**APPENDIX A**

**CERTAIN INFORMATION REGARDING ENCORE, THE SCHOOL,
THE CORPORATION AND THE OBLIGATED GROUP**

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**APPENDIX A**

**CERTAIN INFORMATION REGARDING ENCORE, THE SCHOOL,
THE CORPORATION AND THE OBLIGATED GROUP**

*Certain statements contained in this Appendix reflect forecasts, projections and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved. Actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Private Placement Memorandum. Unless otherwise noted, all information, data, and projections in this Appendix were furnished by the Borrower. All capitalized terms in this Appendix A that are not defined herein will have such meaning as given to them in the forepart of this Private Placement Memorandum.*

# ENCORE EDUCATION CORPORATION

The following section presents general information regarding Encore Education Corporation (“Encore”). However, the obligation of Encore to pay amounts due under the Lease is limited to the Gross School Revenues, as defined under the Lease, which are generally limited to revenues of Encore associated with the operation of Encore Jr./Sr. High School for the Performing and Visual Arts (the “School”). See “THE LEASE” in the forepart of the Private Placement Memorandum to which this Appendix is attached.

**The inclusion in this appendix of information regarding financial results of or the operation of any charter school other than the School does not indicate that such moneys are available for the satisfaction of obligations under the Lease.** Beneficial Owners of the Bonds and the Trustee will not have any rights against the assets of Encore to pay any debt service on the Bonds, except as specifically provided in the documents governing the issuance of the Bonds and the Lease.

## General

Encore is a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). Encore currently holds one charter authorized by the Hesperia Unified School District (“Hesperia USD”) and operates one charter school in Hesperia, California focusing on preparing students with a passion for the arts for college. Encore is the recipient of all state and federal revenue related to the operation of the School.

## Governance and Administration

***Board of Directors.*** Encore is governed by its board of directors (the “Board”). The Board comprises no fewer than five and no more than nine members. The Board currently comprises four members, with one vacancy. Members of the Board serve terms of two years and until a successor is designated and qualified. Directors may serve multiple terms. In accordance with Section 47604I of the California Education Code, Hesperia USD is entitled to a representative on the Board; but Hesperia USD has not appointed a member of the Board.

Vacancies on the Board, except for a vacancy with respect to a representative appointed by the charter authorizer, may be filled by approval of the Board or, if the number of directors then in office is less than a quorum, by (a) the affirmative vote of a majority of the directors then in office at a regular or special meeting of the Board, or (b) a sole remaining director. A vacancy in the seat of the representative of the charter authorizer shall be filled by the charter authorizer.

The following table lists the current members of the Board as well as their titles, when they joined the Board and the expiration of their current term.

[TO BE UPDATED – ONE MEMBER HAS RESIGNED, PER SABRINA]

| **Name** | **Title** | **Occupation** | **Joined Board** | **Term Expires** |
| --- | --- | --- | --- | --- |
| Rob Gasler | President | Retired Firefighter | 2017 | June 2022 |
| Chandale Sutton | Vice President | Human Resources Director | 2021 | June 2023 |
| Dr. Kelly Ahmed | Secretary | Medical Doctor | 2016 | June 2023 |
| Kathy Staley | Member |  | 2020 | June 2022 |
| Glenn Thackeray | Member | Retired Fleet Manager for Mercedes | 2021 | June 2022 |

*Source: Encore.*

***Prior Administration; Investigative Report.*** Encore was founded in 2007 by Denise Griffin and John Griffin, who served as Chief Executive Officer and Chief Operating Officer. As one condition of the most recent charter renewal of the School in January 2021 (described below), Hesperia USD (as defined below), as the School’s charter authorizer, required that Encore hire a qualified controller by March 1, 2021, to start full-time by May 1, 2021. Encore engaged a full-time controller (the “Controller”), who began work on March 16, 2021.

On July 27, 2021, the Controller notified Encore’s board of directors (the “Board”) that Encore was failing to comply with the conditions of its most recent charter renewal for the School, and followed with a document to the board outlining the Controller’s concerns related to Encore’s practices and failure to comply with the terms of its charter. Thereafter, on September 3, 2021, the Board engaged Encore’s legal counsel regarding the Controller’s concerns and, in consultation therewith, requested that Nicole Miller & Associates, Inc. (the “Investigator”), a full-service independent investigative firm, conduct an investigation into concerns raised by the Controller. On October 19, 2021, Encore received a letter from Hesperia USD expressing additional concerns, and the Investigator’s investigation was expanded to include those concerns.

 Following receipt of the letter from Hesperia USD on October 19, 2021, the Board placed Denise Griffin and John Griffin on administrative leave in early November 2021.

On January 24, 2022, the Investigator issued a comprehensive report of its investigation and findings (the “Investigator’s Report”). A redacted copy of the Investigator’s Report is available on the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access (“EMMA”) website at <https://emma.msrb.org/P11573670-P11214889-P11635530.pdf>. Certain of the allegations investigated by the Investigator were partially or fully sustained, including:

* Continued use of debit cards despite their discontinuance being a condition in the MOU (as defined herein) between Encore and Hesperia USD;
* The Controller being excluded from determinations regarding salary increases; and
* Continued large purchases being made not preapproved under Encore’s new fiscal processes;

At its February 19, 2022 meeting, the Board voted to terminate Denise Griffin and John Griffin without cause on February 23, 2022. Employment contracts for Denise Griffin and John Griffin included a requirement for severance pay in the event of early termination; due to Encore’s financial situation, the Board authorized a payment to Denise Griffin and John Griffin of less than required under their employment contracts. See “OPERATING AND FINANCIAL INFORMATION – No Material Litigation” herein.

***Current Administration.*** In December 2021, Encore engaged Dr. Sabrina Bow as the Interim Executive Director of Encore. In March 2022, Dr. Bow was named the permanent Executive Director of Encore. The following is a brief biography of Dr. Bow.

Dr. Sabrina Bow, Executive Director***.*** Dr. Bow joined the Encore team with 18 years of experience in educational administration and fundraising from colleges and schools in the greater Los Angeles area. As a former executive director of charter schools in the two largest school districts in the state, her perspective brought a veteran educator’s insight to the analysis and feasibility of school budgets, facilities, operations, and leadership capacity. Dr. Bow holds an MBA from University of Southern California’s Marshall School of Business, and a Doctorate in Education from University of California Los Angeles. Dr. Bow is a member of the Azusa Library Commission and Vice President of the Azusa Unified School District Governing Board.

Fiscal Controller. Carol Walker was engaged as Controller in March 2021. In April 2022, Ms. Walker notified Encore of her intention to retire and relocate, for personal reasons. Encore is currently searching for a new controller, with an expectation of filling the role by July 2022.

