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

PRELIMINARY OFFICIAL STATEMENT DATED JULY 21, 2022

NEW ISSUE-FULL BOOK-ENTRY

RATINGS:
S&P: Insured: "AA"/Underlying: "A+"
(See "RATINGS" herein)

In the opinion of Dannis Woliver Kelley, Special Counsel to the District, under existing law, interest with respect to the Certificates is exempt from personal income taxes of the State of California, Bond Counsel observes that interest on the Certificates is not excluded from gross income for federal tax purposes. See "TAX MATTERS" herein.

$7,600,000*
2022 CERTIFICATES OF PARTICIPATION
(Federally Taxable)
Evidencing the Fractional Interests of the Owners Thereof in Lease Payments to be Made by the LEMON GROVE SCHOOL DISTRICT
(San Diego County, California)

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

The Lemon Grove School District's (the "District") 2022 Certificates of Participation (Federally Taxable) (the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2022 (the "Trust Agreement"), by and among U.S. Bank Trust Company, National Association, as trustee, the Public Property Financing Corporation of California (the "Corporation") and the District to (i) finance certain capital improvements to District facilities, (ii) acquire a municipal bond insurance policy and a debt service reserve surety policy for the Certificates, and (iii) pay the costs related to the execution and delivery of the Certificates, all as further described in the sections "THE PROJECTS" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

Pursuant to a Site Lease, dated as of August 1, 2022, the District will lease the Palm Middle School campus (the "Property") to the Corporation, and will lease the Property back from the Corporation pursuant to a Lease Agreement, dated as of August 1, 2022 (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. The District will covenant to budget and appropriate Lease Payments in each 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. 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.

Interest represented by the Certificates is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2023. The Certificates will be delivered as fully registered securities, without coupons, and when delivered will be registered in the name of The Depository Trust Company ("DTC"), New York, New York, or its nominee. DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only, in authorized denominations, as described in this Official Statement. See APPENDIX F — "BOOK-ENTRY ONLY SYSTEM".

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

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.

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

The scheduled payment of principal of 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 "Insurer"). See "BOND INSURANCE" herein and APPENDIX G — "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto.

The Certificates are offered when, as and if issued, subject to the approval of their legality by Dannis Woliver Kelley, Long Beach, California, Special Counsel, and certain other conditions. Dannis Woliver Kelley, Long Beach, California, is acting also as Disclosure Counsel for the issue. Certain matters will be passed on for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, for the Corporation by its counsel and for the Trustee by its counsel. It is anticipated that the Certificates will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about _____________, 2022.

Dated: _____________, 2022

* *Preliminary; subject to change.*

MATURITY SCHEDULE

$7,600,000*
2022 CERTIFICATES OF PARTICIPATION
(Federally Taxable)
Evidencing the Fractional Interests of the
Owners Thereof in Lease Payments to be Made by the
LEMON GROVE SCHOOL DISTRICT
(San Diego County, California)

MATURITY SCHEDULE

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[1] (525651)
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				

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* *Preliminary; subject to change.*

[1] *CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2022 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Underwriter, the Municipal Advisor or their agents or counsel assume responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part 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*

No dealer, broker, salesperson or other person has been authorized by Lemon Grove School District (the "District") to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell, 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 described herein, are intended solely as such and are not to be construed as a representation of facts.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. 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. Although certain information set forth in this Official Statement has been provided by the County of San Diego, the County of San Diego has not approved this Official Statement and is not responsible for the accuracy or completeness of the statements contained in this Official Statement except for the information set forth under the caption "SAN DIEGO COUNTY POOLED INVESTMENT FUND."

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

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

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

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.

LEMON GROVE SCHOOL DISTRICT
San Diego County, State of California

<u>District Administrators</u>

Erica Balakian, *Superintendent*
Sheree Stopper, *Chief Business Official*

SPECIAL SERVICES

<u>Special Counsel and Disclosure Counsel</u>

Dannis Woliver Kelley
San Diego, California

<u>Financial Advisor</u>

Dale Scott & Company, Inc.
San Francisco, California

<u>Trustee</u>

U.S. Bank Trust Company, National Association
Los Angeles, California

TABLE OF CONTENTS

TABLE OF CONTENTS - *continued*

$7,600,000*
2022 CERTIFICATES OF PARTICIPATION
(Federally Taxable)
Evidencing the Fractional Interests of the
Owners Thereof in Lease Payments to be Made by the
LEMON GROVE SCHOOL DISTRICT
(San Diego County, California)

INTRODUCTION

This Official Statement, which includes the cover page, inside cover and appendices hereto, provides certain information concerning the sale and delivery of the 2022 Certificates of Participation (Federally Taxable) (the "Certificates"), in the aggregate principal amount of $7,600,000*, evidencing the fractional interests of the registered owners thereof (the "Owners") in Lease Payments (as hereinafter defined) to be made by the Lemon Grove School District (the "District") pursuant to a Lease Agreement, dated as of August 1, 2022 (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 Palm Middle School campus (the "Property").

This introduction is not a summary of the Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, inside cover page and appendices hereto. Capitalized terms not defined herein shall have the meanings set forth in APPENDIX A hereto.

The District

The District was formed in 1893 and is located in the southwestern region of San Diego County, approximately nine miles from downtown San Diego. The District encompasses approximately 5.5 square miles in the city of Lemon Grove, as well as portions of the cities of La Mesa, Spring Valley and San Diego. The District provides education services in seven school sites, including six elementary schools and two middle schools, and one virtual academy. The District's average daily attendance ("ADA") for fiscal year 2022-23 is projected to be 3,076 students and the District has a 2021-22 total assessed valuation of $3,521,733,385. The District's audited financial statements for the fiscal year ended June 30, 2021 are attached hereto as APPENDIX D. For further information concerning the District, see the caption "LEMON GROVE SCHOOL DISTRICT" herein.

Purpose of the Certificates

The proceeds received from the sale of the Certificates will be used to (i) finance certain capital improvements to District facilities, (ii) acquire a municipal bond insurance policy and a debt service reserve surety policy for the Certificates, and (iii) pay the costs related to the execution and delivery of the Certificates, all as further described in the sections "THE PROJECTS" 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, dated as of August 1, 2022 (the "Trust Agreement"), by and among the District, the Corporation and U.S. Bank Trust Company, 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, which is further described under the caption "THE

* *Preliminary; subject to change.*

PROPERTY" herein. The District is also required to pay any taxes and assessments and the cost of maintenance and repair of the Property.

Pursuant to an Assignment Agreement, dated as of August 1, 2022 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates, substantially all of its rights under the Lease and a Site Lease, dated as of August 1, 2022 (the "Site Lease"), by and between the District and the Corporation, including its rights to receive and collect Lease Payments, Additional Payments, Reserve Replenishment Rent and Prepayments from the District under the Lease and rights as may be necessary to enforce payment of Lease Payments, Additional Payments, Reserve Replenishment Rent and Prepayments and to exercise all rights and remedies under the Lease following a default. 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 will covenant 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. The District's obligation to make Lease Payments is subject to abatement in the event of the loss of use and possession of all or a portion of the Property due to its damage, destruction, title defect or taking by eminent domain. See "RISK FACTORS — Abatement" herein.

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 or statutory debt limitation or restriction. See "RISK FACTORS" herein.

Description of the Certificates

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see "THE CERTIFICATES" and APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" 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.

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

Registration, Transfers and Exchanges. The Certificates will be 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 the Certificates (the "Beneficial Owners") in the denominations set forth above, 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. See "THE CERTIFICATES — Book-Entry Only System" herein. 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 provisions of the Trust Agreement. The Certificates are being delivered in the minimum denominations of $5,000 and any integral multiple thereof.

Payments. 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 in the Trust Agreement. See “THE CERTIFICATES — General” herein.

Continuing Disclosure

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

Professionals Involved in the Offering

U.S. Bank Trust Company, National Association will act as Trustee with respect to the Certificates. The Certificates will be delivered subject to the approval as to their legality by Dannis Woliver Kelley, Long Beach, California, Special Counsel. Dannis Woliver Kelley will also act as the District’s Disclosure Counsel with respect to the Certificates. Certain matters will be passed on for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. Certain matters will be passed on for the Corporation by its counsel and for the Trustee by its counsel. Dale Scott & Company, Inc. will act as Financial Advisor to the District. The District’s financial statements for the fiscal year ended June 30, 2021 are included as APPENDIX D hereto.

Certificate Owners’ Risks

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

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The sale and delivery of the Certificates to potential investors is made only by means of the Official Statement.

Copies of the Lease, the Site Lease, the Trust Agreement, the Assignment Agreement and the Continuing Disclosure Agreement are available, upon request, and upon payment to the District of a charge for copying, mailing and handling, from the District at 8025 Lincoln Street, Lemon Grove, California 91945.

This Official Statement contains brief descriptions of, among other things, the District, the Corporation, the Certificates, the Trust Agreement, the Lease, the Assignment Agreement, 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.

