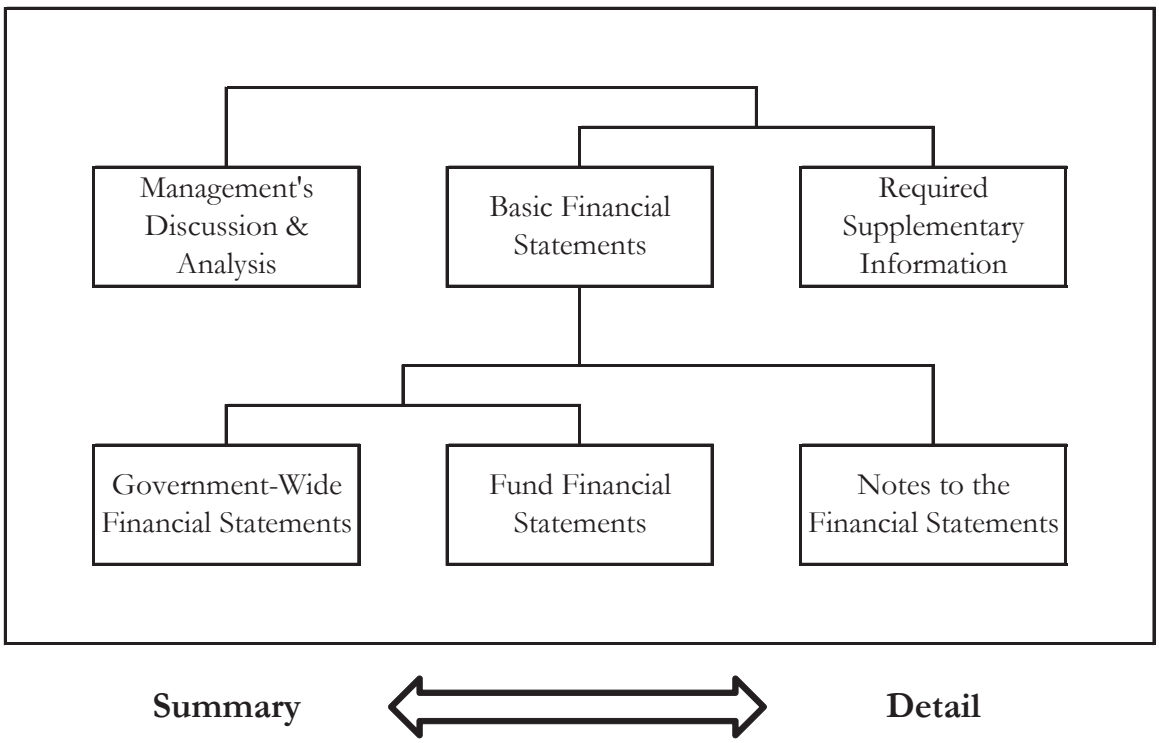
Our discussion and analysis of Barstow Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- The District's net position was $21,221,559 at June 30, 2017. This was an increase of $12,274,471 from the prior year.
- Overall revenues were $83,362,043 which exceeded expenses of $71,087,572.

## OVERVIEW OF FINANCIAL STATEMENTS

### Components of the Financials Section



This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.

    - **Governmental Funds** 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.

    - **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

**Government-Wide Statements**

The government-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 government'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 government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

## FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

### Net Position

The District's net position was $21,221,559 at June 30, 2017, as reflected in the table below. Of this amount, ($19,735,030) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

| | Governmental Activities | | |
|---|---|---|---|
| | 2017 | 2016 | Net Change |
| **ASSETS** | | | |
| Current and other assets | $ 47,689,468 | $ 33,205,599 | $ 14,483,869 |
| Capital assets | 27,907,426 | 27,505,620 | 401,806 |
| **Total Assets** | 75,596,894 | 60,711,219 | 14,885,675 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 12,319,156 | 7,199,837 | 5,119,319 |
| **LIABILITIES** | | | |
| Current liabilities | 4,823,835 | 3,125,793 | 1,698,042 |
| Long-term liabilities | 60,346,594 | 51,750,592 | 8,596,002 |
| **Total Liabilities** | 65,170,429 | 54,876,385 | 10,294,044 |
| **DEFERRED INFLOWS OF RESOURCES** | 1,524,062 | 4,087,583 | (2,563,521) |
| **NET POSITION** | | | |
| Net investment in capital assets | 18,751,441 | 18,118,006 | 633,435 |
| Restricted | 22,205,148 | 13,431,603 | 8,773,545 |
| Unrestricted | (19,735,030) | (22,602,521) | 2,867,491 |
| **Total Net Position** | $ 21,221,559 | $ 8,947,088 | $ 12,274,471 |

## FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement, and rearranges it slightly, so you can see our total revenues, expenses, and special items for the year.

| | Governmental Activities | | |
|---|---|---|---|
| | 2017 | 2016 | Net Change |
| **REVENUES** | | | |
| Program revenues | | | |
| Charges for services | $ 306,461 | $ 559,206 | $ (252,745) |
| Operating grants and contributions | 22,593,558 | 13,375,325 | 9,218,233 |
| General revenues | | | |
| Property taxes | 6,377,956 | 5,533,422 | 844,534 |
| Unrestricted federal and state aid | 53,263,888 | 51,221,462 | 2,042,426 |
| Other | 820,180 | 1,333,926 | (513,746) |
| **Total Revenues** | 83,362,043 | 72,023,341 | 11,338,702 |
| **EXPENSES** | | | |
| Instruction | 41,525,628 | 34,834,316 | 6,691,312 |
| Instruction-related services | 7,278,967 | 6,075,047 | 1,203,920 |
| Pupil services | 8,053,991 | 7,223,379 | 830,612 |
| General administration | 4,631,026 | 3,516,502 | 1,114,524 |
| Plant services | 8,829,920 | 7,575,168 | 1,254,752 |
| Debt service | 543,175 | 506,323 | 36,852 |
| Other Outgo | 224,865 | 203,064 | 21,801 |
| **Total Expenses** | 71,087,572 | 59,933,799 | 11,153,773 |
| **Change in net position** | 12,274,471 | 12,089,542 | 184,929 |
| **Net Position - Beginning** | 8,947,088 | (3,142,454) | 12,089,542 |
| **Net Position - Ending** | $ 21,221,559 | $ 8,947,088 | $ 12,274,471 |

The cost of all our governmental activities this year was $71,087,572 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only $6,377,956 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

## FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

### Changes in Net Position (continued)

In the table below we have presented the net cost of each of the District's functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

| | Net Cost of Services | |
|---|---|---|
| | 2017 | 2016 |
| Instruction | $ 32,495,050 | $ 27,148,103 |
| Instruction-related services | 6,417,808 | 5,083,537 |
| Pupil services | 4,428,572 | 4,330,165 |
| General administration | 4,143,994 | 3,202,389 |
| Plant services | 1,946,563 | 7,237,126 |
| Debt service | 543,175 | 506,323 |
| Transfers to other agencies | (1,787,609) | (1,508,375) |
| **Total Expenses** | $ 48,187,553 | $ 45,999,268 |

## FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR 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 $43,579,508, which is more than last year's ending fund balance of $30,457,368. The District's General Fund had $5,136,204 more in operating revenues than expenditures for the year ended June 30, 2017. The Special Reserve Fund for Capital Outlay Projects had $6,075,558 more in operating revenues than expenditures for the year ended June 30, 2017.

## CURRENT YEAR BUDGET 2016-17

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2016-17 the District had invested $27,907,426 in capital assets, net of accumulated depreciation.

| | Governmental Activities | | |
|---|---|---|---|
| | 2017 | 2016 | Net Change |
| **CAPITAL ASSETS** | | | |
| Land | $ 3,083,792 | $ 3,083,792 | $ - |
| Construction in progress | 1,460,201 | - | 1,460,201 |
| Land improvements | 6,955,256 | 6,955,256 | - |
| Buildings & improvements | 43,073,783 | 43,073,783 | - |
| Furniture & equipment | 6,571,183 | 6,571,183 | - |
| Accumulated depreciation | (33,236,789) | (32,178,394) | (1,058,395) |
| **Total Capital Assets** | $ 27,907,426 | $ 27,505,620 | $ 401,806 |

### Long-Term Liabilities

At year-end, the District had $60,346,594 in long-term liabilities, an increase of $8,596,002 from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

| | Governmental Activities | | |
|---|---|---|---|
| | 2017 | 2016 | Net Change |
| **LONG-TERM LIABILITIES** | | | |
| Total general obligation bonds | $ 12,173,141 | $ 12,459,459 | $ (286,318) |
| Compensated absences | 790,459 | 695,996 | 94,463 |
| Net pension liability | 47,997,994 | 38,871,045 | 9,126,949 |
| Less: current portion of long-term debt | (615,000) | (275,908) | (339,092) |
| **Total Long-term Liabilities** | $ 60,346,594 | $ 51,750,592 | $ 8,596,002 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

State revenues are estimated to increase modestly in 2017-18 but there is uncertainty about the State's long-term economic growth. According to the Legislative Analyst's Office, there are concerns about a possible mild recession. In addition, purchasing power has not been restored to pre-2007/08 levels for most school districts as added funding is going to pay for increases in CalPERS and CalSTRS rates increases and rising health care costs.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2017. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2017-18 fiscal year.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Business Official/Business Manager, at Barstow Unified School District, 551 South Avenue "H"; Barstow, California 92311.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**STATEMENT OF NET POSITION**
**JUNE 30, 2017**

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash and investments | $ 44,807,316 |
| Accounts receivable | 2,385,743 |
| Inventory | 428,169 |
| Prepaid expenses | 392 |
| Other current assets | 67,848 |
| Capital assets, not depreciated | 4,543,993 |
| Capital assets, net of accumulated depreciation | 23,363,433 |
| **Total Assets** | 75,596,894 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred outflows related to pensions | 11,939,494 |
| Deferred amount on refunding | 379,662 |
| **Total Deferred Outflows of Resources** | 12,319,156 |
| **LIABILITIES** | |
| Accrued liabilities | 4,208,835 |
| Long-term liabilities, current portion | 615,000 |
| Long-term liabilities, non-current portion | 60,346,594 |
| **Total Liabilities** | 65,170,429 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows related to pensions | 1,524,062 |
| **Total Deferred Inflows of Resources** | 1,524,062 |
| **NET POSITION** | |
| Net investment in capital assets | 18,751,441 |
| Restricted: | |
| Capital projects | 16,865,388 |
| Debt service | 901,181 |
| Educational programs | 2,898,749 |
| All others | 1,539,830 |
| Unrestricted | (19,735,030) |
| **Total Net Position** | $ 21,221,559 |

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

# BARSTOW UNIFIED SCHOOL DISTRICT
# STATEMENT OF ACTIVITIES
# FOR THE YEAR ENDED JUNE 30, 2017

| Function/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expenses) Revenues and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | |
| Instruction | $ 41,525,628 | $ - | $ 9,030,578 | $ (32,495,050) |
| Instruction-related services | | | | |
| Instructional supervision and administration | 1,467,768 | - | 664,699 | (803,069) |
| Instructional library, media, and technology | 616,893 | - | - | (616,893) |
| School site administration | 5,194,306 | - | 196,460 | (4,997,846) |
| Pupil services | | | | |
| Home-to-school transportation | 2,860,759 | - | - | (2,860,759) |
| Food services | 2,644,375 | 279,965 | 2,679,745 | 315,335 |
| All other pupil services | 2,548,857 | - | 665,709 | (1,883,148) |
| General administration | | | | |
| Centralized data processing | 1,409,382 | - | 421 | (1,408,961) |
| All other general administration | 3,221,644 | 11,768 | 474,843 | (2,735,033) |
| Plant services | 8,829,920 | 11,961 | 6,871,396 | (1,946,563) |
| Interest on long-term debt | 543,175 | - | - | (543,175) |
| Other Outgo | 224,865 | 2,767 | 2,009,707 | 1,787,609 |
| **Total Governmental Activities** | $ 71,087,572 | $ 306,461 | $ 22,593,558 | (48,187,553) |
| General revenues | | | | |
| Taxes and subventions | | | | |
| Property taxes, levied for general purposes | | | | 5,316,890 |
| Property taxes, levied for debt service | | | | 878,072 |
| Property taxes, levied for other specific purposes | | | | 182,994 |
| Federal and state aid not restricted for specific purposes | | | | 53,263,888 |
| Interest and investment earnings | | | | 165,402 |
| Interagency revenues | | | | 87,647 |
| Miscellaneous | | | | 567,131 |
| **Subtotal, General Revenue** | | | | 60,462,024 |
| **CHANGE IN NET POSITION** | | | | 12,274,471 |
| **Net Position - Beginning** | | | | 8,947,088 |
| **Net Position - Ending** | | | | $ 21,221,559 |