Delta Managed Solutions. Encore contracts with Delta Managed Solutions, Inc. (“DMS”) for payroll, purchasing, accounts payable, budgeting, and compliance services (collectively, “backoffice services”). Founded in 2003, DMS provides comprehensive backoffice services to charter schools in California and Nevada from its Sacramento location. See “OPERATING AND FINANCIAL INFORMATION – Outstanding Debt Obligations” herein.

# THE SCHOOL

## Charters

***History of Charters and Charter Schools Operated by Encore.***  Encore received its first charter from Hesperia USD in 2008 to establish the School, which opened in August 2008 initially serving 502 students in grades 7-12. On December 8, 2014, Riverside Unified School District (“Riverside USD”) authorized Encore’s second charter, and Encore opened Encore High School for the Arts – Riverside (“Encore Riverside”) in downtown Riverside, California in August 2015, initially serving 413 students in grades 7-10.

In July 2015, Encore entered into an agreement with Synergy Education Project to operate SEP High School in Pittsburg, California. In October 2015, the board of directors of Synergy Education Project resigned *en masse*, and in November 2015, Encore terminated its contract to manage the school. In ending its relationship with SEP High School, Encore cited circumstances surrounding the school that had not been disclosed to Encore, including corrective notices from the California Department of Education, deep rooted safety concerns regarding gang activity, discipline issues, student achievement issues, and operational, financial and procedural improprieties. The California Department of Education revoked the charter for SEP High School on January 14, 2016, and the school closed on January 22.

Encore received charter renewals for the School from Hesperia USD in 2011 and 2016, each for five-year terms.

In December 2019, Encore applied for renewal of the charter petition for Encore Riverside. At its February 18, 2020 board meeting, Riverside USD staff initially recommended denial of the charter petition, due in part to academic performance and fiscal challenges. The board of education agreed to delay acting on the renewal until a subsequent meeting, during which time Riverside USD and Encore to meet and confer on a possible renewal option. At its March 18, 2020 meeting, the Riverside USD board of education approved a charter renewal for Encore Riverside with various conditions. Approximately one month later, on April 30, 2020, the Encore board of directors voted to close Encore Riverside at the end of the 2019-20 fiscal year.

***2020 Charter Renewal.*** On September 11, 2020, Encore submitted a petition to Hesperia USD seeking renewal of the charter for the School. In response to concerns expressed by Hesperia USD, Encore made various revisions to its charter petition and resubmitted it for review and action.

On November 4, 2020, Hesperia USD issued Encore a notice (the “November 4 Notice”) in accordance with the Education Code setting forth fiscal and governance factors that could support a finding that Encore is demonstrably unlikely to successfully implement the program set forth in its renewal charter petition. On November 27, 2020, Encore submitted a response to such notice. In a memorandum dated December 3, 2020, from Hesperia USD Assistant Superintendent to Hesperia USD Superintendent (the “Staff Analysis”), Hesperia USD staff recommended that the Hesperia USD Board of Trustees (the “Hesperia USD Board”) find that Encore had not satisfactorily addressed Hesperia USD’s concerns set forth in the November 4 Notice, that Encore’s corrective action plan has been unsuccessful, and that the Hesperia USD Board deny the School’s charter renewal because Encore is demonstrably unlikely to successfully implement the program set forth in its charter due to the fiscal and governance factors detailed in the November 4 Notice that remain unresolved by Encore’s response.

In the Staff Analysis, Hesperia USD staff recommended to the Hesperia USD Board that the Encore renewal charter be denied based on the findings and the facts set forth therein, however, in the event the Hesperia USD Board determines that the Encore renewal charter should be approved, such renewal be conditioned on Encore addressing all of the staff’s to its satisfaction, including but not limited to those specifically addressed in the November Notice and the Staff Analysis, as well as any additional conditions identified by the Hesperia USD Board.

On January 15, 2021, Encore submitted a revised charter petition to Hesperia USD. At its January 25, 2021 meeting, the Hesperia USD Board voted 4-1 to adopt a resolution conditionally approving the charter renewal for the School for a term through June 30, 2026, making written factual findings supporting denial, and denying the renewal charter if certain conditions are not met, including Encore updating its practices/procedures/policies and/or revise its charter and/or enter into and execute a memorandum of understanding (“MOU”) with Hesperia USD satisfactory to Hesperia USD, in its sole discretion, that will address all of Hesperia USD staff’s concerns with the renewal charter, including but not limited to those specified in the Staff Analysis and in the November 4 Notice, and any additional concerns and requirements as noted by the Hesperia USD Board.

On \_\_\_\_\_\_\_\_\_, 2021, Encore and Hesperia USD entered into the MOU, the form of which is attached as Exhibit A to this Appendix to the Private Placement Memorandum.

***Authorizer Relations.*** On March 17, 2022, the Superintendent of Hesperia USD issued a letter addressed to Encore, stating the following:

To continue fulfilling all oversight duties as the authorizer for [the School], we have received and reviewed the following documentation submitted by Encore to date: (a) annual audited financial statements including findings and recommendations; (b) year to date budget, financial, and cash flow reports; and (c) an investigative report dated January 24, 2022, relating to purchasing, accounting controls, student service fund accounting, and other issues. Based on [Hesperia USD’s] review of these documents, [Hesperia USD] has no current plan to revoke or non-renew Encore’s charter. [Hesperia USD’s] execution of this letter is explicitly on the basis that it reflects [Hesperia USD’s] current understanding and belief, including based on the current status of Encore’s representations and stated efforts to address areas of concern reflected in the above-referenced documents and the conditions of renewal of Encore’s charter, including but not limited to the terms of the Memorandum of Understanding approved by the [Hesperia USD] Board on May 3, 2021, between Encore and [Hesperia USD] (“MOU”). Hesperia USD expressly reserves the right to determine that Encore is and/or has been operating in violation of the law and/or its charter or has engaged in fiscal mismanagement, and to issue a Notice(s) of Violations, a Notice(s) of Intent to Revoke, to revoke Encore’s charter, and/or take any and all steps or measures [Hesperia USD] deems necessary or appropriate in its role as chartering authority pursuant to the applicable provisions of the Education Code.

Finally, [Hesperia USD’s] execution of this correspondence is not precedent setting and nothing in this correspondence can be utilized by Encore or any Encore creditors in any proceedings that may arise after the date of the submission of this correspondence, including, but not limited to, any effort by Encore to use this correspondence as evidence of Encore’s compliance with its charter, the MOU, and/or law in response to any notice, concern, or other proceeding or action raised or instituted by [Hesperia USD].