THE PROJECTS

The District expects to apply the net proceeds from the sale of the Certificates to (i) finance certain capital improvements to District facilities, including improvements to the Property, (ii) acquire a policy of municipal bond insurance and a debt service reserve surety policy for the Certificates and (iii) pay the costs related to the execution and delivery of the Certificates. See, "THE PROPERTY" 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 Palm Middle School campus, which was closed in 2013, and is planned to be renovated with proceeds of the Certificates and reopened as a District school site. The Property has been subject to a joint-use lease arrangement entered into in April, 2012 with Literacy First Charter Schools, operating its Liberty Charter High School (the "Charter School"). For school year 2021-22, the Charter School served approximately 357 students in grades nine through 12. The Charter School's use arrangement with the District expires on July 31, 2022 when the Charter School will cease to operate its program on and will vacate the Property. The Property is located at 8425 Palm Street, in Lemon Grove, California.

The improvements on the Property currently have a total estimated insured replacement value of approximately $11,045,720. See also "RISK FACTORS – Property Values" herein.

THE CERTIFICATES

General

The Certificates will be executed in the aggregate principal amount of $7,600,000*. The Certificates will be dated their date of delivery, and will be delivered as registered Certificates without coupons in denominations of $5,000 each, and any integral multiple thereof. Interest with respect to the Certificates will be payable on each February 1 and August 1, commencing February 1, 2023 (each a "Certificate Payment Date"), at the rates per annum set forth on the inside cover page of this Official Statement. The Certificates will mature on August 1 in the designated years and in the principal amounts as set forth on the inside cover of this Official Statement.

If a Certificate is executed: (i) as of a Certificate Payment Date, interest will be payable from such Certificate Payment Date; (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 will be payable from such following Certificate Payment Date and (iii) on or prior to January 15, 2023, interest evidenced thereby shall be payable from the date of execution and delivery of the Certificates. 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 and Prepayments thereof to be made by the District pursuant to the Lease. To the extent Lease Payments are abated or not made under the Lease and insurance proceeds or amounts in or credited to the Reserve Fund are not available to make such Lease Payments, all Certificate Owners will receive a proportionate reduction in their payments. See "RISK FACTORS — Abatement."

So long as the Certificates are held in book-entry form, principal and interest will be paid to DTC for disbursement to Beneficial Owners of interests in the Certificates in accordance with DTC's procedures. See "— Book-Entry Only System" below. In the event that the Certificates are no longer held in book-entry form, the following provisions will apply. Principal with respect to the Certificates will be payable upon surrender

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* *Preliminary; subject to change.*

by the Certificate Owners thereof at the principal office of the Trustee. Interest with respect to the Certificates will be payable by check mailed by first class mail to the Certificate Owners of record at the address shown on the Certificate registration books maintained by the Trustee for such purpose. Certificate Owners in an aggregate principal amount of $1,000,000 or more may, by providing written instruction to the Trustee, receive interest with respect to the Certificates by wire transfer.

Prepayment*

Optional Prepayment. The Certificates are subject to optional prepayment prior to their stated maturities on any date on or after February 1, 2023, in whole or in part, at the option of the District, from any lawfully available source 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 a prepayment price equal to the Principal Component of the Lease Payments to be prepaid, plus accrued interest to the date fixed for prepayment and a premium of _____% of the Principal Component of the Lease Payments to be prepaid.

The District may provide a conditional notice to optionally prepay Certificates. In the event the District gives a conditional notice to the Trustee of its intention to exercise such option, but does not deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the prepayment of the Certificates shall not occur and the District shall not be required to prepay the Certificates and the District will continue to pay the Lease Payments as if no such notice had been given. Within a reasonable time thereafter, the Trustee shall give notice to the Owners that the conditions to prepayment were not met and the prepayment was cancelled.

Extraordinary Prepayment. The Certificates are subject to prepayment prior to their respective maturity dates on any date, in whole or in part, from Net Proceeds which the Trustee shall transfer to the Prepayment Fund as provided in the Lease at least 45 days prior to the date set for prepayment, at a prepayment price equal to the Principal Component of the Lease Payments to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, in the event of certain accidents, destruction, theft or taking by eminent domain or condemnation with respect to the Property as described in the Lease.

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.”

Selection of Certificates for Prepayment. Whenever provision is made for the optional prepayment of Certificates and less than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for optional prepayment from among maturities selected by the District and by lot within any maturity. In connection with an extraordinary prepayment of the Certificates, the Trustee shall select Certificates for prepayment pro rata among maturities and by lot within a maturity. The Trustee will promptly notify the District and the Corporation in writing of the Certificates so selected for prepayment by mailing to the District and the Corporation copies of the notice of prepayment provided.

Prepayment Procedures

Notice of prepayment shall be mailed by first-class mail, postage prepaid, not less than 20 nor more than 60 days before the prepayment date, to the respective Certificates Owners designated for prepayment at their addresses appearing on the Certificate registration books; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for prepayment. In addition, notice shall be sent to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System. Neither failure to send such notice nor any defect in any notice so sent shall affect the sufficiency of the proceedings for 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,

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* *Preliminary; subject to change.*

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, (h) any other descriptive information regarding the Certificates needed to identify accurately the Certificates being prepaid, and (i) if the notice is conditional, a statement to that effect. 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 of 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.

So long as DTC is the registered Owner of the Certificates, all such notices will be provided only to DTC as the registered Owner, and will not be mailed by the Trustee to the Beneficial Owners of the Certificates. See "— Book-Entry Only System" herein.

Effect of Prepayment. Notice having been given to the Owners of the Certificates in accordance with the Trust Agreement, and the moneys for the prepayment (including the interest to the applicable date of prepayment), having been set aside in the Prepayment Fund, the Certificates shall become due and payable on the date of prepayment, and upon presentation and surrender thereof at the Principal Office, said Certificates shall be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment.

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to the date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as provided in the Trust Agreement, then, from and after the 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.

Book-Entry Only System

The Certificates will be executed and delivered as one fully registered certificate without coupons for each maturity and, when executed and delivered, will be registered in the name of Cede & Co., as nominee DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof for each maturity. Beneficial Owners will not receive certificates representing their interest in the Certificates purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the Beneficial Owners of the Certificates in accordance with DTC's procedures. See APPENDIX F — "BOOK-ENTRY ONLY SYSTEM" hereto.

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CERTIFICATE PAYMENT SCHEDULE

Lease Payments are required to be made by the District under the Lease on or before January 15 and July 15 of each year for the use and possession of the Property for the period commencing as of the Closing Date and terminating as provided in the Lease. The following table summarizes the annual Certificate payments to be made from the Lease Payments of the District assuming no optional or extraordinary prepayments.

ANNUAL CERTIFICATE PAYMENT SCHEDULE

Certificate Year (August 1)	Principal Component	Interest Component	Total Annual Certificate Payments
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
Total			

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 pursuant to the Lease. The District is obligated to pay Lease Payments from any source of legally available funds, and will covenant in the Lease, subject to the abatement provisions therein, 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, will assign all of its rights under the Lease (excepting certain rights as specified therein), including the right to receive Lease Payments, Reserve Replenishment Rent and Prepayments, to the Trustee for the benefit of the Certificate Owners. By the fifteenth day of each January and July (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 will agree to pay certain taxes, assessments, utility charges, and insurance premiums due 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.

In accordance with the Lease, the District will certify to the Trustee on or before August 1 of each year that the District has included all Lease Payments, Reserve Replenishment Rent and Additional Payments (known as of the date of budget adoption) 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 its 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 shall constitute an Event of Default under the Lease.

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, title defect, or taking by eminent domain or condemnation of the Property. Abatement does not constitute a default under the Lease and the Trustee will 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 continue the Lease in effect and hold the District liable for all Lease Payments thereunder on an annual basis. So long as it is not in default under its Policy, the Insurer shall have the right to control the exercise of all remedies following an Event of Default by the District. Under no circumstances will the Trustee or the Insurer have the right to accelerate Lease Payments. See "RISK FACTORS — No Acceleration Upon Default" and "— Limited Recourse on Default; Insurer Right to Control Remedies" 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 February 1 and August 1 of each year. Under the Lease, the District is required to deposit the Lease Payments with the Trustee on January 15 and July 15 of each year, or, if such day is not a Business Day, the next succeeding Business Day (each, a "Lease Payment Deposit Date").

Any amounts held in the Lease Payment Fund on any Lease Payment Deposit Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and 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 Deposit 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 each Certificate Payment Date, 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.

Reserve Fund

A Reserve Fund will be established by the Trust Agreement for the Certificates and any Additional Certificates in an amount equal to the least of (i) maximum aggregate annual Lease Payments payable under the Lease in any Certificate Year with respect to the Certificates and any Additional Certificates, (ii) 125% of the average annual aggregate Lease Payments then payable under the Lease (calculated based on Certificate Years) with respect to the Certificates and any Additional Certificates, or (iii) 10% of the original face amount of the Certificates and any Additional Certificates (less original issue discount of in excess of two percent (2%) of the stated Principal Components at maturity) (collectively, the "Reserve Requirement").