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

**BARSTOW UNIFIED SCHOOL DISTRICT**
**GOVERNMENTAL FUNDS**
**BALANCE SHEET**
**JUNE 30, 2017**

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and investments | $ 21,703,176 | $ 17,292,091 | $ 5,812,049 | $ 44,807,316 |
| Accounts receivable | 1,972,587 | 52,237 | 360,919 | 2,385,743 |
| Stores inventory | 326,402 | - | 101,767 | 428,169 |
| Prepaid expenditures | 392 | - | - | 392 |
| Other current assets | - | - | 67,848 | 67,848 |
| **Total Assets** | $ 24,002,557 | $ 17,344,328 | $ 6,342,583 | $ 47,689,468 |
| **LIABILITIES** | | | | |
| Accrued liabilities | $ 3,131,812 | $ 541,583 | $ 436,565 | $ 4,109,960 |
| **Total Liabilities** | 3,131,812 | 541,583 | 436,565 | 4,109,960 |
| **FUND BALANCES** | | | | |
| Nonspendable | 376,794 | - | 106,767 | 483,561 |
| Restricted | 1,424,673 | 16,802,745 | 4,077,809 | 22,305,227 |
| Committed | - | - | 1,721,442 | 1,721,442 |
| Assigned | 19,069,278 | - | - | 19,069,278 |
| **Total Fund Balances** | 20,870,745 | 16,802,745 | 5,906,018 | 43,579,508 |
| **Total Liabilities and Fund Balances** | $ 24,002,557 | $ 17,344,328 | $ 6,342,583 | $ 47,689,468 |

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

**BARSTOW UNIFIED SCHOOL DISTRICT**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION**
**JUNE 30, 2017**

| | | | |
|---|---|---|---|
| **Total Fund Balance - Governmental Funds** | | | $ 43,579,508 |
| Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because: | | | |
| Capital assets: | | | |
| 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 | $ | 61,144,215 | |
| Accumulated depreciation | | (33,236,789) | 27,907,426 |
| Deferred amount on refunding: | | | |
| In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements: | | | 379,662 |
| Unmatured interest on long-term debt: | | | |
| 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: | | | (98,875) |
| Long-term liabilities: | | | |
| 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 governmental activities consist of: | | | |
| Total general obligation bonds | $ | 12,173,141 | |
| Compensated absences | | 790,459 | |
| Net pension liability | | 47,997,994 | (60,961,594) |
| Deferred outflows and inflows of resources relating to pensions: | | | |
| In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. | | | |
| Deferred outflows of resources related to pensions | $ | 11,939,494 | |
| Deferred inflows of resources related to pensions | | (1,524,062) | 10,415,432 |
| **Total Net Position - Governmental Activities** | | | $ 21,221,559 |

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

**BARSTOW UNIFIED SCHOOL DISTRICT**
**GOVERNMENTAL FUNDS**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| LCFF sources | $ 54,615,028 | $ - | $ 1,555,000 | $ 56,170,028 |
| Federal sources | 4,916,227 | - | 2,587,264 | 7,503,491 |
| Other state sources | 4,928,304 | - | 1,061,656 | 5,989,960 |
| Other local sources | 1,800,000 | 8,834,549 | 1,252,314 | 11,886,863 |
| **Total Revenues** | 66,259,559 | 8,834,549 | 6,456,234 | 81,550,342 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| Instruction | 38,275,429 | - | 172,430 | 38,447,859 |
| Instruction-related services | | | | |
| Instructional supervision and administration | 1,377,579 | - | - | 1,377,579 |
| Instructional library, media, and technology | 602,065 | - | - | 602,065 |
| School site administration | 4,808,512 | - | 13,414 | 4,821,926 |
| Pupil services | | | | |
| Home-to-school transportation | 2,818,054 | - | - | 2,818,054 |
| Food services | 5,954 | - | 2,729,928 | 2,735,882 |
| All other pupil services | 2,220,569 | - | 112,347 | 2,332,916 |
| General administration | | | | |
| Centralized data processing | 1,337,650 | - | - | 1,337,650 |
| All other general administration | 2,887,244 | - | 140,000 | 3,027,244 |
| Plant services | 6,551,356 | 1,473,408 | 545,465 | 8,570,229 |
| Facilities acquisition and maintenance | 58,369 | 1,285,583 | - | 1,343,952 |
| Transfers to other agencies | 180,574 | - | - | 180,574 |
| Debt service | | | | |
| Principal | - | - | 275,908 | 275,908 |
| Interest and other | - | - | 556,364 | 556,364 |
| **Total Expenditures** | 61,123,355 | 2,758,991 | 4,545,856 | 68,428,202 |
| **Excess (Deficiency) of Revenues Over Expenditures** | 5,136,204 | 6,075,558 | 1,910,378 | 13,122,140 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | - | 2,000,000 | - | 2,000,000 |
| Transfers out | (2,000,000) | - | - | (2,000,000) |
| **Net Financing Sources (Uses)** | (2,000,000) | 2,000,000 | - | - |
| **NET CHANGE IN FUND BALANCE** | 3,136,204 | 8,075,558 | 1,910,378 | 13,122,140 |
| **Fund Balance - Beginning** | 17,734,541 | 8,727,187 | 3,995,640 | 30,457,368 |
| **Fund Balance - Ending** | $ 20,870,745 | $ 16,802,745 | $ 5,906,018 | $ 43,579,508 |

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

# BARSTOW UNIFIED SCHOOL DISTRICT
# RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

| | | |
|---|---|---|
| **Net Change in Fund Balances - Governmental Funds** | | $ 13,122,140 |
| Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because: | | |
| Capital outlay: | | |
| 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: | $ 1,460,201 | |
| Depreciation expense: | (1,058,395) | 401,806 |
| Debt service: | | |
| 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 reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: | | 585,000 |
| Deferred amounts on refunding: | | |
| In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was: | | (44,291) |
| Unmatured interest on long-term debt: | | |
| In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period 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: | | 2,779 |
| Accreted interest on long-term debt: | | |
| In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. | | (298,682) |
| Compensated absences: | | |
| In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: | | (94,463) |
| Pensions: | | |
| In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: | | (1,399,818) |
| **Change in Net Position of Governmental Activities** | | $ 12,274,471 |

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

**BARSTOW UNIFIED SCHOOL DISTRICT**
**FIDUCIARY FUNDS**
**STATEMENT OF NET POSITION**
**JUNE 30, 2017**

| | Agency Funds |
|---|---|
| | Student Body Fund |
| **ASSETS** | |
| Cash and investments | $ 57,370 |
| **Total Assets** | $ 57,370 |
| | |
| **LIABILITIES** | |
| Due to student groups | $ 57,370 |
| **Total Liabilities** | $ 57,370 |

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Financial Reporting Entity

The Barstow Unified District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual.* The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. 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.

### B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

### C. Basis of Presentation

**Government-Wide Statements.** The statement of net position and the statement of activities display information about the primary government (the District). 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 revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue 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. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Presentation (continued)**

**Fund Financial Statements.** The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental 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 non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

**Major Governmental Funds**

**General Fund.** The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

**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).

**Non-Major Governmental Funds**

**Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

**Adult Education Fund:** This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections* 52616[b] and 52501.5[a]).

**Child Development Fund:** This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section* 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section* 8328).

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Presentation (continued)**

**Non-Major Governmental Funds (continued)**

**Special Revenue Funds (continued)**

**Cafeteria Special Revenue Fund:** This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections* 38090–38093). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections* 38091 and 38100).

**Deferred Maintenance Fund:** This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections* 17582–17587). In addition, whenever the state funds provided pursuant to *Education Code Sections* 17584 and 17585 (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections* 17582 and 17583).

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

**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. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section* 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section* 41003).

**Capital Facilities Fund:** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections* 17620–17626). The authority for these levies may be county/city ordinances (*Government Code Sections* 65970–65981) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section* 66006).

**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). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### C. Basis of Presentation (continued)

**Fiduciary Funds**

**Trust and Agency Funds:** Trust and agency 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.

**Student Body Fund:** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections* 48930–48938).

### D. Basis of Accounting – Measurement Focus

**Government-Wide and Fiduciary Financial Statements**
The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

**Governmental Funds**
Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

**Revenues – Exchange and Non-Exchange Transactions**
Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Basis of Accounting – Measurement Focus (continued)**

**Revenues – Exchange and Non-Exchange Transactions (continued)**
Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**Expenses/Expenditures**
On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. 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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position**

**Cash and Cash Equivalents**
The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

**Inventories**
Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

**Capital Assets**
The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of $5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

| Asset Class | Estimated Useful Life |
|---|---|
| Buildings | 20 to 50 years |
| Improvements | 5 to 50 years |
| Equipment | 2 to 15 years |

**Interfund Balances**
On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)**

**Compensated Absences**

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

**Accrued Liabilities and Long-Term Obligations**

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

**Premiums and Discounts**

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

**Deferred Outflows/Deferred Inflows of Resources**

In addition to assets, the District 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 District 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 so will not be recognized as an inflow of resources (revenue) until that time.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) 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, 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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)**

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

*Restricted* - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner, in which they were imposed, that is, by the same formal action of the Governing Board.

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Interfund Activity**

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

**G. Estimates**

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

**H. 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 purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

**I. Property Tax**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J. New Accounting Pronouncements**

**GASB Statement No. 75** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

**GASB Statement No. 80** – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14.* This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 80 for the year ended June 30, 2017.

**GASB Statement No. 82** – In March 2016, GASB issued Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73.* This standard's primary objective is to address issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The majority of this Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 82 for the year ended June 30, 2017.

## NOTE 2 – CASH AND INVESTMENTS

### A. Summary of Cash and Investments

| | Governmental Activities | Fiduciary Funds |
|---|---|---|
| Investment in county treasury | $ 44,752,316 | $ - |
| Cash on hand and in banks | - | 57,370 |
| Cash in revolving fund | 55,000 | - |
| **Total cash and investments** | $ 44,807,316 | $ 57,370 |

### B. Policies and Practices

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

**Investment in County Treasury** – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section* 41001. The San Bernardino County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**NOTE 2 – CASH AND INVESTMENTS (continued)**

**C. General Authorizations**

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately $44,703,351 and an amortized book value of $44,752,316. The average weighted maturity for this pool is 341 days.

**E. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2017, the pooled investments in the County Treasury were rated AAA/V1.