## Enrollment and Attendance

***Enrollment.*** The following tables present historical and projected enrollment by grade at the School.

**TABLE 2**

**HISTORICAL ENROLLMENT(1)**

**2016-17 through 2021-22**
The School

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | ***2015-16*** | ***2016-17*** | ***2017-18*** | ***2018-19*** | ***2019-20*** | ***2020-21*** | ***2021-22*** |
| 7th Grade | 314 | 200 | 178 | 205 | 167 | 126 | 99 |
| 8th Grade | 249 | 263 | 196 | 205 | 202 | 169 | 144 |
| 9th Grade | 202 | 182 | 196 | 167 | 165 | 147 | 124 |
| 10th Grade | 184 | 154 | 165 | 190 | 165 | 133 | 141 |
| 11th Grade | 160 | 166 | 139 | 137 | 156 | 126 | 103 |
| 12th Grade | 119 | 120 | 148 | 113 | 114 | 157 | 111 |
| ***Total*** | ***1,228*** | ***1,085*** | ***1,022*** | ***1,017*** | ***969*** | ***858*** | ***722*** |

(1) Reflects certified enrollment as of the fall census day (the first Wednesday in October), as reported to the California Longitudinal Pupil Achievement Data System (“CALPADS”) in each school year.

*Source: Encore.*

**TABLE 3**

**PROJECTED ENROLLMENT(1)**

**2022-23 through 2026-27**
The School

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | ***2022-23*** | ***2023-24*** | ***2024-25*** | ***2025-26*** | ***2026-27*** |
| 7th Grade |  |  |  |  |  |
| 8th Grade |  |  |  |  |  |
| 9th Grade |  |  |  |  |  |
| 10th Grade |  |  |  |  |  |
| 11th Grade |  |  |  |  |  |
| 12th Grade |  |  |  |  |  |
| ***Total*** |  |  |  |  |  |

*Source: Encore.*

***Average Daily Attendance and EL/LI Enrollment*.** The table below shows the School’s average daily attendance (“ADA”) and percentage of English learners and low income (“EL/LI”) student enrollment, from the 2016-17 school year through the 2021-22 school year. See “APPENDIX D – CALIFORNIA CHARTER SCHOOLS, RELATED STATUTES, AND FUNDING – STATE FUNDING OF EDUCATION – Allocation of State Funding to Charter Schools – Local Control Funding Formula” attached to this Private Placement Memorandum.

**TABLE 4**

**AVERAGE DAILY ATTENDANCE AND EL/LI ENROLLMENT**

**2016-17 through 2021-22**

The School

|  |  |  |
| --- | --- | --- |
|  | ***Average Daily Attendance(1)*** |  |
|  | ***Funded 7-8 ADA*** | ***Funded 9-12 ADA*** | ***Total ADA*** | ***% of EL/LI Enrollment(2)*** |
| 2016-17 | 428.95 | 569.50 | 998.45 | 53.0% |
| 2017-18 | 353.41 | 599.58 | 952.99 | 55.3 |
| 2018-19 | 381.20 | 559.28 | 940.48 | 58.9 |
| 2019-20 | 342.10 | 557.17 | 899.27 | 60.4 |
| 2020-21 | 342.10 | 557.17 | 899.27 | 57.8 |
| 2021-22 | 231.61 | 428.29 | 659.90 | 55.0 |

(1) For school years 2016-17 through 2019-20, reflects ADA as of the second principal reporting period (“P-2 ADA”), ending 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 on the first day of school. For school year 2020-21, reflects ADA as of the first principal reporting period (“P-1 ADA”).

(2) Reflects certified enrollment as of the fall census day (the first Wednesday in October), which is reported to CALPADS in each school year and is used to calculate the School’s unduplicated EL/LI student enrollment. Adjustments may be made to the certified EL/LI counts by the State Department of Education. A school’s percentage of unduplicated EL/LI students is based on a rolling average of its EL/LI enrollment for the current fiscal year and the two immediately preceding fiscal years.

*Source: Encore.*

***Student Retention.*** The following table sets forth, for the periods shown, the percentage of students enrolled at the School from the prior school year that returned as students in the latter school year.

**TABLE 5**

**HISTORICAL STUDENT RETENTION(1)2016-17 through 2021-22**The School

|  |  |
| --- | --- |
|  | ***Student Retention*** |
| 2016-17 to 2017-18 |  |
| 2017-18 to 2018-19 |  |
| 2018-19 to 2019-20 |  |
| 2019-20 to 2020-21 |  |
| 2020-21 to 2021-22 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1) Data reflect certified enrollment as of the fall census day (the first Wednesday in October), which is reported to CALPADS in each school year. Enrollment may vary throughout the school year as students enroll or leave the Obligated Group Schools.

*Source: Encore.*

## Academic Results

***CAASPP.*** Academic Performance Index (“API”) scores have, in the past, been calculated using results of the State’s STAR program and, for high school students, the California High School Exit Examination (“CAHSEE”). Changes to the Education Code enacted in 2013 deleted certain provisions of State law establishing the STAR program and replaced them with the California Assessment of Student Performance and Progress program (“CAASPP”), effective July 1, 2014. As a means to assess certain elementary and secondary pupils, CAASPP comprises:

(a) the State’s Smarter Balanced Assessments, composed of (i) summative assessments in English language arts (“ELA”) and mathematics for grades 3 to 8 inclusive, and grade 11, (ii) interim assessments to monitor student progress toward mastery of the Common Core State Standards in ELA and mathematics, and (iii) a “Digital Library” consisting of tools and practices designed to help teachers utilize formative assessment processes for improved teaching and learning;

(b) alternate assessments for ELA and mathematics in grades 3 through 8 and 11, that are based on alternate achievement standards and aligned with the Common Core State Standards for students with significant cognitive disabilities;

(c) science assessments in grades 5, 8, and 10, measuring specified content standards, currently composed of (i) the California Standards Test (“CST”) for students in public schools, (ii) the California Modified Assessment (“CMA”) for students with an individualized education program, and the (iii) California Alternate Performance Assessment (“CAPA”) for students with significant cognitive disabilities; and

(d) the Standards-based Tests in Spanish (“STS”), which are multiple-choice tests that allow Spanish-speaking English learners in grades 2 through 11 to demonstrate their knowledge of California content standards by taking a reading/language arts (“RLA”) assessment in their primary language.

The following figure summarizes the performance of the School on CAASPP Smarter Balanced Assessments for ELA and mathematics in 2018-19 and 2020-21, compared against results for students in grades 7, 8 and 11 in Hesperia USD. Due to the outbreak of COVID-19, the State suspended the administration of the Smarter Balanced Assessments for the 2019-20 school year.

**FIGURE 1**

**SMARTER BALANCED ASSESSMENTS CONSORTIUM (SBAC) RESULTS**

**Percent of Students Met or Exceeded Standard(1)**

The School and Hesperia USD
2018-19 and 2020-21

**English LanguageArts**

**Mathematics**

(1) Percentages shown are sums of percentages of students in grades 7, 8 and 11 indicated as “Standards Met” and “Standards Exceeded” in Smarter Balanced Assessment results for the 2018-19 and 2020-21 school years.