The full amount available in the Reserve Fund may be used by the Trustee in the event that amounts in the Lease Payment Fund are not sufficient to pay the principal or interest due with respect to the Certificates due to abatement or failure by the District to make Lease Payments. Subject to the requirements and restrictions contained in the Trust Agreement, the District may substitute a line of credit, letter of credit, an insurance policy, surety bond or any other comparable credit facility (each, a "Reserve Facility") or combination thereof in lieu of all or a portion of the initial security funding the Reserve Fund, which in the aggregate makes funds available in the Reserve Fund in an amount equal to the Reserve Requirement; provided, however, other than the Reserve Policy (defined below), the long-term unsecured debt or claim-paying ability, as the case may be, of the provider of any such Reserve Facility, must be rated in one of the two highest rating categories by S&P and/or Moody's (without regard to qualifiers) at the time of purchase of the Reserve Facility.

The District will initially satisfy the Reserve Requirement with a debt service reserve surety policy (the "Reserve Policy") issued by the Insurer. Under the Trust Agreement, the Trustee is obligated to draw on the Reserve Policy in the event the amounts held under the Trust Agreement are insufficient to pay the interest and principal represented by the Certificates when due. The amounts available to be drawn under the Reserve Policy will be automatically reduced by the amount of any payment on the Reserve Policy and will be reinstated only to the extent that Reserve Replenishment Rent is paid to the Insurer to reimburse it for previous draws together with interest thereon and expenses. See APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE TRUST AGREEMENT — Reserve Fund" hereto.

The Insurer has made a commitment to issue a Reserve Policy for the Reserve Fund with respect to the Certificates, effective as of the date of execution and delivery of such Certificates. Under the terms of the Reserve Policy, Insurer will, subject to the Policy Limits described below, unconditionally and irrevocably guarantee to pay that portion of the scheduled principal and interest with respect to the Certificates that becomes due for payment but shall be unpaid by reason of nonpayment by the District (the "Insured Payments").

No payment will be made under the Reserve Policy in excess of the Reserve Requirement. Pursuant to the terms of the Reserve Policy, the amount available at any particular time to be paid to the Trustee shall automatically be reduced to the extent of any payment made by Insurer under the Reserve Policy, provided that, to the extent of the reimbursement of such payment by the District to Insurer, the amount available under the Reserve Policy shall be reinstated in full or in part, in an amount not to exceed the limit available under the Reserve Policy, as described above.

The Reserve Policy does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Additional Payments

The District shall pay such amounts ("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, assessments, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its leasehold interest in the Property or undertaking of the transactions contemplated in the Lease or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, any and all amounts due to the Insurer under the Trust Agreement (other than amounts paid by the Insurer to Certificate Owners under the Policy and the Reserve Policy), 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 on insurance required to be maintained by the Lease or to indemnify the Corporation and its officers and directors.

Insurance

Pursuant to the Lease, the District will obtain a CLTA leasehold title insurance policy (with certain exceptions) on the Property in an amount equal to the aggregate Principal Component of unpaid Lease Payments. 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 two-year period. The District is obligated to obtain a standard comprehensive general public liability and property damage insurance policy or policies and workers' compensation insurance or to self-insure against such risks as permitted by the Lease. See APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE — Insurance" and "THE DISTRICT — Insurance" hereto.

The proceeds of any rental interruption or use and occupancy insurance will be deposited to (i) the Reserve Fund to make up any deficiency therein, and (ii) 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 or condemnation award 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 a title defect, condemnation, material damage or destruction to all or part of the Property substantially interferes with the District's use and possession thereof. See "RISK FACTORS — Abatement" herein.

Remedies on Default

If the District defaults in performance of its obligations under the Lease, the Trustee, as assignee of the Corporation, may, among other things, elect either (i) to terminate the Lease and re-enter and relet the Leased Premises, or (ii) without terminating the Lease enforce the Lease and hold the District liable for all Lease Payments on an annual basis whether or not it has re-entered and relet the Leased Premises. So long as the Insurer is not in default under the Policy, it will have the right to control all remedies under the Lease and the Trust Agreement. See "RISK FACTORS—Limited Recourse on Default; Insurer Right to Control Remedies" and APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE TRUST AGREEMENT — Events of Default and Remedies."

Additional Certificates

Pursuant to the Trust Agreement, the District may cause Additional Certificates to be executed and delivered without the consent of the Owners of the Certificates if certain conditions precedent are satisfied. See "RISK FACTORS — Additional Certificates" and APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE TRUST AGREEMENT — Additional Certificates."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Certificates, Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest with respect to the Certificates when due as set forth in the form of the Policy included as APPENDIX G 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 international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (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 July 8, 2022, 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 March 18, 2022, Moody's announced it had upgraded AGM's insurance financial strength rating to "A1" (stable outlook) from "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On October 20, 2021, 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, 2021.

Capitalization of AGM. At March 31, 2022:

- The policyholders' surplus of AGM was approximately $2,909 million.

- The contingency reserve of AGM was approximately $893 million.

- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately $2,116 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and 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, 2021 (filed by AGL with the SEC on February 25, 2022); and

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (filed by AGL with the SEC on May 6, 2022).

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

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

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

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ESTIMATED SOURCES AND USES OF PROCEEDS

The estimated sources and uses of proceeds to be received from the sale of the Certificates are as follows:

Sources	
Certificate Par Amount	
Plus [Net] Original Issue Premium	
Total	
Uses	
Deposit to Project Fund	
Costs of Delivery(1)	
Total	

(1) Includes Underwriter's discount, legal fees, financial advisor fees, printing, municipal bond insurance premium, municipal bond debt service reserve surety policy premium, rating agency fees and expenses, and other miscellaneous delivery costs.

RISK FACTORS

The following factors, together with all other information provided in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. The discussion below does not purport to be, nor should it be construed to be, complete nor a summary of all factors which may affect the financial condition of the District, the District's ability to make 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.

No representation is made as to the future financial condition of the District. Payment of the Lease Payments is an obligation of the District payable from legally available funds and the ability of the District to make Lease Payments may be adversely affected by its financial condition as of any particular time. See "STATE OF CALIFORNIA FISCAL ISSUES" herein. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

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, Reserve Replenishment Rent and Additional Payments from any source of legally available funds and the District will covenant in the Lease that it will take such action as may be necessary to include all Lease Payments, Reserve Replenishment Rent 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. 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 Limitations on Appropriations

There are limitations on the ability of the District to increase revenues. The ability of the District to increase the ad valorem property tax is limited pursuant to Article XIIIA of the State Constitution, which was enacted in 1978. In 1986, California voters approved an initiative statute that attempts to limit the imposition of new or higher taxes by local agencies, including the District. On November 5, 1996, voters approved Proposition 218 – the "Right to Vote on Taxes Act," which further affects the ability of local agencies to levy and collect existing and future taxes, assessments, fees and charges. On November 3, 2010, California voters approved Proposition 26, which generally expands the definition of "taxes" that are subject to voter approval requirements imposed by Proposition 218. Additionally, Article XIIIB of the State Constitution places certain limits on the appropriations the District is permitted to make. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES" 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 (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund and the Reserve Fund) 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, 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, title defect or taking by eminent domain or condemnation, there is substantial interference with the use and possession of any portion of the Property. The amount of such abatement shall be determined by the District such that the resulting Lease Payments, Additional 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 interfered with as a result of title defect or taking. The Reserve Fund will be funded on the date of execution and delivery of the Certificates with the Reserve Policy, in an amount equal to the Reserve Requirement, and amounts available in the Reserve Fund shall be used by the Trustee, together with rental interruption insurance, to make payments in the event Lease Payments received by the Trustee are insufficient to pay principal and interest with respect to the Certificates as such amounts become due.

If damage or destruction, title defect or taking of the Property results in abatement or adjustment of Lease Payments and the resulting Lease Payments, together with moneys in the Reserve Fund, are insufficient to make all payments of principal and interest 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 source of funds available to the Trustee or Owners will be any proceeds of rental interruption insurance. Such insurance is required to provide coverage of Lease Payments for up to two years following damage or destruction of the Property with respect to an insured loss. Rental interruption insurance does not cover a loss of use due to uninsured events such as earthquake and flood.

Notwithstanding the 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 the remaining principal and interest with respect to the Certificates Outstanding.

No Initial Cash Reserve

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

Absence of Earthquake Insurance and Flood Insurance

Much of California is seismically active, with numerous faults that could be earthquake sources. The District has no earthquake insurance on the Property and is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property. Seismic activity could cause significant damage to the Property and the value of the Property could be adversely affected and an abatement of Lease Payments could occur due to a seismic event. The District is not able to predict whether or to what extent these results might occur. The Property is located within the City, a high risk-level earthquake zone. The City has experienced a total of 1,291 earthquakes since 1931, with the largest earthquake within 30 miles of the City being a 4.4 magnitude, which occurred in 1983. According to the United States Geological Survey (“USGS”) database, there is an almost 69% chance of a major earthquake within 30 miles of the City within the next 50 years. See “Natural Disasters Impacting Assessed Valuation – Earthquakes” herein.

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.

The Property is not in a 100-year flood plain. The District has no flood insurance on the Property.