**NOTE 2 – CASH AND INVESTMENTS (continued)**

**F. Custodial Credit Risk – Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk.

**G. Fair Value**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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

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

The District's fair value measurements at June 30, 2017 were as follows:

| | Uncategorized |
|---|---|
| Investment in county treasury | $ 44,703,351 |
| **Total fair market value of investments** | $ 44,703,351 |

## NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the following:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Activities |
|---|---|---|---|---|
| Federal Government | | | | |
| Categorical aid | $ 1,180,368 | $ - | $ - | $ 1,180,368 |
| State Government | | | | |
| Categorical aid | 20,680 | - | 344,811 | 365,491 |
| Lottery | 248,532 | - | - | 248,532 |
| Local Government | | | | |
| Other local sources | 523,007 | 52,237 | 16,108 | 591,352 |
| **Total** | $ 1,972,587 | $ 52,237 | $ 360,919 | $ 2,385,743 |

## NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

| | Balance July 01, 2016 | Additions | Deletions | Balance June 30, 2017 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital assets not being depreciated | | | | |
| Land | $ 3,083,792 | $ - | $ - | $ 3,083,792 |
| Construction in progress | - | 1,460,201 | - | 1,460,201 |
| Total Capital Assets not Being Depreciated | 3,083,792 | 1,460,201 | - | 4,543,993 |
| Capital assets being depreciated | | | | |
| Land improvements | 6,955,256 | - | - | 6,955,256 |
| Buildings & improvements | 43,073,783 | - | - | 43,073,783 |
| Furniture & equipment | 6,571,183 | - | - | 6,571,183 |
| Total Capital Assets Being Depreciated | 56,600,222 | - | - | 56,600,222 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 4,127,024 | 253,835 | - | 4,380,859 |
| Buildings & improvements | 21,697,817 | 752,388 | - | 22,450,205 |
| Furniture & equipment | 6,353,553 | 52,172 | - | 6,405,725 |
| Total Accumulated Depreciation | 32,178,394 | 1,058,395 | - | 33,236,789 |
| **Governmental Activities** | | | | |
| **Capital Assets, net** | $ 27,505,620 | $ 401,806 | $ - | $ 27,907,426 |

**NOTE 4 – CAPITAL ASSETS (continued)**

Depreciation expense was charged to governmental activities as follows:

| Governmental Activities | |
|---|---|
| Instruction | $ 698,541 |
| School site administration | 74,088 |
| Home-to-school transportation | 42,336 |
| Food services | 21,168 |
| All other pupil services | 42,336 |
| Centralized data processing | 52,919 |
| All other general administration | 10,584 |
| Plant services | 116,423 |
| Total depreciation expense | $1,058,395 |

The District has closed Barstow Intermediate School effective the year ended June 30, 2009, due to declining enrollment. Management has not established a future plan for the facility. The net book value of the asset at June 30, 2017 was $2,469,513. The District has closed Hinkley School effective the year ended June 30, 2013, due to declining enrollment. Management has not established a future plan for the facility. The net book value of the asset at June 30, 2017 was $921,481.

**NOTE 5 – INTERFUND TRANSACTIONS**

Individual interfund receivable and payable balances at June 30, 2017 were as follows:

| | Interfund Transfers In | |
|---|---|---|
| Interfund Transfers Out | Special Reserve Fund for Capital Outlay Projects | Total |
| General Fund | $ 2,000,000 | $ 2,000,000 |
| **Total Interfund Transfers** | $ 2,000,000 | $ 2,000,000 |

| | |
|---|---|
| The General Fund owed the Special Reserve Fund for Capital Outlay Projects for costs associated with school site renovations. | $ 2,000,000 |
| **Total** | $ 2,000,000 |

## NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2017 consisted of the following:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | District-Wide | Total Governmental Activities |
|---|---|---|---|---|---|
| Payroll | $ 661,933 | $ - | $ 27,322 | $ - | $ 689,255 |
| Vendors payable | 2,469,879 | 541,583 | 409,243 | - | 3,420,705 |
| Unmatured interest | - | - | - | 98,875 | 98,875 |
| **Total** | $ 3,131,812 | $ 541,583 | $ 436,565 | $ 98,875 | $ 4,208,835 |

## NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2017 consisted of the following:

| | Balance July 01, 2016 | Additions | Deductions | Balance June 30, 2017 | Balance Due In One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| General obligation bonds | $ 12,459,459 | $ 298,682 | $ 585,000 | $ 12,173,141 | $ 615,000 |
| Compensated absences | 695,996 | 94,463 | - | 790,459 | - |
| Net pension liability | 38,871,045 | 9,126,949 | - | 47,997,994 | - |
| **Total** | $ 52,026,500 | $ 9,520,094 | $ 585,000 | $ 60,961,594 | $ 615,000 |

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for compensated absences and pension contributions are typically liquidated in the General Fund and the Non-Major Governmental Funds.

### A. General Obligation Bonds

| Series | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 01, 2016 | Additions | Deductions | Bonds Outstanding June 30, 2017 |
|---|---|---|---|---|---|---|---|---|
| Election 2001, Series A | March 27, 2002 | August 1, 2026 | 3.00% - 5.25% | $ 8,037,996 | $ 396,645 | $ 3,355 | $ 400,000 | $ - |
| Election 2001, Series B | July 14, 2004 | August 1, 2038 | 3.00% - 8.00% | 5,961,853 | 4,282,814 | 295,327 | - | 4,578,141 |
| 2011 Refunding | December 15, 2011 | August 1, 2026 | 3.70% | 5,275,000 | 4,435,000 | - | 35,000 | 4,400,000 |
| 2013 Refunding | May 17, 2013 | August 1, 2026 | 2.50% | 3,585,000 | 3,345,000 | - | 150,000 | 3,195,000 |
| | | | | | $ 12,459,459 | $ 298,682 | $ 585,000 | $ 12,173,141 |

#### Election 2001 General Obligation Bonds

In an election held on November 6, 2001, the voters authorized the District to issue $14,000,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of making necessary repairs, upgrades and to increase safety/security at Barstow High School, including plumbing, heating, air conditioning, electrical systems, construct additional classrooms, restrooms, a new physical education building, remove deteriorating buildings and renovate Garver Memorial Auditorium as a multipurpose center. There were two issuances under this election:

**NOTE 7 – LONG-TERM DEBT (continued)**

**A. General Obligation Bonds (continued)**

**Election 2001 General Obligation Bonds, continued**

- Series A, which was issued on March 27, 2002, for $8,037,996 with interest rates ranging from 3.00-5.250 percent. The original issuance consisted of $3,570,000 in current interest serial bonds, $4,275,000 in current interest term bonds, and $192,996 (accreting to $800,000) in capital appreciation serial bonds. At June 30, 2017, there was no principal balance outstanding.

- Series B, which was issued on July 14, 2005, for $5,961,853 with interest rates ranging from 3.00-8.00 percent. The original issuance consisted of $4,020,000 in current interest serial bonds and $1,941,853 (accreting to $12,450,000) in capital appreciation serial bonds. At June 30, 2017, the principal outstanding is $4,578,141.

**2011 Refunding General Obligation Bond**

On December 15, 2011, the District issued Series 2011 General Obligation Refunding Bonds for an aggregate amount of $5,275,000, and consists of current interest bonds bearing fixed interest rate of 3.7% with a maturity date of August 1, 2026. The net proceeds of $5,138,569 (after issuance costs of $136,431) were used to refund a portion of the District's Election 2001, Series 2002A general obligation bonds and to pay certain costs of issuance associated with the Refunding Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred charges on refunding of $253,335 remain to be amortized. This advanced refunding was undertaken to reduce total debt service payments and resulted in an economic gain of $270,333. As of June 30, 2017, the principal balance on the defeased debt was paid in full and the principal balance on the refunding bonds amounted to $4,400,000.

**2013 Refunding General Obligation Bond**

On May 17, 2013, the District issued Series 2013 General Obligation Refunding Bonds for an aggregate amount of $3,585,000, and consists of current interest bonds bearing fixed interest rate of 2.5% with a maturity date of August 1, 2026. The net proceeds of $3,442,491 (after issuance costs of $142,509) were used to refund a portion of the District's Election 2001, Series B general obligation bonds and to pay certain costs of issuance associated with the Refunding Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred charges on refunding of $170,618 remain to be amortized. This advanced refunding was undertaken to reduce total debt service payments and results in an economic gain of $338,998. As of June 30, 2017, the principal balance on the defeased debt was paid in full and the principal balance on the refunding bonds amounted to $3,195,000.

**NOTE 7 – LONG-TERM DEBT (continued)**

**B. Debt Service Requirements to Maturity – Bonds**

The bonds mature through 2039 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 615,000 | $ 232,588 | $ 847,588 |
| 2019 | 645,000 | 212,008 | 857,008 |
| 2020 | 675,000 | 190,588 | 865,588 |
| 2021 | 710,000 | 168,205 | 878,205 |
| 2022 | 735,000 | 145,043 | 880,043 |
| 2023 - 2027 | 4,215,000 | 343,203 | 4,558,203 |
| 2028 - 2032 | 730,417 | 4,319,583 | 5,050,000 |
| 2033 - 2037 | 909,586 | 4,340,414 | 5,250,000 |
| 2038 - 2039 | 301,849 | 1,848,151 | 2,150,000 |
| Accretion | 2,636,289 | (2,636,289) | - |
| Total | $ 12,173,141 | $ 9,163,494 | $ 21,336,635 |

**C. Compensated Absences**

Total unpaid employee compensated absences as of June 30, 2017 amounted to $790,459. This amount is included as part of long-term liabilities in the government-wide financial statements.

**D. Net Pension Liability**

The District's beginning net pension liability was $38,871,045 and increased by $9,126,949 during the year ended June 30, 2017. The ending net pension liability at June 30, 2017 was $47,997,994. See Note 10 for additional information regarding the net pension liability.

## NOTE 8 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2017:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Non-spendable | | | | |
| Revolving cash | $ 50,000 | $ - | $ 5,000 | $ 55,000 |
| Stores inventory | 326,402 | - | 101,767 | 428,169 |
| Prepaid expenditures | 392 | - | - | 392 |
| Total non-spendable | 376,794 | - | 106,767 | 483,561 |
| Restricted | | | | |
| Educational programs | 1,424,673 | - | 1,474,076 | 2,898,749 |
| Capital projects | - | 16,802,745 | 63,847 | 16,866,592 |
| Debt service | - | - | 1,000,056 | 1,000,056 |
| All others | - | - | 1,539,830 | 1,539,830 |
| Total restricted | 1,424,673 | 16,802,745 | 4,077,809 | 22,305,227 |
| Committed | | | | |
| Other commitments | - | - | 1,721,442 | 1,721,442 |
| Total committed | - | - | 1,721,442 | 1,721,442 |
| Assigned | | | | |
| Postemployment benefits | 887,682 | - | - | 887,682 |
| Other assignments | 18,181,596 | - | - | 18,181,596 |
| Total assigned | 19,069,278 | - | - | 19,069,278 |
| **Total** | $ 20,870,745 | $ 16,802,745 | $ 5,906,018 | $ 43,579,508 |

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than three percent of General Fund expenditures and other financing uses.

## NOTE 9 – RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. The District participates in the Southern California Schools Risk Management (SCSRM) workers' compensation program and purchases liability insurance through the JPA. The District participates in Schools' Excess Liability Fund (SELF) public entity risk pool for the purchase of excess liability coverage and Self-Insurance Schools of California (SISC III) for medical, dental, and vision health care benefits.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

## NOTE 10 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement 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). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

| | Net pension liability | Deferred outflows related to pensions | Deferred inflows related to pensions | Pension expense |
|---|---|---|---|---|
| STRS Pension | $ 34,433,110 | $ 8,064,050 | $ 839,957 | $ 3,821,668 |
| PERS Pension | 13,564,884 | 3,875,444 | 684,105 | 1,619,737 |
| **Total** | $ 47,997,994 | $ 11,939,494 | $ 1,524,062 | $ 5,441,405 |

### California State Teachers' Retirement System (CalSTRS)

### Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

### Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

#### *CalSTRS 2% at 60*

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

**NOTE 10 – PENSION PLANS (continued)**

**California State Teachers' Retirement System (CalSTRS) (continued)**

**Benefits provided (continued)**

***CalSTRS 2% at 62***

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

**Contributions**

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2017, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were $2,845,397 for the year ended June 30, 2017.

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately $1,686,293 to CalSTRS.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | | |
|---|---|---|
| District's proportionate share of the net pension liability | $ | 34,433,110 |
| State's proportionate share of the net pension liability associated with the District | | 19,605,041 |
| Total | $ | 54,038,151 |

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. 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. At June 30, 2016, the District's proportion was 0.043 percent, which was an increase of 0.00003 percent from its proportion measured as of June 30, 2015.