*Source: California Department of Education.*

***California School Dashboard.*** The California State Board of Education (“SBE”) has adopted an integrated accountability and continuous improvement system (the “Accountability System”) that is used to evaluate local education agency (“LEA”) and school performance in areas critical to students’ preparedness for college and career. The Accountability System is aligned to both (i) the LCFF priority areas, as required under State law, and (ii) accountability measures required under the provisions of the federal Every Student Succeeds Act. Performance by individual LEAs and schools under the Accountability System is reported through the State’s California School Dashboard (the “Dashboard”).

The Accountability System measures performance in the following priority areas using various state and local indicators:

|  |  |  |
| --- | --- | --- |
| **Priority Areas** | **State Indicator** | **Local Indicator** |
| Basic Services or Basic Condition at schools | N/A | Appropriately assigned teachers, access to curriculum-aligned instructional materials, and safe, clean and functional school facilities |
| Implementation of State Academic Standards | N/A | Progress in implementing state academic standards |
| Parent Engagement | N/A | Progress in seeking input from parents in decision making and promoting parental participation in programs |
| Student Achievement | * Academic Performance (Grades 3-8 and Grade 11);
* English Learners Progress
 | N/A |
| Student Engagement | * Graduation Rate;
* Chronic Absenteeism
 | N/A |
| School Climate | Suspension Rate  | Administration of a local climate survey at least every other year that provides a valid measure of perceptions of school safety and connectedness to students in at least one grade within the grade span(s) that the LEA serves (e.g., K-5, 6-8, 9-12) |
| Access to a Broad Course of Study | N/A | Annually measures progress on the extent students have access to, and are enrolled in, a broad course of study |
| Outcomes in a Broad Course of Study | College/Career | N/A |

*Source: California Department of Education.*

***State Indicators.*** The Accountability System measures performance on state indicators through a combination of current performance (“Status”) and improvement over time (“Change”). Both Status and Change are weighted equally, and scores approved by SBE serve as performance standards based on the state-wide distribution of Status and Change for each indicator. For each state indicator, a school or LEA will be assigned (i) a Status level of Very High, High, Medium, Low or Very Low; and (ii) a Change level of Increased Significantly, Increased, Maintained, Declined or Declined Significantly. For each state indicator, the combination of Status level and Change level yields a performance level of Blue, Green, Yellow, Orange or Red, with Blue representing the highest performance and Red indicating the lowest performance. Any performance level below Green indicates that improvement is needed.

***Local Indicators.*** The local indicators require LEAs (including individual charter schools) to determine whether they have Met, Not Met, or Not Met for More than Two Years the standards for each local indicator. For each local indicator, LEAs (and charter schools) must (i) measure their progress using locally available information, (ii) report the results at a regularly scheduled public meeting of the LEA’s (or charter school’s) local governing board, and (iii) upload the results to the public through the Dashboard.

***School Performance Overview.*** Each LEA and school’s School Performance Overview provides the performance level for all students on state and local indicators, including how the current year (status) compares to prior years (change) for each state indicator. Status and change each have five possible levels, which are displayed with the data for each indicator.

Due to the COVID-19 pandemic, State law suspended the reporting of state and local indicators for the Dashboard in 2020 and 2021. Additionally, the State suspended the administration of the Smarter Balanced Assessments for the 2019-20 school year. See “CERTAIN RISK FACTORS – Outbreak of Disease; Coronavirus” in the forepart of this Private Placement Memorandum. It is uncertain whether such closures and suspension of testing will affect the Dashboard for the 2021-22 school year.Below are the 2019 Dashboard results for the School.

**TABLE 5**

**CALIFORNIA SCHOOL DASHBOARD STATE AND LOCAL INDICATORS(1)**

**2019**

The School

|  |  |  |  |
| --- | --- | --- | --- |
| **State Indicators** | **All Students Performance(1)** | **Status** | **Change** |
| Chronic Absenteeism (2) |  | 20.9% chronically absent | Increased*(+4.1%)* |
| Suspension Rate (3) |  | 1.1% suspended at least once | Declined*(-4.1%)* |
| English Learner Progress (4) | N/A(3) | Low – 38.4% making progress towards English proficiency  | N/A(3) |
| English Language Arts (5) |  | 17 points below standard | Increased*(+18.4 points)* |
| Mathematics (5) |  | 103.6 points below standard | Increased*(+19.9 points)* |
| Graduation Rate(6) |  | 94.2% graduated | Declined*(-2.6%)* |
| College/Career(7) |  | 37.8% prepared | Increased*(+5.8%)* |
|  |  |  |  |
| **Local Indicators** |  | **Ratings** |  |
| Basics: Teachers, Instructional Materials, Facilities) | Standard Met |  |
| Implementation of Academic Standards | Standard Met |  |
| Parent and Family Engagement | Standard Met |  |
| Local Climate Survey | Standard Met |  |
| Access to a Broad Course of Study | Standard Met |  |

[FOOTNOTES ON FOLLOWING PAGE]

(1) Performance levels include, from highest to lowest, Blue, Green, Yellow, Orange and Red, based on the Status and Change levels for each indicator.

(2) Chronic Absenteeism Status level is based on the number of students absent for 10% or more of instructional days within the 2018-19 school year. Chronic Absenteeism Change level is based on the difference between the chronic absenteeism rates for the 2018-19 and 2017-18 school years.

(3) Suspension Rate Status level is based on the unduplicated number of students suspended within the 2018-19 school year. Suspension Rate Change level is based on the difference between the suspension rates for the 2018-19 and 2017-18 school years.

(4) English Learner Progress Status level is based on the percentage of English Language Proficiency Assessments for California (“ELPAC”) test takers scoring at a proficient level in the 2018-19 school year. A school’s progress level is deemed Very Low for less than 35%; Low for 35% to less than 45%; Medium for 45% to less than 55%; High for 55% to less than 65%; and Very High for 65% or higher. No Change levels are available for 2019, as the 2017-18 school year was the first year that California transitioned from the California English Language Development Test to the ELPAC and three years of ELPAC data are required to calculate Change.

(5) English Language Arts (“ELA”) and Mathematics Status levels are based on the sum of all grades 3-8 and 11 students’ distance from the minimum score qualifying a student for “Standards Met” on the ELA or Math 2018-19 Smarter Balanced Assessment, divided by the total number of 2018-19 Smarter Balanced Assessment ELA or Math test takers. English Language Arts and Mathematics Change levels are based on the difference between the current year and prior year Status levels.

(6) Percentage of students who received a high school diploma within four or five years of entering ninth grade or completed their graduation requirements at an alternative school.