Other Limitations on Liability

Although the District will covenant 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 pay other District expenditures before paying any 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.

No Acceleration upon Default

In the event of a default by the District under the Lease, 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, in the event of default, the Trustee would 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 school districts in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Bond Insurance Risk Factors

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest with respect to the Certificates. The District has yet to determine whether an insurance policy will be purchased for the Certificates. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

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

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

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

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

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

Neither the District or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest with respect to the Certificates and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Limited Recourse on Default; Insurer Right to Control Remedies

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. If the Property is determined to be of an essential nature to the District by a court, it is not certain whether such court would permit the exercise of the remedies of repossession and re-leasing of the Property. The Trustee is not empowered to sell the Property for the benefit of the Owners.

Alternatively, the Lease provides that, following an event of default, 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 California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

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

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

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

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 and may release a portion of the Property from the Lease. Although the Lease requires, among other things, that the Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Lease Payments payable by the District in any fiscal year, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of substitution or release. Thus, a portion of the Property could be replaced with less valuable real property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments were to occur subsequent to such substitution or release. See APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE AGREEMENT — Substitution or Release of the Property" hereto.

Additional Certificates

The Trust Agreement permits Additional Certificates secured on a parity with the Certificates to be executed and delivered upon compliance with the provisions in the Trust Agreement. In connection with the execution and delivery of any Additional Certificates, the Lease Payments due under the Lease would be increased. The Certificates and any Additional Certificates will be secured on a parity under the Trust Agreement by Lease Payments and other amounts held in the funds established thereunder. See APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Trust Agreement — Additional 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 has not sought the opinion of any appraiser. A different opinion of such value might be rendered by an appraiser.

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.

Cybersecurity

School districts, like other governmental and business entities, face significant risks relating to the use and application of computer software and hardware for educational and operational and management purposes. The District also collects, processes, and distributes an enormous amount of private, protected and personal information on students, staff, parents, visitors, and contractors. As the custodian of such information, the District may face cybersecurity threats from time to time. Given the importance of cybersecurity for school districts, federal lawmakers recently approved the K-12 Cybersecurity Act of 2021 to study cybersecurity risks that school districts face and develop recommended guidelines and an online training toolkit for school district officials to address such cybersecurity risks. The District is not aware of any major cybersecurity attack or breach of its systems during the last five years. To protect itself from cybersecurity attacks, the District utilizes firewalls, anti-virus and anti-malware software, and provides cybersecurity training to District employees. In addition, the District has an informal general technology use policy. As a result, the District expects that any such disruptions caused by a cyberattack would be temporary in nature. The District currently maintains a policy of cyber liability insurance. There can be no assurance that a future cyberattack or attempted cyberattack would not compromise the personal information that the District collects, processes and stores or cause a disruption in District operations, particularly given that students, teachers, and staff are accessing District computer systems and platforms remotely which may increase the risks of intrusion by third parties. The District is also reliant on other entities and service providers, such as the Trustee or the Dissemination Agent in connection with compliance by the District with its continuing disclosure undertakings. No assurance can be given that the District may not be affected by cyber threats and attacks against other entities or service providers in a manner which may affect the Owners of the Certificates, e.g., systems related to the timeliness of payments on their respective Certificates or compliance with disclosure filings pursuant to the Continuing Disclosure Agreement.

Natural Disasters Impacting Assessed Valuation

Drought Conditions. Water shortfalls resulting from the driest conditions in recorded State history caused a State-wide drought State of Emergency for California in 2014 and the imposition by State regulators of reductions in water usage through 2017 when the State-wide drought ended in almost all California Counties.

During fiscal year 2020-21, much of the State experienced Severe or Extreme Drought, pursuant to the U.S. Drought Monitor Classification Scheme. On July 8, 2021, Governor Newsom signed Executive Order N-10-21 calling on all Californians to voluntarily reduce water usage by 15%. On October 19, 2021, Governor Newsom declared a State of Emergency due to drought in the State. On January 4, 2022, State Water Board adopted emergency use regulations prohibiting certain wasteful water practices such as watering ornamental landscapes during rain and using potable water to clean hard surfaces and driveways. According to the U.S. Drought Monitor, as of July 12, 2022, 0.20% of the State is experiencing Abnormally Dry conditions, 2.31% of the State is experiencing Moderate Drought, 37.67% of the State is experiencing Severe Drought, 47.07% of the State is experiencing Extreme Drought, and 12.74% of the State is experiencing Exceptional Drought. The County is currently experiencing Moderate Drought to Severe Drought. The District cannot predict if or when water usage restrictions might be imposed again or what impact such restrictions, if imposed, might have on the assessed valuation of the District and the local economy.

Wildfires. In recent years, certain portions of the State were affected by large wildfires which destroyed both natural lands and residential and commercial properties and resulted in large-scale property value reductions in the impacted areas. The District was not materially impacted by recent wildfires.

Earthquakes. All jurisdictions in California are subject to the effects of damaging earthquakes. Earthquakes are considered a threat to the District due to the highly active seismic region and the proximity of fault zones, which could influence the entire southern coastal portion of the State. An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction and other threats to public health, safety and welfare. The potential direct and indirect consequences of a major earthquake can easily exceed the resources of the District and other local public entities and would require a high level of self-help, coordination and cooperation.

The Property is located within the City, a high risk-level earthquake zone. The City has experienced a total of 1,291 earthquakes since 1931, with the largest earthquake within 30 miles of the City being a 4.4 magnitude, which occurred in 1983. According to the USGS database, there is an almost 69% chance of a major earthquake within 30 miles of the City within the next 50 years. See “Absence of Earthquake Insurance and Flood Insurance” herein.

Climate Change. Climate change caused by human activities may have adverse effects on the property within the boundaries of the District. Climate change can also result in more variable weather patterns throughout the State, which can lead to longer and more severe droughts and wildfires as well as increased risk of flooding and a rise in sea levels. Projections of the impacts of global climate change are complex and depend on many factors that are outside the District’s control. The various scientific studies that forecast the amount and timing of adverse impacts of climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the District is unable to forecast with certainty when adverse impacts of climate change will occur or the extent of such impacts.

The occurrence of natural disasters within the boundaries of the District could result in substantial damage to property within the District, including the Property, and, in turn, could substantially reduce general fund revenues. Natural disasters could also result in substantial damage to properties within the District. As a result, natural disasters could affect the ability of the District to make Lease Payments or cause an abatement in Lease Payments. Reduced ability to pay Lease Payments could affect the timely payment of the principal of and interest represented by the Certificates.

COVID-19 Outbreak and its Economic Impact

In late 2019, an outbreak of COVID-19, a respiratory virus, occurred in China, and since that time has spread globally. The global outbreak, together with measures underway to attempt to limit the spread of COVID-19 imposed by local and federal governments, has caused volatility in financial markets as well as operating restrictions upon many businesses. The COVID-19 outbreak resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools through much of 2020 and portions of 2021, as well as supply chain issues and significant increases in inflation as these restrictions and closures have been lifted.

Federal Response. On March 13, 2020, responding to the evolving COVID-19 situation, then President Trump declared a national emergency, making available more than $50 billion in federal resources to combat the spread of the virus. Additionally, in March, 2020, the Federal Reserve Bank took action to lower the federal funds rate and provide certain emergency credit and liquidity facilities to financial institutions. Contemporaneously, Congress enacted and the President signed into law the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to provide relief and stimulus to American businesses and individuals impacted by COVID-19. The CARES act also designated $339.8 billion for state and local governments with $274 billion for COVID-19 response efforts as well as an additional $13 billion for K-12 schools.

In order to provide extensions to certain benefits previously provided under the CARES Act, as well as address ongoing economic impacts of the COVID-19 pandemic, in December, 2020, the federal government enacted the Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSA") which included $900 billion of coronavirus emergency response and relief including $54.3 billion for K-12 schools and $22.7 billion for higher education.

In March, 2021, President Biden signed a $1.9 trillion stimulus package (the "American Rescue Package") into law, authorizing a third round of one-time stimulus payments for qualifying Americans, extending additional unemployment benefits, and providing $123 billion in new, flexible aid to school districts.

State Response. In response to the outbreak of COVID-19 in the State, on March 4, 2020, Governor Gavin Newsom declared a State of Emergency (the "March 4 Emergency Declaration"). The March 4 Emergency Declaration was intended to make additional resources available, formalize emergency actions underway across multiple State agencies and departments, and assist the State in preparing for the spread of COVID-19.

On March 19, 2020, in reaction to the initial spread of Covid-19 within the State, Governor Newsom issued Executive Order N-33-20, a mandatory statewide shelter-in-place order (the "Order") applicable to all non-essential services. In September, 2020, the Governor replaced the Order with the "Blueprint for a Safer Economy" ("Blueprint") which categorized counties according to a color-coded risk assessment related to certain metrics of disease transmission. As such metrics increased or decreased within a county, such county would move along the risk—assessment levels which corresponded with regulations on economic and social activity. The Blueprint system was terminated on June 15, 2021 following a reduction in case positivity rates and hospitalizations. Face coverings are still required in certain settings, such as on public transit and in healthcare settings. Additionally, Californians are required to follow existing guidance for K-12 schools, childcare programs, and other supervised youth activities.