**NOTE 10 – PENSION PLANS (continued)**

**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)**

For the year ended June 30, 2017, the District recognized pension expense of $3,821,668. In addition, the District recognized pension expense and revenue of $3,497,994 for support provided by the State. At June 30, 2017, 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 |
|---|---|---|
| Differences between projected and actual earnings on plan investments | $ 2,737,415 | $ - |
| Differences between expected and actual experience | - | 839,957 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 2,472,238 | - |
| District contributions subsequent to the measurement date | 2,854,397 | - |
| | $ 8,064,050 | $ 839,957 |

The $2,854,397 reported as 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 year ended June 30, 2018. Other 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 |
|---|---|---|
| 2018 | $ 553,045 | $ 153,297 |
| 2019 | 553,045 | 153,297 |
| 2020 | 2,084,593 | 153,297 |
| 2021 | 1,520,028 | 153,297 |
| 2022 | 493,321 | 153,297 |
| 2023 | 5,621 | 73,472 |
| | $ 5,209,653 | $ 839,957 |

**NOTE 10 – PENSION PLANS (continued)**

**California State Teachers' Retirement System (CalSTRS) (continued)**

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Consumer Price Inflation | 3.00% |
| Investment Yield* | 7.60% |
| Wage Inflation | 3.75% |

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016 are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-Term* Expected Real Rate of Return |
|---|---|---|
| Global Equity | 47% | 6.30% |
| Private Equity | 13% | 9.30% |
| Real Estate | 13% | 5.20% |
| Inflation Sensitive | 4% | 3.80% |
| Fixed Income | 12% | 0.30% |
| Absolute Return | 9% | 2.90% |
| Cash/Liquidity | 2% | -1.00% |
| | 100% | |

* 20-year geometric average

**NOTE 10 – PENSION PLANS (continued)**

**California State Teachers' Retirement System (CalSTRS) (continued)**

**Discount rate**

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan'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.

**Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

| | 1% Decrease (6.60%) | Current Discount Rate (7.60%) | 1% Increase (8.60%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 49,557,011 | $ 34,433,110 | $ 21,872,077 |

**Pension plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

**NOTE 10 – PENSION PLANS (continued)**

**California Public Employees' Retirement System (CalPERS)**

**Plan Description**

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

**Benefits provided**

The benefits for the defined benefit plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

**Contributions**

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2017 was 13.888% of annual payroll. Contributions to the plan from the District were $1,187,190 for the year ended June 30, 2017.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the District reported a liability of $13,564,884 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. 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. At June 30, 2016, the District's proportion was 0.069 percent, which was a decrease of 0.00071 percent from its proportion measured as of June 30, 2015.

**NOTE 10 – PENSION PLANS (continued)**

**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)**

For the year ended June 30, 2017, the District recognized pension expense of $1,619,737. At June 30, 2017, 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 |
|---|---|---|
| Differences between projected and actual earnings on plan investments | $ 2,104,834 | $ - |
| Differences between expected and actual experience | 583,420 | - |
| Changes in assumptions | - | 407,544 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | 276,561 |
| District contributions subsequent to the measurement date | 1,187,190 | - |
| | $ 3,875,444 | $ 684,105 |

The $1,187,190 reported as 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 year ended June 30, 2018. Other 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 |
|---|---|---|
| 2018 | $ 565,209 | $ 341,114 |
| 2019 | 545,257 | 318,125 |
| 2020 | 1,028,445 | 24,866 |
| 2021 | 549,343 | - |
| | $ 2,688,254 | $ 684,105 |

**NOTE 10 – PENSION PLANS (continued)**

**California Public Employees' Retirement System (CalPERS) (continued)**

**Actuarial assumptions**

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Consumer Price Inflation | 2.75% |
| Investment Yield* | 7.65% |
| Wage Inflation | Varies by Entry Age and Service |

* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**NOTE 10 – PENSION PLANS (continued)**

**California Public Employees' Retirement System (CalPERS) (continued)**

**Actuarial assumptions (continued)**

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| Asset Class | Assumed Asset Allocation | Real Return Years 1-10* | Real Return Years 11+** |
|---|---|---|---|
| Global Equity | 51% | 5.25% | 5.71% |
| Global Debt Securities | 20% | 0.99% | 2.43% |
| Inflation Assets | 6% | 0.45% | 3.36% |
| Private Equity | 10% | 6.83% | 6.95% |
| Real Estate | 10% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2% | 4.50% | 5.09% |
| Liquidity | 1% | -0.55% | -1.05% |
| | 100% | | |

* An expected inflation of 2.5% used for this period
** An expected inflation of 3.0% used for this period

**Discount rate**

The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS' website.

**Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

| | 1% Decrease (6.65%) | Current Discount Rate (7.65%) | 1% Increase (8.65%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 20,238,883 | $ 13,564,884 | $ 8,007,467 |

**NOTE 10 – PENSION PLANS (continued)**

**California Public Employees' Retirement System (CalPERS) (continued)**

**Pension plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

**B. Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

**NOTE 12 – PARTICIPATION IN JOINT POWERS AUTHORITIES**

The District is a member of Schools' Excess Liability Fund (SELF), Southern California Schools Risk Management (SCSRM) public entity risk pools, and Partners in Nutrition Cooperative (PINCO) JPA. The District pays annual premiums for its medical, dental and vision, workers' compensation, and property liability coverage. The District pays PINCO for commodity processing, storage, and purchasing. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

## NOTE 13 – DEFERRED OUTFLOWS OF RESOURCES

**Refunded Debt**

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2017, the deferred amount on refunding was $379,662.

# REQUIRED SUPPLEMENTARY INFORMATION

**BARSTOW UNIFIED SCHOOL DISTRICT**
**GENERAL FUND – BUDGETARY COMPARISON SCHEDULE**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | Budgeted Amounts | | Actual* | Variances - |
|---|---|---|---|---|
| | Original | Final | (Budgetary Basis) | Final to Actual |
| **REVENUES** | | | | |
| LCFF sources | $ 53,542,966 | $ 53,500,842 | $ 54,615,028 | $ 1,114,186 |
| Federal sources | 3,469,076 | 5,620,285 | 4,916,227 | (704,058) |
| Other state sources | 2,872,581 | 5,804,769 | 4,928,304 | (876,465) |
| Other local sources | 1,412,806 | 1,412,806 | 1,762,890 | 350,084 |
| **Total Revenues** | 61,297,429 | 66,338,702 | 66,222,449 | (116,253) |
| **EXPENDITURES** | | | | |
| Certificated salaries | 22,540,666 | 22,680,578 | 23,332,101 | (651,523) |
| Classified salaries | 9,134,684 | 9,707,625 | 9,384,807 | 322,818 |
| Employee benefits | 11,905,544 | 13,776,267 | 12,940,288 | 835,979 |
| Books and supplies | 4,073,721 | 5,271,637 | 5,469,235 | (197,598) |
| Services and other operating expenditures | 10,652,647 | 11,635,317 | 9,956,350 | 1,678,967 |
| Capital outlay | 62,000 | 132,880 | - | 132,880 |
| Other outgo | | | | |
| Excluding transfers of indirect costs | 314,089 | 330,503 | 180,574 | 149,929 |
| Transfers of indirect costs | (122,500) | (165,000) | (140,000) | (25,000) |
| **Total Expenditures** | 58,560,851 | 63,369,807 | 61,123,355 | 2,246,452 |
| **Excess (Deficiency) of Revenues Over Expenditures** | 2,736,578 | 2,968,895 | 5,099,094 | 2,130,199 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers out | (2,000,000) | (2,700,000) | (3,400,000) | (700,000) |
| **Net Financing Sources (Uses)** | (2,000,000) | (2,700,000) | (3,400,000) | (700,000) |
| **NET CHANGE IN FUND BALANCE** | 736,578 | 268,895 | 1,699,094 | 1,430,199 |
| **Fund Balance - Beginning** | 8,991,139 | 12,883,206 | 12,883,206 | - |
| **Fund Balance - Ending** | $ 9,727,717 | $ 13,152,101 | $ 14,582,300 | $ 1,430,199 |

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

See accompanying note to required supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|
| District's proportion of the net pension liability | 0.043% | 0.043% | 0.038% |
| District's proportionate share of the net pension liability | $ 34,433,110 | $ 28,641,906 | $ 22,120,061 |
| State's proportionate share of the net pension liability associated with the District | 19,605,041 | 15,148,370 | 13,357,047 |
| Total | $ 54,038,151 | $ 43,790,276 | $ 35,477,108 |
| District's covered payroll | $ 22,689,960 | $ 21,317,064 | $ 32,253,388 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 151.8% | 134.4% | 68.6% |
| Plan fiduciary net position as a percentage of the total pension liability | 70.0% | 74.0% | 76.5% |

See accompanying note to required supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|
| District's proportion of the net pension liability | 0.069% | 0.069% | 0.070% |
| District's proportionate share of the net pension liability | $ 13,564,884 | $ 10,229,139 | $ 7,919,642 |
| District's covered payroll | $ 8,548,315 | $ 8,252,891 | $ 7,680,257 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 158.7% | 123.9% | 103.1% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.9% | 79.4% | 83.4% |

See accompanying note to required supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|
| Contractually required contribution | $ 2,854,397 | $ 2,287,321 | $ 1,743,770 |
| Contributions in relation to the contractually required contribution* | (2,854,397) | (2,287,321) | (1,743,770) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| District's covered payroll | $ 22,689,960 | $ 21,317,064 | $ 32,253,388 |
| Contributions as a percentage of covered payroll | 12.58% | 10.73% | 5.41% |

*Amounts do not include on behalf contributions

See accompanying note to required supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|
| Contractually required contribution | $ 1,187,190 | $ 2,287,321 | $ 1,743,770 |
| Contributions in relation to the contractually required contribution | (1,187,190) | (2,287,321) | (1,743,770) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| District's covered payroll | $ 8,548,315 | $ 8,252,891 | $ 7,680,257 |
| Contributions as a percentage of covered payroll | 13.89% | 27.72% | 22.70% |

See accompanying note to required supplementary information.

## NOTE 1 – PURPOSE OF SCHEDULES

**Budgetary Comparison Schedule**

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

**Schedule of the District's Proportionate Share of the Net Pension Liability**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

**Schedule of District Contributions**

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered payroll.

## NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, the District incurred the following excesses of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code:

| | Expenditures and Other Uses | | |
|---|---|---|---|
| | Budget | Actual | Excess |
| General Fund | | | |
| Certificated salaries | $ 22,680,578 | $ 23,332,101 | $ 651,523 |
| Books and supplies | $ 5,271,637 | $ 5,469,235 | $ 197,598 |

# SUPPLEMENTARY INFORMATION

# BARSTOW UNIFIED SCHOOL DISTRICT
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE YEAR ENDED JUNE 30, 2017

| Federal Grantor/Pass-Through Grantor/Program or Cluster | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| U. S. DEPARTMENT OF EDUCATION: | | | |
| *Passed through California Department of Education:* | | | |
| Title I, Part A | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | $ 3,149,905 |
| Subtotal Title I, Part A | | | 3,149,905 |
| Title II, Part A | | | |
| Title II, Part A, Teacher Quality | 84.367 | 14341 | 469,750 |
| Subtotal Title II, Part A | | | 469,750 |
| Title III | | | |
| Title III, English Learner Student Program | 84.365 | 14346 | 54,783 |
| Title III, Immigrant Education Program | 84.365 | 15146 | 6,934 |
| Subtotal Title III | | | 61,717 |
| Title VIII, Impact Aid | 84.041 | 10015 | 49,861 |
| Special Education Cluster | | | |
| IDEA Basic Local Assistance Entitlement, Part B, Sec 611 | 84.027 | 13379 | 1,033,372 |
| IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5) | 84.173 | 13430 | 1,006 |
| IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5) | 84.027A | 13682 | 3,064 |
| Subtotal Special Education Cluster | | | 1,037,442 |
| Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act) | 84.048 | 14893 | 57,170 |
| **Total U. S. Department of Education** | | | 4,825,845 |
| U. S. DEPARTMENT OF AGRICULTURE: | | | |
| *Passed through California Department of Education:* | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program - Needy | 10.553 | 13526 | 448,096 |
| National School Lunch Program | 10.555 | 13391 | 1,938,462 |
| Meal Supplements | 10.555 | * | 24,301 |
| USDA Commodities | 10.555 | * | 211,997 |
| **Total U. S. Department of Agriculture** | | | 2,622,856 |
| *Passed through California Department of Health Services:* | | | |
| Medicaid | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 134,912 |
| **Total U. S. Department of Health & Human Services** | | | 134,912 |
| **Total Federal Expenditures** | | | $ 7,583,613 |