(7) Determination of whether high school students are prepared for success after graduation based on measures like graduation rate, performance on state tests, and college credit courses.

*Source: California Department of Education.*

# OPERATING AND FINANCIAL INFORMATION

## Historical Financial Results

The following table presents the audited statements of activities and changes in net assets for the School for fiscal years 2017-18 through 2020-21.

**TABLE 6**

**STATEMENT OF ACTIVITIES**

**2017-17 through 2020-21**

The School

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ***2017-18*** | ***2018-19*** | ***2019-20*** | ***2020-21*** |
| **SUPPORT AND REVENUES:** |  |  |  |  |
| State Revenue: |  |  |  |  |
| State Aid |  |  |  |  |
| Other State Revenue |  |  |  |  |
| Federal revenue: |  |  |  |  |
| Grants and Entitlements |  |  |  |  |
| PPP Loan Forgiveness |  |  |  |  |
| Local revenues: |  |  |  |  |
| In-Lieu Property Tax Revenue |  |  |  |  |
| Contributions |  |  |  |  |
| Investment Income |  |  |  |  |
| Other Revenue |  |  |  |  |
| Total revenues |  |  |  |  |
|  |  |  |  |  |
| **EXPENSES:** |  |  |  |  |
| Program services |  |  |  |  |
| Management and general |  |  |  |  |
| Total expenses |  |  |  |  |
|  |  |  |  |  |
| **CHANGE IN NET ASSETS** |  |  |  |  |
|  |  |  |  |  |
| Net Assets, Beginning of Year |  |  |  |  |
|  |  |  |  |  |
| **NET ASSETS, END OF YEAR** |  |  |  |  |

*Source: Encore; Audited Financial Reports for Fiscal Years 2017-18 through 2020-21.*

## Historical Statements of Financial Position

The following table sets forth the audited assets, liabilities and net assets of the School as of June 30 of each year for fiscal years 2017-18 through 2020-21.

**TABLE 7**

**STATEMENT OF FINANCIAL POSITION**

**2017-18 through 2020-21**

The School

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ***2017-18*** | ***2018-19*** | ***2019-20*** | ***2020-21*** |
| **CURRENT ASSETS** |  |  |  |  |
| Cash and Cash Equivalents  |  |  |  |  |
| Accounts receivable – Federal and State |  |  |  |  |
| Accounts receivable – Other |  |  |  |  |
| Prepaid Expenses and Other Assets |  |  |  |  |
| Total current assets |  |  |  |  |
|  |  |  |  |  |
| Total assets |  |  |  |  |
|  |  |  |  |  |
| **CURRENT LIABILITIES** |  |  |  |  |
| Accounts Payable and Accrued Liabilities |  |  |  |  |
| Deferred Revenue  |  |  |  |  |
| Factored Receivables Liability |  |  |  |  |
| Notes Payable, Current Portion |  |  |  |  |
| Total Current Liabilities |  |  |  |  |
|  |  |  |  |  |
| **LONG-TERM LIABILITIES** |  |  |  |  |
| Notes Payable |  |  |  |  |
| Total Liabilities |  |  |  |  |
|  |  |  |  |  |
| **NET ASSETS:** |  |  |  |  |
| Without donor restriction |  |  |  |  |
| With donor restrictions |  |  |  |  |
| Total net assets |  |  |  |  |
|  |  |  |  |  |
| Total liabilities and net assets |  |  |  |  |
|  |  |  |  |  |

*Source: Encore; Audited Financial Reports for Fiscal Years 2017-18 through 2020-21.*

## Financial Statements

The audited financial statements of Encore for the year ended June 30, 2021 (the “2020-21 Audit”) are set forth in “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF ENCORE FOR THE YEAR ENDED JUNE 30, 2021” attached to this Private Placement Memorandum.

Nigro & Nigro PC, Encore’s auditor for the fiscal year ending June 20, 2021 (the “Auditor’), has not been engaged to perform and has not performed, since the date of the 2020-21 Audit, any procedures on the financial statements addressed in the 2020-21 Audit. The Auditor also has not performed any procedures relating to this Private Placement Memorandum.

The Auditor identifies various material weaknesses and significant deficiencies relating to Encore’s financial reporting, and several findings of noncompliance with State program rules and regulations. See the 2020-21 Audit set forth in “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF ENCORE FOR THE YEAR ENDED JUNE 30, 2021” attached to this Private Placement Memorandum.

## Management Discussion and Analysis; 2020-21 and 2021-22 Fiscal Years

[TO COME]

## Retirement Programs

Qualified Encore employees are covered under multiple-employer defined benefit pension plans. Classified employees are members of the California Public Employees’ Retirement System (“PERS”), and certificated employees are members of the California State Teachers’ Retirement System (“STRS”). See “CERTAIN RISK FACTORS – Specific Risks of Charter Schools – State Retirement Systems” in the forepart of this Limited Offering Memorandum.

***STRS.*** Encore’s full-time certificated teachers are members of the State Teachers’ Retirement System. 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, participant employers 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, participant employers 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. For fiscal year commencing July 1, 2021, the contribution rate is 10.250% for employees hired before the Implementation Date and 10.205% for employees hired after the Implementation Date, which remain unchanged the past two fiscal years.

Pursuant to AB 1469, participant employers’ contribution rate will increase over a seven-year phase-in period in accordance with the following schedule:

**PARTICIPANT EMPLOYER 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 participant employers’ 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 participant employers and the State in order to eliminate the 2014 Liability.

On June 27, 2019, the Governor signed SB 90 (“SB 90”) into law as a part of the 2019-20 Budget. Pursuant to SB 90, the State Legislature appropriated $2.246 billion to be transferred to the Teacher’s Retirement Fund for the STRS Defined Benefit Program to pay in advance, on behalf of employers, part of the contributions required for fiscal years 2019-20 and 2020-21, resulting in participant employers having to contribute 1.03% less in fiscal year 2019-20 and 0.70% less in fiscal year 2020-21, resulting in employer contribution rates of 17.1% in fiscal year 2019-20 and 18.4% in fiscal year 2020-21. In addition, the State made a contribution of $1.117 billion to be allocated to reduce the employer’s share of the unfunded actuarial obligation determined by the STRS Board upon recommendation from its actuary. This additional payment was reflected in the June 30, 2020 actuarial valuation. Subsequently, the State’s 2020-21 Budget redirected $2.3 billion previously appropriated to STRS and PERS pursuant to SB 90 for long-term unfunded liabilities to further reduce the employer contribution rates in fiscal year 2020-21 and 2021-22. As a result, the effective employer contribution rate was 16.15% in fiscal year 2020-21 and is 16.92% in fiscal year 2021-22. See “STATE FUNDING OF EDUCATION – General” in the forepart of this Limited Offering Memorandum.