As a result of the various regulations imposed in order to slow the spread of COVID-19 since its outbreak, economic activity within the State, the County and the community around and within the District have suffered episodes of recession and/or depression. Generally, a majority of the State's general fund revenue is derived from personal income tax receipts. However, the 2021-22 State Budget (defined below) indicates that any decline in State revenues as a result of the COVID-19 pandemic was not as severe as originally projected and current projections for the 2022-23 State budget show revenues higher than projected at the enactment of the 2021-22 State Budget. See "– State Budget Measures" for additional information regarding the impact of COVID-19 on the State budget.

Impact of COVID-19 on California School Districts

To assist school districts respond to the spread of COVID-19 in its early days, on March 13, 2020, Governor Newsom issued Executive Order N-26-20, providing that school districts that initiate a school closure to address COVID-19 would continue to receive state funding to support all of the following during the period of closure: (1) continued delivery of high-quality educational opportunities to students through, among other options, distance learning and/or independent study; (2) the provision of school meals in noncongregate settings; (3) arrangement for supervision for students during ordinary school hours; and (4) continued payment of school district employees. Executive Order N-26-20 also provided that statutory mandated maintenance of schools for a minimum of 175 days was waived for school districts that initiated a school closure to address COVID-19.

To address the impacts of school closures and the COVID-19 response, on March 17, 2020, the California legislature adopted and the Governor signed Senate Bill 89 ("SB 89") and Senate Bill 117 ("SB 117"), which bills took immediate effect. SB 89 amended the Budget Act of 2019 by appropriating $500,000,000 from the State General Fund for any purpose related to the Emergency Declaration. SB 117 addressed economic impacts to school districts directly. Among other things, SB 117 provided that, for all school districts that complied with Executive Order N-26-20, attendance during only full school months from July 1, 2019, to February 29, 2020, inclusive, would be reported for apportionment purposes. SB 117 also held harmless school districts not meeting minimum instructional day and minute requirements, in order to prevent a loss of funding related to school closures due to the outbreak. SB 117 also held harmless grantees operating after-school education and safety programs that were prevented from operating such programs due to COVID-19, and credited such program grantees with the ADA that the grantee would have received had it been able to operate but for COVID-19. The District received $342,807 under SB 117 as Learning Loss Mitigation Funding under the 2019-20 State Budget.

In preparation for the 2020-21 school year, in July, 2020, the CDPH announced guidance for schools and school-based programs including all public, charter and private schools with respect to re-opening for the 2020-21 school year. Such guidance was revised in January, 2021, to align school re-opening criteria with a County's categorization under the Blueprint.

The District, upon consultation with the County Department of Public Health and County Superintendent of Schools, determined to close its school campuses effective March 16, 2020 through the end of the 2019-20 school year and implemented a distance learning program. The District began the 2020-21 school year with a distance learning program and began offering a hybrid model of instruction for all grades beginning in April, 2021, when the County moved into the "Orange tier" under the Blueprint. The District began the 2021-22 school year offering full time in-person learning.

On March 5, 2021, Governor Newsom signed Assembly Bill 86 which provided $2.0 billion for In-Person Instruction Grants ("Re-Opening Grants") and $4.6 billion for Learning Recovery Grants ("Recovery Grants") to school districts, county offices of education and charter schools to incentivize in-person instruction. The Re-Opening Grants were to be used for any purpose consistent with in-person instruction and were available to any school district providing in-person instruction by May 15, 2021. Recovery Grants were provided to school districts that implemented a learning recovery program with 85% of the Recovery Grant to be spent for in-person instruction and 15% to be spent for distance learning or in-person preparation. The District received $6,623,540 in Re-Opening Grants and $15,478,284 in Recovery Grants.

The District also expects to receive approximately $3.7 million for learning loss mitigation under the CARES Act LLM, approximately $690,000 as Elementary and Secondary School Emergency Relief provided by the State from CARES Act funds, approximately $2.7 million under CRRSA and approximately $6.2 million under the American Rescue Package. The District has used such funding for staff training, sanitizing supplies, educational technology, mental health services, professional development, broadband connectivity, meal services for families, and learning loss staffing and plans to use additional COVID-19 funding to improve air quality and ventilation, outdoor learning spaces, curriculum and instructional materials, and English language development and math supports.

Despite several vaccines with respect to COVID-19 approved for public use, the spread of COVID-19 is ongoing. The District cannot predict the extent or duration of the outbreak of COVID-19 or what impact it may have on District general fund revenues. See "General Considerations – Security for the Certificates" herein.

THE CORPORATION

The Public Property Financing Corporation of California, a nonprofit public benefit corporation, duly organized and existing under the laws of the State of California was incorporated pursuant to the Nonprofit Public Benefit Corporation Law of the State (Title 1, Division 2, Part 2 of the California Corporation Code). The Corporation was established in order to assist public agencies in financing capital projects and equipment needs.

THE DISTRICT

Introduction

The District was formed in 1893 and is located in the southwestern region of San Diego County, approximately nine miles from downtown San Diego. The District encompasses approximately 5.5 square miles in the city of Lemon Grove (the "City"), as well as portions of the cities of La Mesa, Spring Valley and San Diego. The District provides education services in seven school sites, including six elementary schools and two middle schools, and one virtual academy. The District's projected ADA for fiscal year 2021-22 is approximately 2,810 students and the District has a 2021-22 total assessed valuation of $3,521,733,385. The District's audited financial statements for the fiscal year ended June 30, 2021 are attached hereto as APPENDIX D.

Board of Education

The District is governed by a Board of Education ("Board"), which consists of five members who are elected by trustee area to overlapping four-year terms at elections held in staggered years. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board members or by a special election. The years in which the current terms for each member of the Board expire are set forth in the following table:

LEMON GROVE SCHOOL DISTRICT
Board of Education

Name	Office	Term Expires December
Cheryl Robertson	President	2024
Yajaira Preciado	Vice President	2024
Timothy Shaw	Clerk	2022
Javier Ayala, Ed.D.	Member	2022
Greg Shibley	Member	2022

Source*: The District.*

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District may be obtained by contacting: Lemon Grove School District, 8025 Lincoln Street, Lemon Grove, California 91945, Attention: Chief Business Official. The District may charge a small fee for copying, mailing and handling.

Key Personnel

The following is a listing of the key administrative personnel of the District and brief biographies of certain District administrators follow.

Name	Title
Erica Balakian	Superintendent
Sheree Stopper	Chief Business Official

Erica Balakian – Superintendent. Ms. Erica Balakian joined the District in October 2017 as the Executive Director of General Services. She was appointed by the Board to the Superintendent role in June 2019. She possesses more than 20 years of experience in K-12 public education, advancing academic achievement, educational equity, and operational excellence. Ms. Balakian received her undergraduate degree in Economics from California State University, San Marcos and a Master of Business Administration from San Diego State University.

Sheree Stopper – Chief Business Official. Ms. Sheree Stopper has served the District since January 2018, initially appointed as the Director of Fiscal Services. She was appointed as the Chief Business Official in July of 2019. Prior to coming to the District, she began her career in public education with the San Diego County Office of Education as the Payroll Services Manager. Ms. Stopper earned her Chief Business Official certification through the California Association of School Business Officials. Additionally, she received her undergraduate degree in Finance from Pacific University, and a Master of Science focused in Taxation from National University.

Employees and Labor Relations

The District employs approximately 222 full-time equivalent certificated academic professionals as well as approximately 258 full-time equivalent classified employees.

The certificated employees of the District have assigned the Lemon Grove Teacher’s Association (“LGTA”) as their exclusive bargaining agent and the contract between the District and LGTA expires on June 30, 2024.

The classified employees have assigned California School Employees Association (“CSEA”) as their exclusive bargaining agent. The contract among the District and CSEA expires June 30, 2024.

District Retirement Systems

The information set forth below regarding the District’s retirement programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by the District.

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. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers’ Retirement Law. For fiscal year 2022-23, the District is required by such statutes to contribute 19.1% of eligible salary expenditures, while participants contribute either 10.25% or 10.205% of their respective salaries. The State also contributes to STRS, currently in an amount equal to 8.328% of teacher payroll for fiscal year 2021-22. The State's contribution reflects a base contribution of 2.017% and a supplemental contribution that will vary from year-to-year based on statutory criteria.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 ("AB 1469") which implemented a new funding strategy for STRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% in fiscal year 2015-16 and will continue to increase annually as further described below. Teacher contributions also increased from 8.00% to a total of 10.25% of pay, over the three year period from 2014-15 through 2017-18. The State's total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.30% of payroll in fiscal year 2016-17, plus the continued payment of 2.5% of payroll annually for a supplemental inflation protection program for a total of 8.80%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the STRS unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 by June 30, 2046, which is premised upon an actuarially assumed earnings rate of 7.00%. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer.