* - Pass-Through Entity Identifying Number not available or not applicable

See accompanying note to supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | Second Period Report | Annual Report |
|---|---|---|
| SCHOOL DISTRICT | | |
| TK/K through Third | | |
| Regular ADA | 2,104.85 | 2,108.66 |
| Extended Year Special Education | 8.47 | 8.47 |
| Special Education - Nonpublic Schools | 1.50 | 1.44 |
| Community Day School | 0.82 | 1.14 |
| Total TK/K through Third | 2,115.64 | 2,119.71 |
| Fourth through Sixth | | |
| Regular ADA | 1,442.98 | 1,438.72 |
| Extended Year Special Education | 6.04 | 6.04 |
| Special Education - Nonpublic Schools | 2.05 | 1.43 |
| Extended Year Special Education - Nonpublic Schools | - | 0.01 |
| Community Day School | 5.05 | 6.21 |
| Total Fourth through Sixth | 1,456.12 | 1,452.41 |
| Seventh through Eighth | | |
| Regular ADA | 797.23 | 788.15 |
| Extended Year Special Education | 7.04 | 7.04 |
| Special Education - Nonpublic Schools | 1.80 | 2.88 |
| Extended Year Special Education - Nonpublic Schools | 0.01 | 0.04 |
| Total Seventh through Eighth | 806.08 | 798.11 |
| Ninth through Twelfth | | |
| Regular ADA | 1,405.94 | 1,390.79 |
| Extended Year Special Education | 2.34 | 2.34 |
| Special Education - Nonpublic Schools | 1.93 | 1.68 |
| Extended Year Special Education - Nonpublic Schools | 0.09 | 0.12 |
| Total Ninth through Twelfth | 1,410.30 | 1,394.93 |
| TOTAL SCHOOL DISTRICT | 5,788.14 | 5,765.16 |

See accompanying note to supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SCHEDULE OF INSTRUCTIONAL TIME**
**FOR THE YEAR ENDED JUNE 30, 2017**

| Grade Level | Minutes Requirement | 2016-17 Actual Minutes | Number of Days | Status |
|---|---|---|---|---|
| Kindergarten | 36,000 | 57,315 | 180 | Complied |
| Grade 1 | 50,400 | 55,080 | 180 | Complied |
| Grade 2 | 50,400 | 55,080 | 180 | Complied |
| Grade 3 | 50,400 | 55,080 | 180 | Complied |
| Grade 4 | 54,000 | 55,080 | 180 | Complied |
| Grade 5 | 54,000 | 55,200 | 180 | Complied |
| Grade 6 | 54,000 | 55,535 | 180 | Complied |
| Grade 7 | 54,000 | 63,908 | 180 | Complied |
| Grade 8 | 54,000 | 63,908 | 180 | Complied |
| Grade 9 | 64,800 | 66,978 | 180 | Complied |
| Grade 10 | 64,800 | 66,978 | 180 | Complied |
| Grade 11 | 64,800 | 66,978 | 180 | Complied |
| Grade 12 | 64,800 | 66,978 | 180 | Complied |

See accompanying note to supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | 2018 (Budget) | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| General Fund - Budgetary Basis** | | | | |
| Revenues And Other Financing Sources | $ 66,930,800 | $ 66,222,449 | $ 63,845,004 | $ 54,787,740 |
| Expenditures And Other Financing Uses | 69,540,640 | 64,523,355 | 59,273,220 | 54,764,088 |
| Net change in Fund Balance | $ (2,609,840) | $ 1,699,094 | $ 4,571,784 | $ 23,652 |
| Ending Fund Balance | $ 11,972,461 | $ 14,582,300 | $ 12,883,205 | $ 8,311,421 |
| Available Reserves* | $ 10,542,700 | $ 12,780,833 | $ 10,967,401 | $ 2,910,000 |
| Available Reserves As A Percentage Of Outgo | 15.16% | 19.81% | 18.50% | 5.31% |
| Long-term Debt | $ 60,346,594 | $ 60,961,594 | $ 52,026,500 | $ 43,382,870 |
| Average Daily Attendance At P-2 | 5,906 | 5,788 | 5,680 | 5,601 |

The General Fund balance has increased by $6,270,879 over the past two years. The fiscal year 2017-18 budget projects a decrease of $2,609,840. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long-term obligations have increased by $17,578,724 over the past two years.

Average daily attendance has increased by 187 ADA over the past two years. A further increase of 118 in ADA is anticipated during the 2017-18 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

See accompanying note to supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | General Fund | Special Reserve Fund for Other Than Capital Outlay Projects | Special Reserve Fund for Postemployment Benefits |
|---|---|---|---|
| June 30, 2017, annual financial and budget report fund balance | $ 14,582,300 | $ 5,400,763 | $ 887,682 |
| Adjustments and reclassifications: | | | |
| Increase (decrease) in total fund balances: | | | |
| Fund balance transfer (GASB 54) | 6,288,445 | (5,400,763) | (887,682) |
| Net adjustments and reclassifications | 6,288,445 | (5,400,763) | (887,682) |
| June 30, 2017, audited financial statement fund balance | $ 20,870,745 | $ - | $ - |

See accompanying note to supplementary information.

# BARSTOW UNIFIED SCHOOL DISTRICT
# COMBINING BALANCE SHEET
# JUNE 30, 2017

| | Adult Education Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Building Fund | Capital Facilities Fund | Bond Interest & Redemption Fund | Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and investments | $ 1,572,361 | $ 161 | $ 1,446,545 | $ 1,727,750 | $ 1,201 | $ 63,975 | $ 1,000,056 | $ 5,812,049 |
| Accounts receivable | 4,753 | - | 348,428 | 6,567 | 4 | 1,167 | - | 360,919 |
| Stores inventory | - | - | 101,767 | - | - | - | - | 101,767 |
| Other current assets | - | - | 67,848 | - | - | - | - | 67,848 |
| **Total Assets** | $ 1,577,114 | $ 161 | $ 1,964,588 | $ 1,734,317 | $ 1,205 | $ 65,142 | $ 1,000,056 | $ 6,342,583 |
| **LIABILITIES** | | | | | | | | |
| Accrued liabilities | $ 73,204 | $ - | $ 317,991 | $ 42,870 | $ - | $ 2,500 | $ - | $ 436,565 |
| **Total Liabilities** | 73,204 | - | 317,991 | 42,870 | - | 2,500 | - | 436,565 |
| **FUND BALANCES** | | | | | | | | |
| Non-spendable | - | - | 106,767 | - | - | - | - | 106,767 |
| Restricted | 1,473,915 | 161 | 1,539,830 | - | 1,205 | 62,642 | 1,000,056 | 4,077,809 |
| Committed | 29,995 | - | - | 1,691,447 | - | - | - | 1,721,442 |
| **Total Fund Balances** | 1,503,910 | 161 | 1,646,597 | 1,691,447 | 1,205 | 62,642 | 1,000,056 | 5,906,018 |
| **Total Liabilities and Fund Balance** | $ 1,577,114 | $ 161 | $ 1,964,588 | $ 1,734,317 | $ 1,205 | $ 65,142 | $ 1,000,056 | $ 6,342,583 |

See accompanying note to supplementary information.

# BARSTOW UNIFIED SCHOOL DISTRICT
# COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
# FOR THE YEAR ENDED JUNE 30, 2017

| | Adult Education Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Building Fund | Capital Facilities Fund | Bond Interest & Redemption Fund | Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| LCFF sources | $ - | $ - | $ - | $ 1,555,000 | $ - | $ - | $ - | $ 1,555,000 |
| Federal sources | - | - | 2,587,264 | - | - | - | - | 2,587,264 |
| Other state sources | 870,338 | - | 179,975 | - | - | - | 11,343 | 1,061,656 |
| Other local sources | 11,305 | 1 | 305,507 | 10,801 | 11 | 13,023 | 911,666 | 1,252,314 |
| **Total Revenues** | 881,643 | 1 | 3,072,746 | 1,565,801 | 11 | 13,023 | 923,009 | 6,456,234 |
| **EXPENDITURES** | | | | | | | | |
| Current | | | | | | | | |
| Instruction | 172,430 | - | - | - | - | - | - | 172,430 |
| Instruction-related services | | | | | | | | |
| School site administration | 13,414 | - | - | - | - | - | - | 13,414 |
| Pupil services | | | | | | | | |
| Food services | - | - | 2,729,928 | - | - | - | - | 2,729,928 |
| All other pupil services | 112,347 | - | - | - | - | - | - | 112,347 |
| General administration | | | | | | | | |
| All other general administration | 25,000 | - | 115,000 | - | - | - | - | 140,000 |
| Plant services | - | - | 24,977 | 450,255 | - | 70,233 | - | 545,465 |
| Debt service | | | | | | | | |
| Principal | - | - | - | - | - | - | 275,908 | 275,908 |
| Interest and other | - | - | - | - | - | - | 556,364 | 556,364 |
| **Total Expenditures** | 323,191 | - | 2,869,905 | 450,255 | - | 70,233 | 832,272 | 4,545,856 |
| **Excess (Deficiency) of Revenues Over Expenditures** | 558,452 | 1 | 202,841 | 1,115,546 | 11 | (57,210) | 90,737 | 1,910,378 |
| **NET CHANGE IN FUND BALANCE** | 558,452 | 1 | 202,841 | 1,115,546 | 11 | (57,210) | 90,737 | 1,910,378 |
| **Fund Balance - Beginning** | 945,458 | 160 | 1,443,756 | 575,901 | 1,194 | 119,852 | 909,319 | 3,995,640 |
| **Fund Balance - Ending** | $ 1,503,910 | $ 161 | $ 1,646,597 | $ 1,691,447 | $ 1,205 | $ 62,642 | $ 1,000,056 | $ 5,906,018 |

See accompanying note to supplementary information.

**BARSTOW UNIFIED SCHOOL DISTRICT**
**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**
**FOR THE YEAR ENDED JUNE 30, 2017**

The Barstow Unified School District established in 1966 and consists of an area comprising approximately 1,740 square miles. The District operates six elementary schools, one junior high school, one STEM academy, one high school, one continuation high school, and an independent study program. There were no boundary changes during the year.

**GOVERNING BOARD**

| Member | Office | Term Expires |
|---|---|---|
| Julie Clemmer | President | 2020 |
| Barbara Rose | Vice President | 2020 |
| Ben Rosenberg | Clerk | 2018 |
| Kris Okamuro | Member | 2020 |
| Ray Perea | Member | 2018 |

**DISTRICT ADMINISTRATORS**

Jeff Malan
*Superintendent*

Reyna Garcia
*Chief Business Official/Business Manager*

Scott Godfrey
*Assistant Superintendent, Educational Services*

James Davis
*Assistant Superintendent, Personnel Services*

See accompanying note to supplementary information.

## NOTE 1 – PURPOSE OF SCHEDULES

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, 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 in a prior year that have been expended by June 30, 2017 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2017.

| | CFDA Number | Amount |
|---|---|---|
| Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance | | $ 7,503,491 |
| Child Nutrition: NSL Programs | Various | 35,592 |
| Medi-Cal Billing Option | 93.778 | 44,530 |
| Total Expenditures reported in the Schedule of Expenditures of Federal Awards | | $ 7,583,613 |

The District has not elected to use the 10 percent de Minimis indirect cost rate.

**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**

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections* 46200 through 46208. During the year ended June 30, 2017, the District participated in the Longer Day incentive funding program. As of June 30, 2017, the District had not yet met its target funding.

**NOTE 1 – PURPOSE OF SCHEDULES (continued)**

**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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

**Combining Statements – Non-Major Funds**
These statements provide information on the District's non-major funds.

**Local Education Agency Organization Structure**
This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

# OTHER INDEPENDENT AUDITORS' REPORTS

christy white associates
A PROFESSIONAL ACCOUNTANCY CORPORATION

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California State Board of Accountancy*

# 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*

Independent Auditors' Report

Governing Board
Barstow Unified School District
Barstow, 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 Barstow Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Barstow Unified School District's basic financial statements, and have issued our report thereon dated December 13, 2017

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Barstow Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Barstow Unified School District. Accordingly, we do not express an opinion on the effectiveness of Barstow 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Barstow 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Diego, California
December 13, 2017

christy white associates
A PROFESSIONAL ACCOUNTANCY CORPORATION

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
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San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California State Board of Accountancy*

# REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

## Independent Auditors' Report

Governing Board
Barstow Unified School District
Barstow, California

**Report on Compliance for Each Major Federal Program**

We have audited Barstow 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 Barstow Unified School District's major federal programs for the year ended June 30, 2017. Barstow Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Barstow 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 Barstow 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 Barstow Unified School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Barstow 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, 2017.