Encore’s contributions to STRS were $\_\_\_\_\_\_\_\_\_ for fiscal year 2016-17, $\_\_\_\_\_\_\_\_\_ for fiscal year 2017-18, $785,803 for fiscal year 2018-19, $762,477 for fiscal year 2019-20 and $436,634 for fiscal year 2020-21. Encore has budgeted its contribution to STRS to be $\_\_\_\_\_\_\_\_\_ for fiscal year 2021-22.

The State also contributes to STRS, currently in an amount equal to 8.328% for fiscal year 2021-22. 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. The STRS Board approved State supplemental contribution rate for fiscal year 2021-22 reflects an increase of 0.5% of payroll, the maximum allowed under current law.

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 California 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, 2019 included 1,612 public agencies and 1,319 K-14 school districts and charter schools. PERS acts as the common investment and administrative agent for the member agencies. The State and participant employers (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 schools 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. Pursuant to SB 90, the State Legislature appropriated $904 million to the Schools Pool, including transfers in fiscal years 2019-20 and 2020-21 to the Public Employees Retirement Fund to pay, in advance on behalf of K-14 school district employers, part of the contributions required for K-14 school district employers for such fiscal years, as well as additional amounts to be applied toward certain unfunded liabilities for K-14 school district employers. In June 2020, SB 90 was amended by Assembly Bill 84/Senate Bill 111 (“AB 84”). Under AB 84, $144 million of the State contribution under SB 90 was deemed to satisfy a portion of the State’s required contribution in fiscal year 2019-20, and the amounts previously allocated toward future liabilities were redirected such that, $430 million will satisfy a portion of the employer contribution rate in fiscal year 2020-21, and $330 million will satisfy a portion of the employer contribution rate in fiscal year 2021-22. As a result of the payments made by the State pursuant to SB 90, as amended by AB 84, the employer contribution rate was 19.721% for fiscal year 2019-20, 20.7% in fiscal year 2020-21, and will be 22.91% in fiscal year 2021-22. See “STATE FUNDING OF EDUCATION – General” in the forepart of this Limited Offering Memorandum. 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 2020-21 and will be 7% of such salaries in fiscal year 2021-22, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 7% in fiscal year 2020-21 and will be 7% in fiscal year 2021-22. See “– California Public Employees’ Pension Reform Act of 2013” herein.

Encore’s contributions to PERS were $\_\_\_\_\_\_\_\_\_ for fiscal year 2016-17, $\_\_\_\_\_\_\_\_\_ for fiscal year 2017-18, $709,146 for fiscal year 2018-19, $718,972 for fiscal year 2019-20 and $409,505 for fiscal year 2020-21. Encore has budgeted its contribution to PERS to be $\_\_\_\_\_\_\_\_\_ for fiscal year 2021-22.

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

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**FUNDED STATUS**

**STRS (Defined Benefit Program) and PERS (Schools Pool)**

**(Dollar Amounts in Millions)****(1)Fiscal Years 2010-11 through 2019-20**

|  |
| --- |
| **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 |
| 2017-18 | 297,603 | 211,367 | 101,992 | 190,451 | 107,152 |
| 2018-19 | 310,719 | 225,466 | 102,636 | 205,016 | 105,703 |
| 2019-20 | 322,127 | 233,253 | 107,999 | 216,252 | 105,875 |
| **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) |
| 2017-18 | 92,071 | 64,846 | 27,225 | --(4) | --(4) |
| 2018-19(5) | 99,528 | 68,177 | 31,351 | --(4) | --(4) |
| 2019-20(6) | 104,062 | 71,400 | 32,662 | --(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.
5. For fiscal year 2020-21, the additional $430 million State contribution made pursuant to AB 84 did not directly impact the actuarially determined contribution as it was not yet in the Schools Pool by the June 30, 2019 actuarial valuation date. The additional State contribution was treated as an advance payment toward the unfunded accrued liability contribution with required employer contribution rate correspondingly reduced.
6. For fiscal year 2021-22, the impact of the additional $330 million State contribution made pursuant to AB 84 is directly reflected in the actuarially determined contribution, because the additional payment was in the Schools Pool as of the June 30, 2020 actuarial valuation date, which served to reduce the required employer contribution rate by 2.16% of payroll. For fiscal year 2021-22, the impact of the additional $330 million State contribution made pursuant to AB 84 is directly reflected in the actuarially determined contribution, because the additional payment was in the Schools Pool as of the June 30, 2020 actuarial valuation date, which served to reduce the required employer contribution rate by 2.16% of payroll.

*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) (the “2017 Experience Analysis”), 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%.

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

The STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2020 (the “2020 STRS Actuarial Valuation”) reports that the unfunded actuarial obligation increased by $172 million since the 2019 STRS Actuarial Valuation and the funded ratio increased by 1.1% to 67.1% over such time period. The increase in the funded ratio is primarily due to salary increases less than assumed, additional State contributions, and contributions to pay down the unfunded actuarial obligation under the STRS Board’s valuation policy.

According to the 2020 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 the STRS 2020 Review of Funding Levels and Risks, STRS noted that COVID-19 has the potential to affect investment performance, the number of teachers working in California and the longevity of STRS members, which are the three main risks to long-term funding that STRS has been monitoring for the last few years. In the 2020 STRS Actuarial Report, the actuary reports that a potential decline in the number of teachers and a slower growth in total payroll constitute the largest risk facing employers with respect to STRS. For the 2020 STRS Actuarial Valuation, the number of teachers actively working dropped from 451,000 on June 30, 2019, to about 448,000 on June 30, 2020. This drop in the number of working teachers, combined with salary increases, resulted in the payroll increasing by approximately 2.8% between 2019 and 2020, below the assumed 3.5% annual payroll growth. The actuary notes that the assumed growth in the total payroll was a key component of the employer contribution rate calculated in the 2020 STRS Actuarial Valuation, and that a slower growth will require a higher employer contribution rate to be able to collect the same amount of contributions. The actuary notes that the number of active teachers could be impacted in the future by K-12 enrollment, as well as teacher retirements. Based on CDE reports, net enrollment in K-12 school districts decreased by 3% (160,000 students) in 2020-21, the largest drop in 20 years, and the Department of Finance projects enrollment will continue to decline in the State over the next decade. In addition, in the first half of the fiscal year, STRS has seen a 26% increase in the number of retirements, and while an increase in retirements would normally not impact long-term funding, decisions made by employers about whether or not to replace the teachers who have retired could impact STRS ability to reach full funding by 2046, especially if it leads to an overall reduction in the number of teachers working in the State and a reduction in total payroll. See “CERTAIN RISK FACTORS – Outbreak of Disease; Coronavirus” in the forepart of this Limited Offering Memorandum.