Pursuant to AB 1469, school districts' employer contribution rates increased over a seven-year phase-in period beginning in 2014-15 through 2019-20 when employer contribution rates reached 16.15% (including certain reductions in the contribution rate for supplemental payments made by the State in fiscal years 2019-20 and 2020-21.)

Subsequent to the increases to the school district's contribution rates to STRS, AB 1469 requires that for 2021-22 and each fiscal year thereafter, STRS adjust the school districts' contribution rate to reflect the rate required to eliminate the unfunded liability by July 1, 2046. The 2020-21 State Budget applied certain funds in fiscal year 2020-21 intended under the 2019-20 State Budget to reduce future obligations to STRS to the school districts' then current obligations to STRS to reduce the school district's contribution rates to STRS in fiscal year 2020-21 from 18.41% to approximately 16.15% and in fiscal year 2021-2022 from 17.9% to 16.02%.

The District contributed $2,782,747 to STRS for fiscal year 2017-18, $3,160,586 for fiscal year 2018-19, $3,545,923 for fiscal year 2019-20 and $3,763,277 for fiscal year 2020-21. Such contributions were equal to 100% of the required contributions for the respective years. The District estimates a contribution of $6,811,054 for fiscal year 2021-22 and has budgeted a contribution of $6,718,205 for fiscal year 2022-23. With the implementation of AB 1469, the District anticipates that its contributions to STRS will increase in future fiscal years as compared to prior fiscal years. The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to STRS in future fiscal years.

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, with the Public Employees' Retirement Laws. The District is currently required to contribute to PERS at an actuarially determined rate, which is 25.37% of eligible salary expenditures for fiscal year 2022-23, while participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries and those enrolled subsequent to January 1, 2013 contribute 8.00%. See – "California Public Employees' Pension Reform Act of 2013" below.

On April 19, 2017, the Board of Administration of PERS ("PERS Board") adopted new contribution rates for school districts. The revised contribution rates are, as were the previous contribution rates, based on certain demographic assumptions adopted by the PERS Board in February 2014 which took into account longer life spans of public employees from previous assumptions. Such demographic assumptions generally increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and were phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. PERS estimated that the new demographic assumptions would cost public agency employers up to 5% of payroll for miscellaneous employees at the end of the five year phase in period. To the extent, however, that current and future experiences differ from PERS' assumptions, the required employer contributions may vary. The 2017-18 contribution rate also took into account increased payroll over 2016-17, a lowered discount rate (which was approved in December 2016) as well as lower than predicted investment returns in prior years. As a result of payments to be made by the State as part of the 2019-20 State Budget, the estimated future employer contribution rates to PERS were again revised downward for fiscal years 2019-20 through 2025-26 but remain subject to annual adoption by the PERS Board. See "DISTRICT FINANCIAL INFORMATION - State Funding of Education" herein.

On April 18, 2022, the PERS Board set the fiscal year 2022-23 employer contribution rate at 25.37%. The PERS Board also approved an increase in the employee contribution rate for members subject to the Reform Act (defined below) from 7.00% of earnings to 8.00% for fiscal year 2022-23.

The District contributed $889,989 to PERS for fiscal year 2017-18, $1,053,368 for fiscal year 2018-19, $1,256,368 for fiscal year 2019-20 and $1,317,628 for fiscal year 2020-21 which amounts equaled 100% of required contributions to PERS. The District estimates a contribution of $1,807,861 for fiscal year 2021-22 and has budgeted a contribution of $1,900,845 for fiscal year 2022-23.

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 PERS and STRS as of July 1, 2021.

FUNDED STATUS
STRS (DEFINED BENEFIT PROGRAM) and PERS
Actuarial Valuation
(Dollar Amounts in Millions) [(1)]

Plan	Accrued Liability	Market Value of Trust Assets	Unfunded Liability
Public Employees Retirement Fund (PERS)	$110,507	$ 86,519	$ (23,988)
State Teachers' Retirement Fund Defined Benefit Program (STRS)	332,082	292,580	(60,136)

(1) Amounts may not add due to rounding.
Source: *PERS State & Schools Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation*.

Unlike PERS, STRS contribution rates for participant employers, employees hired prior to the Implementation Date (defined herein) and the State are set by statute and do not currently vary from year-to-year based on actuarial valuations. As a result of the Reform Act (defined below), the contribution rate for STRS participants hired after the Implementation Date will vary from year-to-year based on actuarial valuations. See "—California Public Employees' Pension Reform Act of 2013" below. In recent years, the combined employer, employee and State contributions to STRS have been significantly less than actuarially required amounts. As a result, and due in part to investment losses, the unfunded liability of STRS has increased significantly. AB 1469 is intended to address this unfunded liability. The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make larger contributions to STRS in the future. 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 Employee's Pension Reform Act of 2013 (the "Reform Act"), which made 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 changed the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changed the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increased 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 (currently 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 and benefit base for members participating in Social Security or 120% for members not participating in social security, 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 liability of PERS and STRS, as of June 30, 2021, were as shown in the following table.

Pension Plan	Proportionate Share of Net Pension Liability
PERS	$13,497,660
STRS	35,141,147
Total	$48,638,807

Source*:* *The District*.

For further information about the District's contributions to PERS and STRS, see Note 11 in the District's audited financial statements for fiscal year ended June 30, 2021 attached hereto as APPENDIX B.

Risk of Investment Value Declines

School districts' retirement contributions decrease when investment earnings rise and increase when investment earnings decline. As a result, declines in investment earnings may result in substantial increases in school district contributions. The District cannot determine whether current financial market losses and/or volatility might impact the value of investments held by either PERS or STRS to fund retirement benefits or whether the District's contribution rates to PERS or STRS might increase in the future as a result of any declines in the value of investments in response to the outbreak of COVID-19. See also "RISK FACTORS – COVID 19 Outbreak and its Economic Impact" herein for information regarding the outbreak of COVID-19.

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.* The pronouncement required public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. In June 2015, GASB replaced Statement No. 45 with Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Employees who are eligible to receive retiree employment benefits other than pensions ("Health & Welfare Benefits") while in retirement must meet specific criteria, *i.e.*, age and years with the District. In general, the District provides medical and dental coverage to eligible retirees through the age of 65 (age 70 for some employees depending on retirement option selected and employee group). Some employee groups also receive a financial contribution for vision and/or life insurance. The District participated in the Southern California Schools VEBA ("VEBA") for its health plan coverage. In general, the premium rates charged to participating employers are the same for each medical plan within each region and are the same for both active and retired employees covered under the same medical plan.

Certificated Employees. The District provides retiree medical, dental, and vision coverage to eligible retirees until the retiree reaches age 65 or age 70 depending on retiree selected benefits. Eligibility for retiree healthcare benefits requires retirement under STRS on or after age 55 with at least 10 years of continuous District eligible service. Retirees with less than 15 years of district eligible services can select between benefit options.

Classified Employees. The District provides retiree dental and medical coverage to eligible retirees until retiree reaches age 65. Eligibility for retiree benefits requires retirement under PERS on or after age 55 with at least 10 years of continuous District eligible service. The District does not provide any financial contribution for coverage beyond age 65.

Management and Confidential Employees. The District provides retiree medical, dental, vision and life insurance coverage to eligible retirees until the retiree reaches age 70. Eligibility for retiree benefits requires employee to have completed 10 years of continuous service under STRS or PERS, of which 5 years immediately preceding retirement shall have been full time service to the District. The District's contribution is at the same rate that the District contributes for employee only coverage on behalf of its active employee within the Certificated bargaining unit. The District does not provide any financial contribution for coverage beyond age 70. Management employees will be eligible for other retirement plans granted to other employee groups upon eligibility and approval by the Board on an individual retiree basis.

OPEB Trust. The District prefunds its retiree benefits through a Public Agency Retirement Services ("PARS") Trust, a public agency agent multiple-employer trust administered by Phase II Systems, a California corporation, doing business as PARS. In addition to the direct payment of current retiree benefits, the District may make a discretionary contribution determined by management based on budget implications. Plan members are not required to contribute to the plan. The District contributed $250,000 to the PARS trust during fiscal year ended June 30, 2021. This amount does not reflect the contributions for the direct payment of current retiree benefits. At the measurement date of June 30, 2020 (the most recent valuation available), the cash and investments accumulated in the OPEB trust totaled $4,519,457.

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The following table shows the changes in the District's net Health and Welfare Benefits as of June 30, 2021.

LEMON GROVE SCHOOL DISTRICT
Health & Welfare Benefit Liability

Total OPEB Liability	
Service Cost	$ 382,996
Interest on total OPEB liability	306,798
Differences between expected and actual experience	147,758
Changes of assumptions	(324,101)
Benefit Payments	(745,165)
Net Change in Total OPEB liability	231,714
Total OPEB Liability – Beginning	7,192,608
Total OPEB Liability – Ending	$6,960,894

Source*: The District.*

Risk Management

The District is a member of the San Diego County Schools Risk Management ("SDCSRM") and the Fringe Benefit Corporation ("FBC") which are joint powers authorities ("JPAs") that provide various types of insurance to its members as requested. The District pays an annual premium to SDCSRM and FBC commensurate with its level of requested coverage and shares surpluses and deficits proportionate to its participation in such JPAs.