**Report on Internal Control Over Compliance**

Management of Barstow 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 Barstow 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 Barstow Unified School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

San Diego, California
December 13, 2017

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LOS ANGELES
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## REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Barstow Unified School District
Barstow, California

**Report on State Compliance**

We have audited Barstow Unified School District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Barstow Unified School District's state programs for the fiscal year ended June 30, 2017, as identified below.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Barstow Unified School District's state 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. 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 above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Barstow 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 with the requirements referred to above. However, our audit does not provide a legal determination of Barstow Unified School District's compliance with those requirements.

*Opinion on State Compliance*

In our opinion, Barstow Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2017.

*Procedures Performed*

In connection with the audit referred to above, we selected and tested transactions and records to determine Barstow Unified School District's compliance with the state laws and regulations applicable to the following items:

| PROGRAM NAME | PROCEDURES PERFORMED |
|---|---|
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | Yes |
| Continuation Education | Yes |
| Instructional Time | Yes |
| Instructional Materials | Yes |
| Ratios of Administrative Employees to Teachers | Yes |
| 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 |
| Mental Health Expenditures | Yes |
| Educator Effectiveness | Yes |
| California Clean Energy Jobs Act | Yes |

*Procedures Performed (continued)*

| PROGRAM NAME | PROCEDURES PERFORMED |
|---|---|
| After 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 |
| Immunizations | Yes |
| Attendance; for charter schools | Not Applicable |
| Mode of Instruction; for charter schools | Not Applicable |
| Nonclassroom-Based Instruction/Independent Study; for charter schools | Not Applicable |
| Determination of Funding for Nonclassroom-Based Instruction; for charter schools | Not Applicable |
| Annual Instructional Minutes – Classroom Based; for charter schools | Not Applicable |
| Charter School Facility Grant Program | Not Applicable |

San Diego, California
December 13, 2017

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**BARSTOW UNIFIED SCHOOL DISTRICT**
**SUMMARY OF AUDITORS' RESULTS**
**FOR THE YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENTS**

| | |
|---|---|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None Reported |
| Non-compliance material to financial statements noted? | No |

**FEDERAL AWARDS**

| | |
|---|---|
| Internal control over major program: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None Reported |
| Type of auditors' report issued: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)? | No |
| Identification of major programs: | |

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 10.553, 10.555 | Child Nutrition Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 |
| Auditee qualified as low-risk auditee? | Yes |

**STATE AWARDS**

| | |
|---|---|
| Internal control over state programs: | |
| Material weaknesses identified? | No |
| Significant deficiency(ies) identified? | None Reported |
| Type of auditors' report issued on compliance for state programs: | Unmodified |

**BARSTOW UNIFIED SCHOOL DISTRICT**
**FINANCIAL STATEMENT FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| FIVE DIGIT CODE | AB 3627 FINDING TYPE |
|---|---|
| 20000 | Inventory of Equipment |
| 30000 | Internal Control |

***There were no financial statement findings for the year ended June 30, 2017.***

**BARSTOW UNIFIED SCHOOL DISTRICT**
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| FIVE DIGIT CODE | AB 3627 FINDING TYPE |
|---|---|
| 50000 | Federal Compliance |

***There were no federal award findings or questioned costs for the year ended June 30, 2017.***

**BARSTOW UNIFIED SCHOOL DISTRICT**
**STATE AWARD FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| FIVE DIGIT CODE | AB 3627 FINDING TYPE |
|---|---|
| 10000 | Attendance |
| 40000 | State Compliance |
| 42000 | California School Facilities Programs |
| 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 state award findings or questioned costs for the year ended June 30, 2017.***

**FINDING #2016-1 - INDEPENDENT STUDY ATTENDANCE (10000)**

**Criteria:** Pursuant to Education Code Section 51747(c)(8), "a current written agreement for each independent study pupil shall be maintained on file including, but not limited to,…each agreement shall be signed, prior to the commencement of independent study, by the pupil, the pupil's parent, legal guardian, or caregiver, if the pupil is less than 18 years of age, the certificated employee who has been designated as having responsibility for the general supervision of independent study, and all persons who have direct responsibility for providing assistance to the pupil."

**Condition:** While reviewing independent study attendance, it was noted that contracts were not consistently prepared, some were found to not contain all required signatures.

**Questioned costs:** The sites recorded 70 student days of attendance; For P2, 0.10 ADA for grade span K-3 and 0.39 ADA for grade span 9-12. For Annual, 0.08 for grade span K-3 and 0.31 for grade span 9-12. However, the District is funded on 2014-2015 ADA. No questioned costs identified.

**Context:** Nine of fifteen contracts tested were missing signatures and/or contract dates, resulting in an overstatement of 70 days of attendance.

**Effect:** This occurrence represents an overstatement of ADA.

**Cause:** Procedures are not in place to ensure that all contracts are complete prior to the commencement of independent study.

**Recommendation:** The District should implement procedures to ensure that all contracts are complete and signed prior to the student beginning independent study.

**District Response:** The District has implemented District wide procedures to address similar findings with independent study for the 2016-17 school year by providing audit guidelines to every school site principal, in addition the District has implemented an internal audit to be conducted at each school site to ensure that all contracts are complete and signed by all stakeholders prior to the student beginning any independent study program. Under this procedure each contract will be reviewed by administration and personnel to ensure all contracts are completed properly.

**Current Status:** Implemented

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## APPENDIX D

## FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Barstow Unified School District (the "District") in connection with the execution and delivery of its $15,205,000 Certificates of Participation (2018 School Financing Project) (the "Certificates"). The Certificates are being executed pursuant to a Trust Agreement, dated as of December 1, 2018, by and among the District, U.S. Bank National Association, as trustee (the "Trustee") and the Public Property Financing Corporation of California (the "Corporation"). The District covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

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

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

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

"Disclosure Representative" shall mean the Superintendent of the District, the Chief Business Official of the District, or their designee, or such other officer or employee as the District shall designate in writing from time to time.

"Dissemination Agent" shall mean initially the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) and 5(b) of this Disclosure Certificate.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated December 4, 2018.

"Participating Underwriter" shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean the Municipal Securities Rulemaking Board, which can be found at http://emma.msrb.org/, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

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

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than nine (9) months after the end of the District's fiscal year (presently ending June 30), commencing with the report for the fiscal year ending June 30, 2018, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a timley notice to the Repository in substantially the form attached as Exhibit A.

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

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

(a) The District's audited financial statements, prepared in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

(i) State funding received by the District for the last completed fiscal year;

(ii) Average Daily Attendance of the District for the last completed fiscal year; and

(iii) summary financial information on revenues, expenditures and fund balances for the District's general fund for last completed fiscal year and summary financial information on any adopted budget for the current fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by

reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates in a timely manner not in excess of 10 business days after the occurrence of the event:

1. principal and interest payment delinquencies.

2. tender offers.

3. defeasances.

4. optional, contingent or unscheduled bond calls.

5. rating changes.

6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).

7. unscheduled draws on the debt service reserves reflecting financial difficulties.

8. unscheduled draws on credit enhancement reflecting financial difficulties.

9. substitution of the credit or liquidity providers or their failure to perform.

10. bankruptcy, insolvency, receivership or similar event (within the meaning of the Rule) of the District.

For the purposes of the event identified in Section 5(a)(10), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

1. non-payment related defaults.

2. modifications to rights of Bondholders.

3. unless described under Section 5(a)(5) above, adverse tax opinions, material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates.

4. release, substitution or sale of property securing repayment of the Certificates.

5. 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.

6. Appointment of a successor or additional Trustee with respect to the Certificates or the change of name of such a Trustee.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) hereof would be material under applicable federal securities laws, the District shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(c).

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing thirty days written notice to the District and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District and shall have no duty to review any information provided to it by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under

Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

No Certificate holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to tome and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Certificate holders, or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the District as constituting the Annual Report required of the District in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing with the Repository. No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

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

SECTION 13. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the District to the undertaking herein provided.

Dated: December 19, 2018

BARSTOW UNIFIED SCHOOL DISTRICT

By: _____
Superintendent

**EXHIBIT A**

**NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

| | |
|---|---|
| Name of District: | Barstow Unified School District |
| Name of Certificate Issue: | $15,205,000 Barstow Unified School District<br>Certificates of Participation (2018 School Financing Project) |
| Date of Delivery: | December 19, 2018 |

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate executed by the District on the date of delivery of the Certificates. The District anticipates that the Annual Report will be filed by _____.

Dated: _____ BARSTOW UNIFIED SCHOOL DISTRICT

By: [form only; no signature required]_____

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## APPENDIX E

## BOOK-ENTRY ONLY SYSTEM

*The information under this caption concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each of maturity of the Certificates, each in the aggregate principal amount of such Certificate, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. However, the information presented on such website is not incorporated herein by any reference to such website.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books

of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, physical Certificates are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.

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

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## APPENDIX F

## GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF BARSTOW, AND SAN BERNARDINO COUNTY

*The following information regarding the City of Barstow (the "City"), and San Bernardino County (the "County") is included only for the purpose of supplying general information regarding the local community and economy. The Certificates are not a debt of the City or of the County. This material has been prepared by or excerpted from the sources as noted herein and has not been reviewed for accuracy by the District, Bond Counsel, the Underwriter or the Financial Advisor.*

### General

***The City of Barstow.*** The City encompasses about 40 square miles and is located in the northern section of the County, situated midway between Los Angeles and Las Vegas. Incorporated in 1947 as a general law city, it operates under the Council-Manager form of government. A mayor and four city council members are elected at large and serve four-year staggered terms. Barstow considers itself the "Crossroads of Opportunity" and services approximately 55 million travelers per year. It is also in close proximity to major military installations and national defense contractors. The City's economic development department is finalizing the planning and construction of two new hotels in the area, which will increase the Transient Occupancy Tax revenue.

***San Bernardino County.*** San Bernardino County is located in the southern portion of the State of California (the "State"). The County is bordered by the State of Nevada and the State of Arizona to the east, Riverside County to the south, Inyo County to the north, and Kern, Los Angeles and Orange Counties to the west. It is the fifth most populous county in California and the twelfth most populous in the United States, and was established on April 26, 1853. The County has an area of 20,160 square miles, with more than three-quarters of the area vacant and covered by desert, forest and mountain ranges. A charter law county, the County is governed by a five-member Board of Supervisors, each elected from their districts. It is experiencing strong employment growth, especially due to expanding e-commerce, with fulfillment centers in the County. Manufacturing has also recently added to the County's economic base.

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**Population**

The following table shows historical population figures for the City, the County and the State for the past 10 years.

**POPULATION ESTIMATES**
**2009 through 2018**
**City of Barstow, San Bernardino County, and State of California**

| Year[1] | City of Barstow | San Bernardino County | State of California |
|---|---|---|---|
| 2009 | 22,565 | 2,019,432 | 36,966,713 |
| 2010[2] | 22,639 | 2,035,210 | 37,253,956 |
| 2011 | 22,806 | 2,054,451 | 37,529,913 |
| 2012 | 23,244 | 2,070,638 | 37,874,977 |
| 2013 | 23,464 | 2,085,944 | 38,234,391 |
| 2014 | 23,685 | 2,100,689 | 38,568,628 |
| 2015 | 23,977 | 2,120,672 | 38,912,464 |
| 2016 | 24,148 | 2,133,906 | 39,179,627 |
| 2017 | 24,310 | 2,155,590 | 39,500,973 |
| 2018 | 24,411 | 2,174,938 | 39,809,693 |

[1] As of January 1.
[2] As of April 1.
*Source: 2010: U.S. Department of Commerce, Bureau of the Census, for April 1.*
*2009, 2011-18 (2000 and 2010 Demographic Research Unit Benchmark): California Department of Finance for January 1.*

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**Income**

The following table summarizes per capita personal income for the County, the State and the United States for the past 10 years that statistics are currently available.