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

On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “PERS Discount Rate”) from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% for the June 30, 2017 actuarial valuation, 7.25% for the June 30, 2018 actuarial valuation and 7.00% for the June 30, 2019 actuarial valuation. The new discount rate went into effect July 1, 2017 for the State and July 1, 2018 for participant employers. 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. The PERS Funding Risk Mitigation Policy recently triggered an automatic decrease of 0.2% in the PERS Discount Rate due to the investment return in fiscal year 2020-21, lowering such rate to 6.8%.

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, participant employers 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 November 17, 2021, the PERS Board approved new actuarial assumptions, including (i) lowering the inflation rate to 2.30% per year, (ii) increasing the assumed real wage inflation assumption to 0.5%, which results in a total wage inflation of 2.80%, (iii) increasing the payroll growth rate to 2.80%, and (iv) certain changes to demographic assumptions relating to modifications to the mortality rates, retirement rates, and disability rates (both work and non-work related), and rates of salary increases due to seniority and promotion. These actuarial assumptions will be incorporated into the actuarial valuation for fiscal year ending June 30, 2021 and will first impact contribution rates for school districts in fiscal year 2022-23. Based on the timing of the study, the member data used in the analysis, which runs through June 30, 2019, does not include the impacts of COVID‑19. Preliminary analysis of the system experience since the beginning of the pandemic has shown demographic experience (e.g. retirements, deaths, etc.) did differ from the current actuarial assumptions in some areas, which will be more precisely quantified in future actuarial valuations. However, as of November 2021, PERS did not believe that the demographic impacts of COVID-19 would have a material impact on the system experience going forward.

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, 2020 (the “2020 PERS Actuarial Valuation”), reported that from June 30, 2019 to June 30, 2020 the funded ratio of the Schools Pool increased by 0.1% (from 68.5% to 68.6%), which was primarily due to the additional State contribution in July 2019 offset partially by the lower than expected investment return in fiscal year 2019-20. In addition, the 2020 PERS Actuarial Valuation reported that (i) the return on assets for fiscal year ending June 30, 2020, was approximately 4.7% reduced for administrative expenses, which was lower than the assumed return of 7.0%, leading to an investment experience loss, (ii) the overall demographic experience produced a nominal liability experience gain, and (iii) the normal cost declined slightly as the share of the active population of employees hired after the Implementation Date (defined below) continued to increase. When the PERS Board established the employer contribution rates for fiscal year 2021-22 on April 19, 2021, the PERS Board provided projections of the employer contribution rates for the next five fiscal years. Assuming all then-current actuarial assumptions are realized, including investment return of 7% in fiscal year 2020-21, that no changes to assumptions, methods or benefits will occur during the projection period, 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 contribution rate for fiscal year 2022-23 was projected to be 26.1%, with annual increases in most years thereafter, resulting in a projected 27.6% employer contribution rate for fiscal year 2026-27. However, the 2020 PERS Actuarial Valuation did not provide projections of the employer contribution rates because key actuarial assumptions to be used in the June 30, 2021 actuarial valuation, particularly the PERS Discount Rate, which is the key driver of pension plan cost, are not yet known. The PERS Discount Rate is presently undergoing review as part of the periodic Asset Liability Management Study currently in progress and other economic and demographic assumptions are also currently undergoing review as part of the PERS Experience Study conducted every four years. It is currently anticipated that both economic and demographic assumptions will be finalized by the end of the 2021 calendar year, and once finalized PERS will produce an addendum to the 2020 PERS Actuarial Valuation, which will contain projections of the employer contribution rates for the next five fiscal years, reflecting both the new assumptions as well as the actual fiscal year 2020-21 investment return (approximately 21.9% before reduction for administrative expenses).

Encore can make no representations regarding the future program liabilities of STRS, or whether Encore will be required to make additional contributions to STRS in the future above those amounts required under AB 1469. Encore can also provide no assurances that Encore’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 River Springs 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 employers, including River Springs, took effect for the fiscal year beginning July 1, 2014.

## Outstanding Debt Obligations

***DMS Loan.*** [TO COME].

***Prior Bonds.*** Encore made various financial covenants in the lease agreement entered into in connection with the Prior Bonds, including covenants to maintain a certain base rent coverage ratio and days cash on hand. Encore failed to meet such days cash on hand covenant in the 2016-17, 2017-18, 2017-19 and 2019-20 fiscal years, and failed to meet the base rent coverage ratio in the 2016-17 and 2017-18 fiscal years.

Pursuant to the loan agreement relating to the Prior Bonds, payments of debt service on the Prior Bonds shall be paid to the trustee for the Prior Bonds by an intercept of State apportionments sent to the trustee by the State Controller. Due to a drop in ADA for the School from the 2020-21 school year to the 2021-22 school year, no State LCFF apportionments were payable to Encore during the months of February 2022 through May 2022. Accordingly, monthly payments due under the loan agreement for the Prior Bonds during such months were not received via the State intercept. Encore made such payments via wire in such months.

Encore has, in the past, needed to receive approval of holders of the Prior Bonds to seek short-term cash borrowing for cashflow purposes. Additionally, in \_\_\_\_\_\_\_\_\_, 20\_\_, the Corporation (as defined herein) requisitioned approximately $\_\_\_\_\_\_\_\_\_ from the Repair and Replacement Fund held under the indenture for the Prior Bonds to reimburse Encore for certain capital expenditures.

Various financial and operational reports and information have been provided to MSRB’s EMMA website, both voluntarily by Encore and pursuant to a continuing disclosure agreement entered into by Encore and the Corporation in connection with the Series 2016 Bonds. Such reports and information can be found at <https://emma.msrb.org/IssueView/Details/ER377246>.

## SB 740

Encore is currently eligible to receive funding under the California law referred to herein as SB 740,which provides for reimbursement of facilities lease costs of 75% of the actual lease cost to the extent fundedby the State up to a limit of $1,256 per unit of classroom based ADA for the 2021-22 school year. This per-ADA amount may increase in future years based on cost of living adjustments. See “APPENDIX D CALIFORNIA CHARTER SCHOOLS, RELATED STATUTES, AND FUNDING CHARTER SCHOOLS – STATE FUNDING OF EDUCATION – Allocation of State Funding to Charter Schools – SB 740 Facilities Grant Program Funding” attached to this Private Placement Memorandum.

To be eligible for SB 740 reimbursement,a charter school must serve a student population with at least 55% of its student population eligible for freeor reduced lunch, or be located in a public elementary school attendance area with such composition. During the 2021-22 school year, the School is serving a student population with 47.1% of students eligible for free or reduced lunch. The School is located in the public elementary school attendance area of Juniper Elementary School, which is serving a student population with 80.5% of students eligible for free or reduced lunch.

Encore was awarded SB 740 funding for the School of $\_\_\_\_\_\_\_\_\_\_ and $\_\_\_\_\_\_\_\_\_\_ in fiscal years 2019-20 and 2020-21, respectively, and projects to receive $\_\_\_\_\_\_\_\_\_\_ in fiscal year 2021-22.