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverage for property damage, fire and theft, general public liability and worker's compensation as are adequate, customary and comparable with such insurance maintained by similarly situated school districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

DISTRICT FINANCIAL INFORMATION

District Investments

The San Diego County Treasurer-Tax Collector (the "Treasurer") manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County's Treasury Pool.

Financial Statements of the District

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 fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District has not requested its auditor to provide any review or update of such financial statements in connection with their inclusion in this Official Statement. Certain information from the District's financial statements follows. The audited financial statements for the District for the 2020-21 fiscal year are attached as APPENDIX D hereto. The District has not requested, and its auditors have not provided, any review or update to such audited financial statements. The District's audited financial statements for prior and subsequent fiscal years can be obtained by contacting the District at 8025 Lincoln Street, Lemon Grove, California 91945. The District may impose a charge for copying, mailing and handling.

The District's financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board. See "DISTRICT FINANCIAL INFORMATION – General Fund" for more information regarding the District's financial statements for recent fiscal years.

Funds used by the District are categorized as government funds and fiduciary funds. The general fund of the District, as shown herein, is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the District not financed by restricted funds and moneys which are restricted to specific types of programs or purposes. General fund revenues shown thereon are derived from such sources as taxes, aid from other government agencies, charges for current services and other revenue.

The financial statements included herein were prepared by the District using information from the Annual Financial Reports which are prepared by the Chief Business Official for the District and audited by independent certified public accountants each year. The District's audited financial statements for the year ending June 30, 2021 are attached as APPENDIX D hereto.

District Budgets

The fiscal year of the District begins on the first day of July of each year and ends on the 30th day of June of the following year. The District adopts on or before July 1 of each year a fiscal line-item budget setting forth expenditures in priority sequence so that appropriations during the fiscal year can be adjusted if revenues do not meet projections.

The District is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous 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 LCAP, and whether the budget's ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before September 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by September 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 September 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than October 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 October 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 November 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 Education Code Section 42127.1. No later than

November 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.

California Assembly Bill 1200 ("AB 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents' offices and establishing guidelines for emergency State aid apportionments. Many provisions affect the District's operations directly, while others create a foundation from which outside authorities (primarily state and county school officials) may impose actions on the District. 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 fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Each certification is based on then-current projections.

The District has not received a qualified or negative certification on any interim reports in the last five fiscal years.

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from ad valorem taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent, may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the Superintendent of Public Instruction and the president of the State board or the president's designee will appoint a trustee at the direction of the county superintendent to serve the school district until it has adequate fiscal systems and controls in place. In connection with appointing such a trustee, some or all of the legislative powers of the governing board of such a school district can be suspended until the district achieves fiscal stability.

General Fund Budget. The District's general fund adopted budgets for fiscal years 2018-19 through 2022-23, audited actuals for the fiscal years 2017-18 through 2020-21, and the estimated actual results for fiscal year 2021-22, are set forth on the following page.

LEMON GROVE SCHOOL DISTRICT
GENERAL FUND[6]

	Adopted Budget 2018-19[1]	Audited Actuals 2018-19[2]	Adopted Budget 2019-20[1]	Audited Actuals 2019-20[2]	Adopted Budget 2020-21[1]	Audited Actuals 2020-21[2]	Adopted Budget 2021-22[1]	Estimated Actuals 2021-22[3]	Adopted Budget 2022-23[1]
REVENUES									
LCFF Sources	$35,954,609	$36,141,697	$35,590,036	$35,594,226	$31,027,904	$33,623,124	$36,362,795	$35,916,785	$36,987,239
Federal	1,964,010	2,287,502	1,994,001	2,174,756	2,680,024	5,599,120	9,233,905	6,916,141	5,581,834
Other State	3,561,590	5,304,062	3,514,441	4,345,688	4,200,555	6,017,748	5,884,446	6,972,984	12,562,990
Other Local	3,284,794	3,953,524	3,534,671	3,491,234	3,341,094	3,483,188	3,196,945	5,090,591	3,659,860
Total Revenues	44,765,003	47,686,785	44,633,149	45,605,904	41,249,577	48,723,180	53,678,091	54,896,501	58,791,923
EXPENDITURES									
Current									
Certificated Salaries	20,100,811	19,240,247	20,526,874	19,483,619	19,187,916	19,926,712	20,704,565	21,987,824	22,266,717
Classified Salaries	6,327,153	6,403,809	7,155,276	6,699,550	7,175,924	6,520,151	7,528,775	8,634,572	9,062,222
Employee Benefits	10,934,255	12,858,642	11,863,992	12,148,608	11,930,203	12,693,919	14,576,357	15,090,200	15,184,632
Books and Supplies	3,137,267	1,850,351	2,448,209	1,625,676	1,383,908	2,188,617	7,288,722	5,195,357	6,950,626
Services, Other Operating Expenses	5,982,011	4,110,797	5,080,057	3,955,118	4,475,077	5,495,229	4,708,414	5,375,570	5,396,726
Capital Outlay	--	454,343	799,365	939,474	330,000	458,590	2,240,544	1,678,386	359,000
Other Outgo	200,000	111,068	14,000	96,780	68,914	136,354	6,914	57,022	189,700
Other Outgo Trf. of Ind. Costs	(169,550)	(232,354)	(198,812)	(225,424)	(209,426)	(203,397)	(313,771)	(317,882)	(324,108)
Total Expenditures	46,511,947	44,796,903	47,688,961	44,723,401	44,342,516	47,216,175	56,740,520	57,701,049	59,085,515
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(1,746,944)	2,889,882	(3,055,812)	882,503	(3,092,939)	1,507,005	(3,062,429)	(2,804,548)	(293,592)
OTHER FINANCING SOURCES (USES)									
Transfers in	--	--	--	--	--	5,500	--	--	--
Transfers out	(253,000)	(2,151,448)	(253,000)	(813,193)	(253,000)	(5,634,201[4])	(253,000)	(253,000)	(253,000)
Net Financing Sources/(Uses)	(253,000)	(2,151,448)	(253,000)	(813,193)	(253,000)	(5,628,701)	(253,000)	(253,000)	(253,000)
NET CHANGE IN FUND BALANCE	(1,999,944)	738,434	(3,308,812)	69,310	(3,345,939)	(4,121,696)	(3,315,429)	(3,057,548)	(546,592)
Fund Balance, July 1	15,059,682	15,167,049	15,905,483	15,905,483	15,974,793	15,974,793	11,853,098	11,229,351[5]	8,171,803
Fund Balance, June 30	$13,059,738	$15,905,483	$12,596,671	$15,974,793	$12,628,854	$11,853,097	$8,537,670	$8,171,803	$7,625,211

[1] From the adopted budgets of the District for the stated fiscal year.
[2] From the audited financial statements of the District for the stated fiscal year.
[3] From the estimated actuals contained in the adopted budget report of the District for fiscal year 2022-23.
[4] Includes a transfer of $4,095,000 to the Special Reserve for Capital Outlay Projects.
[5] Reflects an audit adjustment of $623,747.
[6] The actual amounts reported on this table do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance (see page 31 herein) for the following reasons: (i) the amounts on that table include the financial activity of the Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects in accordance with the fund type definitions promulgated by GASB Statement No. 54; and (ii) the table above does not include the audit adjustment disclosed in the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.

Source: *The District.*

LEMON GROVE SCHOOL DISTRICT
GENERAL FUND
Statement of Revenues, Expenditures and Change in Fund Balances
for Fiscal Years 2018-19 through 2020-21

	2018-19 Audit	2019-20 Audit	2020-21 Audit
REVENUES			
LCFF Sources	$36,371,868	$35,824,397	$34,042,524
Federal Revenues	2,287,502	2,174,756	5,599,120
Other State Revenues	5,304,062	4,345,688	5,394,001
Other Local Revenues	3,969,753	3,521,079	4,157,682
TOTAL REVENUES	47,933,185	45,865,920	49,193,327
EXPENDITURES			
Instruction	30,007,752	29,184,432	30,610,810
Instruction-Related Services			
Instructional supervision and admin	1,271,777	1,528,322	1,334,193
Instructional library, media & tech	188,606	185,052	194,311
School site administration	2,251,818	2,316,028	2,600,682
Pupil Services			
Home-to-school transportation	655,079	404,990	322,942
Food services	--	14,112	702
All other pupil services	1,971,859	1,935,393	1,778,340
General Administration			
Centralized data processing	801,005	805,236	677,815
All other general administration	2,874,937	3,109,503	4,742,456
Plant Services	3,286,411	3,311,510	3,501,621
Facilities Acquisition and Maintenance	336,751	804,963	705,529
Ancillary Services	1,041,162	1,027,080	1,009,884
Transfers to other agencies	111,068	96,780	136,354
Debt Service – Principal	--	--	41,321
Debt Service – Interest	--	--	--
TOTAL EXPENDITURES	44,798,225	44,723,401	47,656,960
Excess (Deficiency) of Revenues Over Expenditures	3,134,960	1,142,519	1,536,367
OTHER FINANCING SOURCES/USES			
Transfers in	--	--	5,500
Other sources	--	--	413,211
Transfers out	(1,601,448)	(313,193)	(4,095,000)[1]
NET FINANCING SOURCES (USES)	(1,601,448)	(313,193)	(3,676,289)
NET CHANGE IN FUND BALANCES	1,533,512	829,326	(2,139,922)
Fund Balance at Beginning of Year(1)	16,065,847	17,599,359	23,212,107[2]
Fund Balance at End of Year(1)	$17,599,359	$18,428,685	$21,072,185

[1] Constitutes a transfer to the Special Reserve Fund for Capital Outlay Projects for various reserve funds.
[2] Beginning fund balance consists of an audit restatement of $4,783,422 from the fiscal year 2019-20 ending fund balance due to the clarifications provided by GASB Statement No. 84 as the PARS trust account balance is now reported within this fund.
Source*: The District.*

State Funding of Education

On June 27, 2013, the State adopted a new method for funding school districts commonly known as the "Local Control Funding Formula." The Local Control Funding Formula ("LCFF") was implemented in stages, beginning in fiscal year 2013-14 with full implementation in fiscal year 2018-19. Prior to adoption of the LCFF, the State used a revenue limit system.