**PER CAPITA PERSONAL INCOME**
**2008 through 2017**
**San Bernardino County, State of California and the United States**

| Year | San Bernardino County | State of California | United States |
|---|---|---|---|
| 2008 | $30,150 | $43,895 | $40,904 |
| 2009 | 29,122 | 42,050 | 39,284 |
| 2010 | 29,557 | 43,609 | 40,545 |
| 2011 | 31,051 | 46,145 | 42,727 |
| 2012 | 31,703 | 48,751 | 44,582 |
| 2013 | 32,404 | 49,173 | 44,826 |
| 2014 | 34,218 | 52,237 | 47,025 |
| 2015 | 36,245 | 55,679 | 48,940 |
| 2016 | 37,514 | 57,497 | 49,831 |
| 2017 | 38,816 | 59,796 | 51,640 |

Note: Per capital personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. Estimates for 2010-2017 reflect county population estimates available as of March 2018. Last updated: November 15, 2018 – new estimates for 2017; revised estimates for 2010-2016. All dollar estimates are in current dollars (not adjusted for inflation).
*Source: U.S. Department of Commerce, Bureau of Economic Analysis.*

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**Principal Employers**

The following tables list the principal employers located in the City and the County.

**PRINCIPAL EMPLOYERS**
**2017**
**City of Barstow**

| Employer Name | Industry | Number of Employees |
|---|---|---|
| Ft. Irwin National Training Center* | National Security | 22,700 |
| Marine Corps Logistics Base * | National Security | 2,071 |
| BNSF Railroad | Railroad Transportation | 1,000 |
| Barstow Unified School District | Services: Educational Services | 680 |
| Outlets at Barstow | Retail Trade: General Merchandise Stores | 596 |
| Raytheon Technical Services Co., LLC * | Manufacturing: Industrial and Commercial Machinery | 501 |
| Northrup Grumman | Services: Global Security | 467 |
| San Bernardino County | Public Administration | 410 |
| Barstow Community College | Services: Educational Services | 396 |
| High Desert Support Services | Services: Facilities Support | 330 |

**Employers outside of City Limits*
*Source: City of Barstow 'Comprehensive Annual Financial Report' for Fiscal Year Ended June 30, 2017.*

**PRINCIPAL EMPLOYERS**
**2016-2017**
**San Bernardino County**

| Employer Name | Industry | Number of Employees |
|---|---|---|
| County of San Bernardino | Public Administration | >10,000 |
| State of California | Public Administration | >10,000 |
| Loma Linda University | Services: Educational Services | >10,000 |
| Southern California Permanente Medical Group | Services: Health Services | 5,000 – 9,999 |
| Wal-Mart Associates | Retail Trade: General Merchandise Stores | 5,000 – 9,999 |
| Amazon | Motor Freight Transportation and Warehousing | 5,000 – 9,999 |
| San Bernardino City Unified School District | Services: Educational Services | 5,000 – 9,999 |
| Stater Brothers | Retail Trade: Food Stores | 5,000 – 9,999 |
| Target | Retail Trade: General Merchandise Stores | 2,500 – 4,999 |
| United Parcel Service | Motor Freight Transportation and Warehousing | 2,500 – 4,999 |

*Source: County of San Bernardino 'Comprehensive Annual Financial Report' for Fiscal Year Ended June 30, 2017.*

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**Employment**

The following table summarizes the labor force, employment and unemployment figures for the years 2013 through 2017 for the County, the State and the United States.

**LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT ANNUAL AVERAGES**
**2013 through 2017[(1)]**
**San Bernardino County, State of California and United States**

| Year and Area | Labor Force | Employment[(2)] | Unemployment | Unemployment Rate (%)[(3)] |
|---|---|---|---|---|
| 2013 | | | | |
| San Bernardino County | 896,600 | 809,100 | 87,500 | 9.8 |
| State of California | 18,625,000 | 16,958,400 | 1,666,600 | 8.9 |
| United States | 155,389,000 | 143,929,000 | 11,460,000 | 7.4 |
| 2014 | | | | |
| San Bernardino County | 907,100 | 834,500 | 72,600 | 8.0 |
| State of California | 18,758,400 | 17,351,300 | 1,407,100 | 7.5 |
| United States | 155,922,000 | 146,305,000 | 9,617,000 | 6.2 |
| 2015 | | | | |
| San Bernardino County | 921,000 | 862,000 | 59,100 | 6.4 |
| State of California | 18,896,500 | 17,724,800 | 1,171,700 | 6.2 |
| United States | 157,130,000 | 148,834,000 | 8,296,000 | 5.3 |
| 2016 | | | | |
| San Bernardino County | 935,600 | 882,200 | 53,400 | 5.7 |
| State of California | 19,093,700 | 18,048,800 | 1,044,800 | 5.5 |
| United States | 159,187,000 | 151,436,000 | 7,751,000 | 4.9 |
| 2017 | | | | |
| San Bernardino County | 950,700 | 904,200 | 46,600 | 4.9 |
| State of California | 19,312,000 | 18,393,100 | 918,900 | 4.8 |
| United States | 160,320,000 | 153,337,000 | 6,982,000 | 4.4 |

Note: Data is not seasonally adjusted.
(1) Annual averages, unless otherwise specified.
(2) Includes persons involved in labor-management trade disputes.
(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.
*Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2017 Benchmark.*

**Industry**

The County is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"). The distribution of employment in the MSA is presented in the following table for the last 5 years. These figures may be multi county-wide statistics and may not necessarily accurately reflect employment trends in the County.

**INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES**
**2013 through 2017**
**San Bernardino County (Riverside-San Bernardino-Ontario MSA)**

| Category | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Total Farm | 14,500 | 14,400 | 14,800 | 14,600 | 14,400 |
| Total Nonfarm | 1,233,300 | 1,289,300 | 1,353,100 | 1,401,900 | 1,451,600 |
| Total Private | 1,008,100 | 1,060,500 | 1,119,8900 | 1,159,600 | 1,201,600 |
| Goods Producing | 158,600 | 170,200 | 183,000 | 191,500 | 196,600 |
| Mining and Logging | 1,200 | 1,300 | 1,300 | 900 | 900 |
| Construction | 70,000 | 77,600 | 85,700 | 92,000 | 97,000 |
| Manufacturing | 87,300 | 91,300 | 96,100 | 98,600 | 98,700 |
| Durable Goods | 57,300 | 60,200 | 63,100 | 64,400 | 63,900 |
| Nondurable Goods | 30,100 | 31,100 | 33,000 | 34,200 | 34,800 |
| Service Providing | 1,074,700 | 1,119,100 | 1,170,100 | 1,210,500 | 1,255,000 |
| Private Service Producing | 849,600 | 890,300 | 936,800 | 968,200 | 1,005,000 |
| Trade, Transportation and Utilities | 299,700 | 314,900 | 333,200 | 348,100 | 366,000 |
| Wholesale Trade | 56,400 | 58,900 | 61,600 | 62,800 | 63,700 |
| Retail Trade | 164,800 | 169,400 | 174,300 | 178,000 | 182,100 |
| Transportation, Warehousing and Utilities | 78,500 | 86,600 | 97,400 | 107,300 | 120,200 |
| Information | 11,500 | 11,300 | 11,400 | 11,500 | 11,300 |
| Financial Activities | 41,800 | 42,900 | 43,900 | 44,600 | 44,500 |
| Professional and Business Services | 131,900 | 138,700 | 147,400 | 145,000 | 147,200 |
| Educational and Health Services | 187,600 | 194,800 | 205,100 | 214,300 | 224,800 |
| Leisure and Hospitality | 135,900 | 144,800 | 151,700 | 160,200 | 165,700 |
| Other Services | 41,100 | 43,000 | 44,000 | 44,600 | 45,600 |
| Government | 225,200 | 228,800 | 233,300 | 242,300 | 150,000 |
| Total, All Industries | 1,247,800 | 1,303,700 | 1,367,900 | 1,416,600 | 1,466,000 |

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.
*Source: State of California, Employment Development Department, Labor Market Information Division, Annual Average Labor Force and Industry Employment. March 2017 Benchmark.*

**Commercial Activity**

Summaries of annual taxable sales for the City and the County from 2012 through 2016 are shown in the following tables.

**ANNUAL TAXABLE SALES**
**2012 through 2016**
**City of Barstow**
**(Dollars in Thousands)**

| Year | Retail Permits | Retail Stores Taxable Transactions | Total Permits | Total Taxable Transactions |
|---|---|---|---|---|
| 2012 | 415 | $629,086 | 545 | $662,766 |
| 2013 | 393 | 636,295 | 516 | 656,271 |
| 2014 | 393 | 658,780 | 517 | 679,458 |
| 2015 | -- | 630,228 | -- | 647,252 |
| 2016 | -- | 628,841 | -- | 644,374 |

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry-level data for 2015 on are not comparable to that of prior years.
*Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.*

**ANNUAL TAXABLE SALES**
**2012 through 2016**
**San Bernardino County**
**(Dollars in Thousands)**

| Year | Retail Permits | Retail Stores Taxable Transactions | Total Permits | Total Taxable Transactions |
|---|---|---|---|---|
| 2012 | 35,095 | $19,980,937 | 48,936 | $29,531,921 |
| 2013 | 32,986 | 21,173,875 | 46,632 | 31,177,823 |
| 2014 | 34,455 | 22,240,376 | 48,349 | 33,055,967 |
| 2015 | -- | 23,142,828 | -- | 35,338,556 |
| 2016 | -- | 24,242,145 | -- | 36,981,694 |

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry-level data for 2015 on are not comparable to that of prior years.
*Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.*

**Construction Activity**

The annual building permit valuations and number of permits for new dwelling units issued for the past five years for the City and the County are shown in the following tables.

**BUILDING PERMITS AND VALUATIONS**
**2013 through 2017**
**City of Barstow**
**(Dollars in Thousands)**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Valuation | | | | | |
| Residential | $2,745 | $380 | $561 | $1,164 | $521 |
| Non-Residential | 5,155 | 25,776 | 15,937 | 16,554 | 6,935 |
| Total | $7,900 | $26,156 | $16,498 | $17,718 | $7,456 |
| Units | | | | | |
| Single Family | 20 | 0 | 2 | 3 | 1 |
| Multiple Family | 0 | 0 | 0 | 0 | 0 |
| Total | 20 | 0 | 2 | 3 | 1 |

Note: Totals may not add to sum due to rounding.
*Source: Construction Industry Research Board.*

**BUILDING PERMITS AND VALUATIONS**
**2013 through 2017**
**San Bernardino County**
**(Dollars in Thousands)**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Valuation | | | | | |
| Residential | $666,166 | $708,471 | $1,056,572 | $888,142 | $1,366,023 |
| Non-Residential | 768,169 | 958,267 | 1,146,722 | 994,282 | 1,285,597 |
| Total | $1,434,335 | $1,666,738 | $2,203,294 | $1,882,424 | $2,651,620 |
| Units | | | | | |
| Single Family | 1,874 | 1,937 | 2,753 | 2,896 | 4,253 |
| Multiple Family | 1,439 | 1,266 | 1,159 | 976 | 2,578 |
| Total | 3,313 | 3,203 | 3,912 | 3,872 | 6,831 |

Note: Totals may not add to sum due to rounding.
*Source: Construction Industry Research Board..*

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**APPENDIX G**

**SAN BERNARDINO COUNTY INVESTMENT POOL**

*The following information concerning the San Bernardino County (the "County") Investment Pool (the "Investment Pool") has been provided by the Controller-Treasurer of the County (the "Treasurer"), and has not been confirmed or verified by the District, the Financial Advisor or the Underwriter. The District, the Financial Advisor and the Underwriter have not made an independent investigation of the investments in the Investment Pool and have made no assessment of the current County investment policy. The value of the various investments in the Investment Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Treasurer, with the consent of the County Board of Supervisors may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the Investment Pool will not vary significantly from the values described herein. Finally, neither the District, the Financial Advisor nor the Underwriter make any representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date. Additional information regarding the Investment Pool may be obtained from the Treasurer http://www.sbcounty.gov/ATC; however, the information presented on such website is not incorporated herein by any reference.*