Therecan be no assurance that any particular level of SB 740 funding will be available in fiscal year 2021-22, or anyfuture year, or that the School will remain eligible for such funding. See “CERTAIN RISK FACTORS – Dependence on State Aid Payments that are Subject to Annual Appropriation and Political Factors,” “– Specific Risks of Charter Schools – Charter School Law” and “– SB 740 Funding” in the forepart of this Private Placement Memorandum.

## No Material Litigation

No action, suit, proceeding or investigation at law or in equity, before or by any court, governmental agency or public board or body is pending or, to the knowledge of Encore or the Borrower, threatened, affecting the validity of the Lease or the Bonds or contesting the corporate existence of the Borrower, the Landlord, Encore or its authority to operate the School pursuant to its charter.

Encore, the Landlord and the Corporation are subject to lawsuits and claims in the ordinary course of their operations. In the opinion of the management of Encore and the Borrower, the aggregate amount of the uninsured liabilities for such lawsuits and claims will not materially affect the finances of the Borrower, the Landlord or Encore, or its operation of the School.

***Termination of Prior Administrators.*** [TO COME]

# PROJECTIONS AND CASH FLOWS

Attached to this Private Placement Memorandum as Appendix C are financial projections and projected cash flows of Encore. Notwithstanding Encore’s history of performance with respect to the School, future financial performance of the School may not equal or exceed the projections set forth in this Private Placement Memorandum. No assurance is given that such projections will be met, or that the number of students attending the School may not diminish in the future. The projections of revenue and expenses contained in Appendix C are based upon the number of students projected to be enrolled at the School and were prepared by Encore and have not been independently verified by any party other than Encore.

The projections are “forward-looking statements” and are subject to the general qualifications and limitations described herein. The Placement Agent has not independently verified the Borrower’s projections set forth in Appendix C or otherwise, and makes no representations nor gives any assurances that such projections, or the assumptions underlying them, are complete or correct.

ENCORE PREPARED THE PROJECTIONS BASED ON ASSUMPTIONS ABOUT FUTURE STATE FUNDING LEVELS AND FUTURE OPERATIONS OF THE SCHOOL, INCLUDING STUDENT ENROLLMENT AND EXPENSES. THERE CAN BE NO ASSURANCE THAT ACTUAL ENROLLMENT REVENUES AND EXPENSES WILL BE CONSISTENT WITH THE ASSUMPTIONS UNDERLYING SUCH PROJECTIONS. MOREOVER, NO GUARANTEE CAN BE MADE THAT THE PROJECTIONS OF REVENUES AND EXPENSES INCLUDED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE CAN BE NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE PROJECTIONS’ UNDERLYING ASSUMPTIONS. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE OR FEDERAL AID PAYMENTS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENT REGULATIONS, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN EDUCATION COMPETITION AND CHANGES IN LOCAL OR GENERAL ECONOMIC CONDITIONS. REFER TO “INTRODUCTION” IN THE FOREPART OF THIS PRIVATE PLACEMENT MEMORANDUM FOR QUALIFICATION AND LIMITATIONS APPLICABLE TO FORWARD-LOOKING STATEMENTS.

# THE BORROWER

## General

Western Encore Properties Incorporated (the “Borrower”) is a California nonprofit public benefit corporation. The Corporation is organized and operated exclusively for charitable purposes and was formed by Encore in 2015 as a support organization under Section 509(a)(3) of the Code for Encore.

The Corporation received a determination letter from the Internal Revenue Service (the “IRS”) on February 9, 2016, confirming its status as a public charity exempt from federal income tax under the Code, as a supporting organization. On November 15, 2018, the Borrower’s federal tax exempt status was automatically revoked by the IRS for not filing its required tax returns for three consecutive years. The Corporation has covenanted in the Loan Agreement to file all overdue tax returns and seek to obtain retroactive reinstatement of its federal tax exempt status as soon as possible. See “CERTAIN RISK FACTORS – Tax Related Issues” in the forepart of this Private Placement Memorandum.

## Governance

***Board of Directors*.** Encore Education, acting through its Board of Directors, has the power to designate the Directors of the Corporation and appoint successor Directors as necessary, and has such other powers provided by the Borrower’s bylaws. The number of members of the Borrower’s Board of Directors may be no less than two members and no more than seven members. No more than 49% of the members of the Borrower’s Board of Directors may be persons, or relatives of persons, compensated by the Corporation for services rendered to it within the previous 12 months. The members of the Board of Directors hold office for staggered terms of either two or three years. Under the Borrower’s bylaws, the Board is required to meet at least annually, for among other purposes, appointing officers.

The Borrower’s Board of Directors currently comprises four individuals, all of whom are employees of Encore Education. The following table sets forth the members of the Board of Directors of the Borrower.

**WESTERN ENCORE PROPERTIES INCORPORATED**

**Board of Directors**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Member** |  | **Title** |  | **Date Appointed by Encore Education** | **Term Expires** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

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*Source: Encore.*

## Role in the Financing

Upon the issuance of the California Enterprise Development Authority’s Charter School Revenue Bonds (Encore Education Corporation) Series 2022 (Taxable) (collectively, the “Bonds”), the California Enterprise Development Authority (the “Authority”) will loan the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement (the “Loan Agreement”) between the Authority and the Corporation.

In addition, the Corporation is a party to the Master Indenture of Trust (as supplemented, the “Master Indenture”), as supplemented, including by a Supplemental Master Indenture for Obligation No. 2, each by and between the Borrower, as representative of the Obligated Group (defined herein), and UMB Trust, N.A., as master trustee (the “Master Trustee”). However, the Corporation is not itself a Member of the Obligated Group. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” in the forepart of this Private Placement Memorandum.

# THE MEMBER OF THE OBLIGATED GROUP

## General

16955 Lemon Street, LLC (the “Landlord” or the “Member”) is a California limited liability company, the sole member of which is the Borrower. The Member is currently the sole Member of the Obligated Group. The Member was formed to support the charter schools operated by Encore and specifically for the purpose of holding title to property and managing, operating and leasing property, collecting income, and conveying the entire amount of such income, less expenses to the Borrower.

Upon the issuance of the Bonds, the Facility (as defined in the forepart of this Limited Offering Memorandum) will be leased to Encore from the Member pursuant to the Lease (as defined in the forepart of this Private Placement Memorandum). The Facility will be used by Encore to operate the School.

The Member is expected to have no assets, other than holding title to the Facility, and is expected to have no revenue other than payments received pursuant to the Lease.

**EXHIBIT A**

**MEMORANDUM OF UNDERSTANDING BETWEEN ENCORE AND HESPERIA USD**