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# San Bernardino County Pool Summary (as of 10/31/2018)

| | Par | Amortized | Market | Market % of | Yield to Maturity | WAM | Duration |
|---|---|---|---|---|---|---|---|
| Bank Notes | 65,000,000.00 | 64,989,739.05 | 63,969,135.00 | 1.0% | 2.47% | 752 | 1.98 |
| Certificates of Deposit | 955,700,000.00 | 955,672,759.21 | 955,257,791.45 | 15.4% | 2.30% | 136 | 0.36 |
| Collateralized CD | 0.00 | 0.00 | 0.00 | - | - | - | - |
| Commercial Paper | 798,000,000.00 | 796,139,452.20 | 796,049,650.00 | 12.9% | 2.29% | 35 | 0.10 |
| Corporate Notes | 124,000,000.00 | 123,803,792.17 | 123,211,084.00 | 2.0% | 2.02% | 409 | 1.08 |
| Federal Agencies | 1,723,347,000.00 | 1,722,395,770.91 | 1,706,479,470.01 | 27.6% | 1.91% | 510 | 1.35 |
| Money Market Funds | 2,000,000.00 | 2,000,000.00 | 2,000,000.00 | 0.0% | 2.05% | 1 | 0.00 |
| Municipal Debt | 0.00 | 0.00 | 0.00 | - | - | - | - |
| Repurchase Agreements | 0.00 | 0.00 | 0.00 | - | - | - | - |
| Bank Deposit Account | 35,000,000.00 | 35,000,000.00 | 35,000,000.00 | 0.6% | 2.07% | 1 | 0.00 |
| NOW Account | 225,000,000.00 | 225,000,000.00 | 225,000,000.00 | 3.6% | 2.26% | 1 | 0.00 |
| Joint Powers Authority | 200,000,000.00 | 200,000,000.00 | 200,000,000.00 | 3.2% | 2.30% | 1 | 0.00 |
| Supranationals | 720,000,000.00 | 718,959,974.95 | 711,271,804.75 | 11.5% | 1.75% | 466 | 1.23 |
| U.S. Treasuries | 1,400,000,000.00 | 1,392,525,783.00 | 1,374,950,225.00 | 22.2% | 1.80% | 530 | 1.41 |
| **Total Securities** | **6,248,047,000.00** | **6,236,487,271.49** | **6,193,189,160.21** | **100.0%** | **2.01%** | **353** | **0.93** |
| Cash Balance | 253,122,574.04 | 253,122,574.04 | 253,122,574.04 | | | | |
| **Total Investments** | **6,501,169,574.04** | **6,489,609,845.53** | **6,446,311,734.25** | | | | |
| Accrued Interest | | 18,647,093.61 | 18,647,093.61 | | | | |
| **Total Portfolio** | **6,501,169,574.04** | **6,508,256,939.14** | **6,464,958,827.86** | | | | |

1. Yield for the money market funds is a weighted average of the month-end yields for the Federated, Goldman, and Fidelity money market funds.
2. Statistics for the total portfolio include money market funds.
3. Market prices are derived from closing bid prices as of the last business day of the month as supplied by F.T. Interactive Data, Bloomberg, or Telerate.

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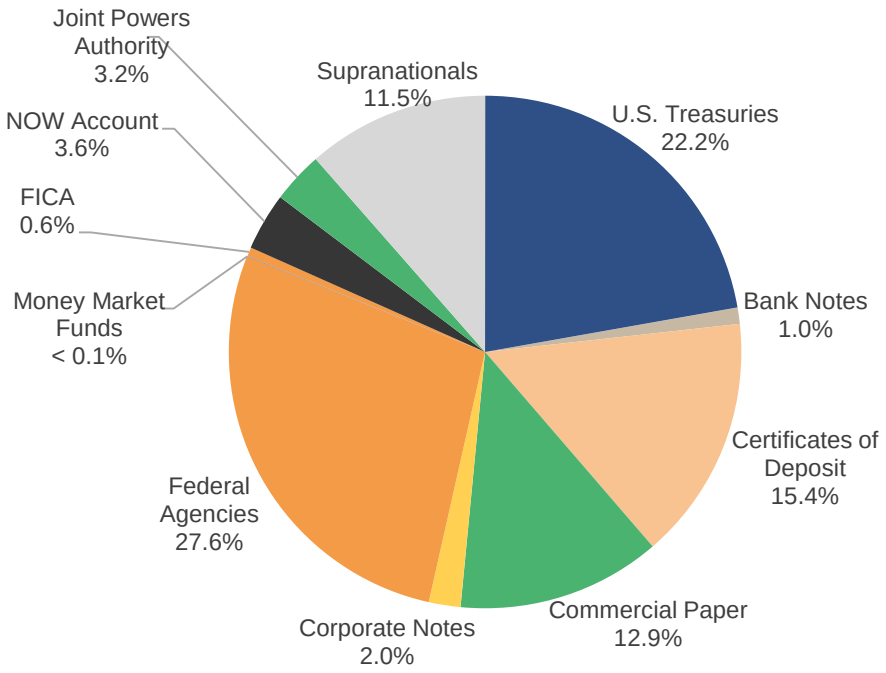
# Sector Distribution




| Sector | Market Value |
|---|---|
| Bank Notes | $63,969,135 |
| Certificates of Deposit | $955,257,791 |
| Collateralized CD | $0 |
| Commercial Paper | $796,049,650 |
| Corporate Notes | $123,211,084 |
| Federal Agencies | $1,706,479,470 |
| Money Market Funds | $2,000,000 |
| Municipal Debt | $0 |
| Repurchase Agreements | $0 |
| FICA | $35,000,000 |
| NOW Account | $225,000,000 |
| Joint Powers Authority | $200,000,000 |
| Supranationals | $711,271,805 |
| U.S. Treasuries | $1,374,950,225 |

Percentages may not sum to 100% due to rounding.

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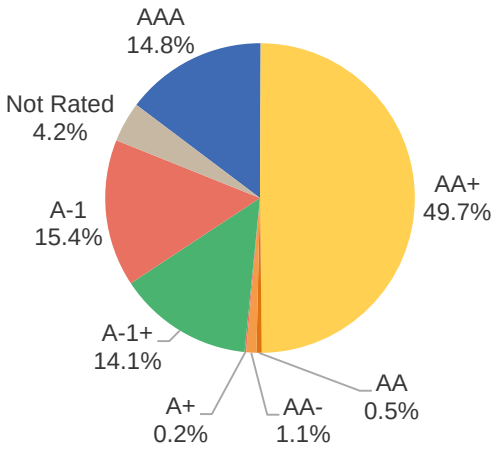
# Credit Quality Distribution

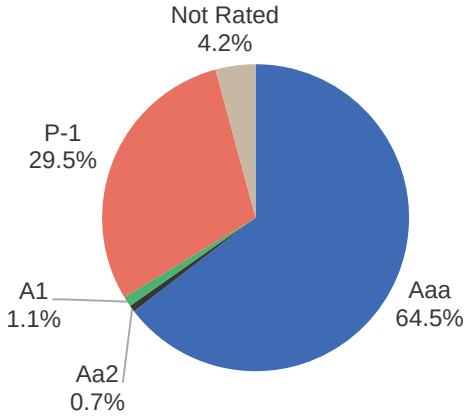
## S&P RATINGS




| Credit Rating | Market Value |
|---|---|
| A-1+ (Short-Term) | $874,455,186 |
| A-1 (Short-Term) | $951,560,575 |
| AAA (Long-Term) | $915,873,492 |
| AA+ (Long-Term) | $3,081,429,695 |
| AA (Long-Term) | $33,903,905 |
| AA- (Long-Term) | $65,963,147 |
| A+ (Long-Term) | $10,003,160 |
| A (Long-Term) | $0 |
| Not Rated | $260,000,000 |

Percentages may not sum to 100% due to rounding.

## MOODY'S RATINGS




| Credit Rating | Market Value |
|---|---|
| P-1 (Short-Term) | $1,826,015,761 |
| Aaa (Long-Term) | $3,997,303,187 |
| Aa3 (Long-Term) | $0 |
| Aa2 (Long-Term) | $43,907,065 |
| Aa1 (Long-Term) | $0 |
| A3 (Long-Term) | $0 |
| A2 (Long-Term) | $0 |
| A1 (Long-Term) | $65,963,147 |
| Not Rated | $260,000,000 |

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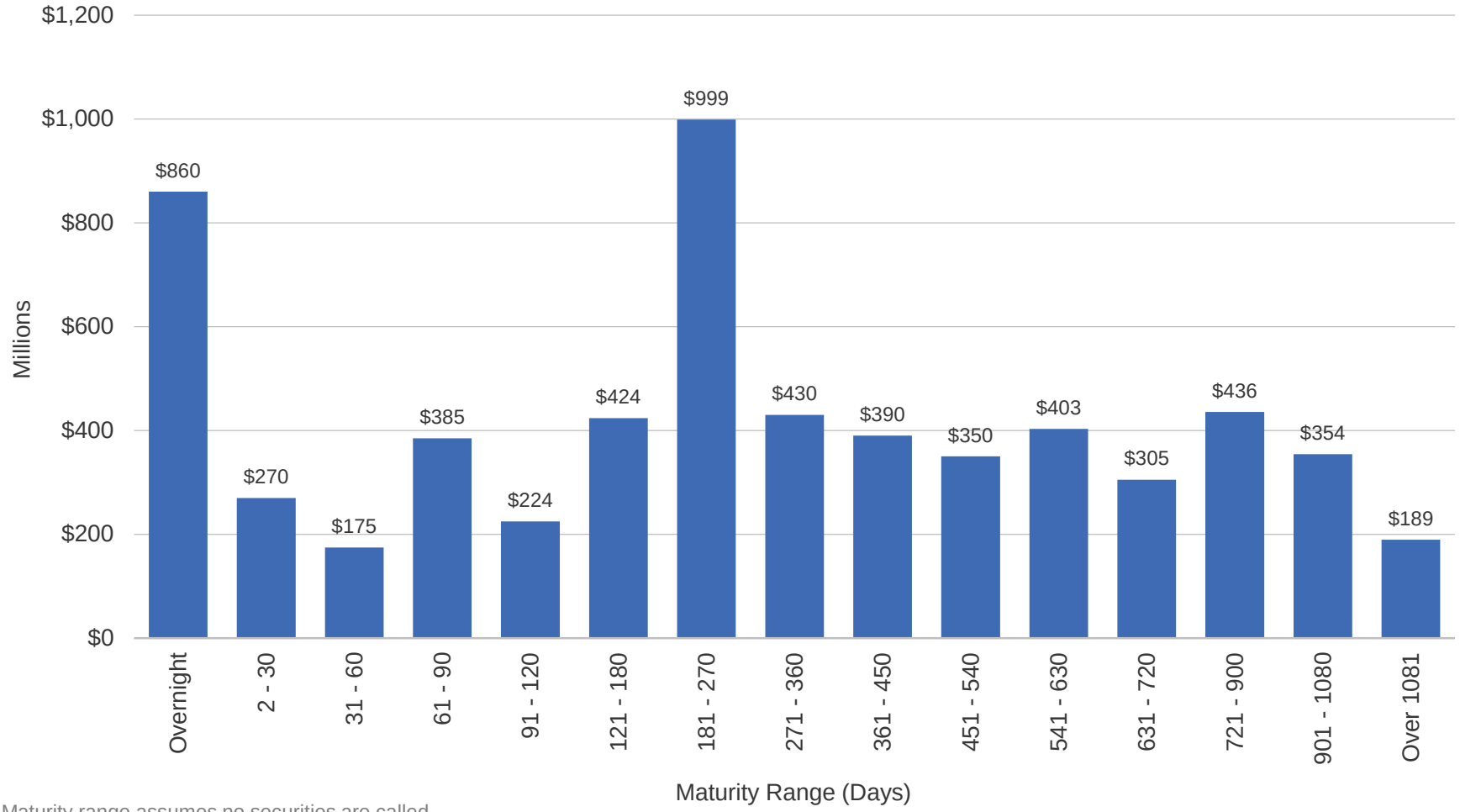
# Maturity Distribution




Maturity range assumes no securities are called.

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# San Bernardino County Pool Portfolio Yield Summary

| Month | Yield to Maturity At Cost |
|---|---|
| October 2017 | 1.29% |
| November 2017 | 1.32% |
| December 2017 | 1.38% |
| January 2018 | 1.45% |
| February 2018 | 1.49% |
| March 2018 | 1.59% |
| April 2018 | 1.71% |
| May 2018 | 1.74% |
| June 2018 | 1.85% |
| July 2018 | 1.86% |
| August 2018 | 1.89% |
| September 2018 | 1.93% |
| **October 2018** | **2.01%** |

1. Gross yields not including non-earning assets (compensating bank balances) or administrative costs for management of the pool.
2. All historical yields restated to include money market funds.

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# APPENDIX H

# SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

SPECIMEN

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

SPECIMEN

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100