Local Control Funding Formula. State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97"), enacted as a part of the 2013-14 State Budget (defined below) enacted the LCFF beginning in fiscal year 2013-14, which replaced the revenue limit funding system and many categorical programs. The LCFF distributes resources to schools through a guaranteed base funding grant (the "Base Grant") per unit of ADA. The average Base Grant is $7,643 per unit of ADA, which is $2,375 more than the average revenue limit. A Base Grant is assigned to each of four grade spans. Additional supplemental funding is made available based on the proportion of English language learners, low-income students and foster youth.

For fiscal year 2022-23, the LCFF provided to school districts and charter schools a Target Base Grant for each Local Education Agency ("LEA") equivalent to (a) $9,132 per ADA for kindergarten through grade 3; (b) $9,269 per ADA for grades 4 through 6; (c) $9,545 per ADA for grades 7 and 8; and (d) $11,060 per ADA for grades 9 through 12.

Beginning in fiscal year 2013-14, and in each subsequent year, the Base Grants have been adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. With full implementation of the LCFF, the provision of cost-of-living-adjustments ("COLA") is now subject to appropriation for such adjustment in the annual State budget. For fiscal year 2022-23, a 6.56% COLA was included. See "State Budget Measures – 2022-23 State Budget" herein. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in early grades and the provision of career technical education in high schools. Unless 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. 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 ("FRPM") and are not discussed separately herein). 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 65% of the applicable Base Grant multiplied by the percentage of such district's unduplicated EL/LI student enrollment in excess of the 55% threshold.

The following table sets forth the historical ADA and enrollment for fiscal years 2014-15 through 2020-21.

LEMON GROVE SCHOOL DISTRICT
Historical ADA and Enrollment
Fiscal Years 2014-15 through 2020-21

Fiscal Year	ADA	Enrollment
2014-15	3,724	3,922
2015-16	3,651	3,831
2016-17	3,612	3,797
2017-18	3,540	3,730
2018-19	3395	3,589
2019-20	3,243	3,421
2020-21	3,243	3,160

Source*: The District.*

Declining Enrollment

Over the prior five fiscal years, the District has experienced a decline in enrollment of approximately 637 students. The District projects that enrollment will continue to decline by another approximately 34 students over the current and next two fiscal years as reflected in its budget and as shown in the following table. The District attributes the decline in enrollment to local demographic shifts including a decline in birth rates and an increase in families moving away from the San Diego area as well competing charter schools within the District's territory. The District expects the decline to diminish in future years due to an expanding transitional kindergarten program. See "DISTRICT FINANCIAL INFORMATION – District Budgets" for a discussion of the impact of declining enrollment, among other factors, on the District's financial condition.

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The following table sets forth the ADA, enrollment and the percentage of EL/LI enrollment for 2021-22, as budgeted for fiscal year 2022-23 and as projected for fiscal years 2022-24 and 2024-25.

LEMON GROVE SCHOOL DISTRICT
ADA, English Language/Low Income Enrollment
Fiscal Years 2021-22 through 2024-25

	ADA					
Fiscal Year	TK-3	4-6	7-8	Total ADA	Total Enrollment	Unduplicated Count (as % of Total Enrollment)
2021-22	1,261.96	1,013.45	593.58	2,868.99	3,252	74.85%
2022-23[1]	1,352.19	1,087.18	636.61	3,075.98	3,250	74.62
2023-24[2]	1,325.14	1,065.44	623.90	3,014.48	3,257	74.37
2024-25[2]	1,298.51	1,044.04	611.40	2,953.95	3,216	74.46

(1) Budgeted.
(2) Projected.
Source: *The District.*

The amounts shown in the table above are actual amounts and differ from ADA for funding purposes. Due to the COVID-19 pandemic and related State budget-implementing legislation, California school districts, other than certain charter school districts, were held harmless against any loss of ADA for purposes of calculating apportionment in the 2020-21 fiscal year, with ADA for purposes of calculation of state funding based on ADA for fiscal year 2019-20. Additionally, due to State-wide declining enrollment trends, additional hold harmless measures have been instituted to shelter school districts from large annual revenue losses. For fiscal year 2022-23, ADA for funding purposes is based on the greater of (i) the current year ADA (ii) the prior year ADA, and (iii) the average of the three prior years' ADA (i.e., fiscal year 2019-20 ADA, fiscal year 2020-21 ADA, and fiscal year 2021-22 ADA). See, "STATE OF CALIFORNIA FISCAL ISSUES – State Budget Measures" for a description of such measures for future measures.

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

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

Accountability. The State Board of Education has promulgated regulations regarding the expenditure of supplemental and concentration funding, including a requirement that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such district on the basis of the number and concentration of such EL/LI students, as well as the conditions under which school district 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, covering a three-year period are required to be adopted annually

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.

Revenue Sources

The District categorizes its general fund revenues into four sources: LCFF revenues, federal revenues, other state revenues and other local revenues. Each of these revenue sources is briefly described below.

LCFF Sources. State funding under the LCFF consists of Base Grants and supplemental grants as described above. This category also includes local property taxes. See "– State Funding of Education – Local Control Funding Formula" above.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Every Child Succeeds.

Other State Revenues. The District receives some other State revenues. These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, School Improvement Program, instructional materials, and various block grants.

The District receives State aid from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instructional material.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, interagency services and other local sources.

The percentage of total general fund revenue for each source of revenue is shown in the following table for fiscal years 2017-18 through 2021-22.

LEMON GROVE SCHOOL DISTRICT
Percentage of Revenue by Source
Fiscal Years 2017-18 through 2021-22

Revenue Source	2017-18	2018-19	2019-20	2020-21	2021-22[1]
LCFF sources	79.3%	75.8%	78.0%	69.0%	65.4%
Federal revenues	4.8	4.8	4.8	11.5	12.6
Other State revenues	7.0	11.1	9.5	12.4	12.7
Other local revenues	8.9	8.3	7.7	7.1	9.3

(1) Based on fiscal year 2021-22 estimated actual results.
Source*: The District.*

Developer Fees

The District receives developer fees per square foot pursuant to Education Code Section 17620 which must be used to fund construction or reconstruction of school facilities. Current developer fees are $4.79 per square foot for residential housing and $0.78 per square foot for commercial or industrial development which the District shares with Grossmont Union High School District. The District's share of the developer fees is 62% or $2.97 per square foot for residential housing and $.048 per square foot for commercial/industrial development. For fiscal years 2016-17, 2017-18, 2018-19, 2019-20, and 2020-21 the District received $59,360, $63,788, $114,899, $56,160, and $148,914 in developer fees, respectively. The District has estimated receipt of $16,488 in developer fees in fiscal year 2021-22, pursuant to its estimated actual results for such fiscal year, and has budgeted receipt of $19,800 in developer fees for fiscal year 2022-23.

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DISTRICT DEBT STRUCTURE

Long-Term Debt

A schedule of the District's changes in long-term debt for the year ended June 30, 2021 is shown below:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021	Balance Due In One Year
General Obligation Bonds (GOBs)	$26,460,661	$ --	$ 904,707	$25,555,954	$1,428,512
Unamortized Premium	1,565,900	--	132,814	1,433,086	132,814
Accreted Interest	13,645,263	1,571,044	1,020,293	14,196,014	909,056
Subtotal GOBs	41,671,824	1,571,044	2,057,814	41,185,054	2,470,382
Direct placement GOBs	217,682	--	217,682	--	--
Total GOBs	41,889,506	1,571,044	2,275,496	41,185,054	2,470,382
Capital Leases	--	413,211	41,321	371,890	82,644
Early retirement Incentive	--	1,769,972	--	1,769,972	353,994
Compensated absences	309,172	--	92,242	216,930	--
Net OPEB liability	2,845,000	--	403,563	2,441,437	--
Net pension liability	44,859,209	3,779,598	--	48,638,807	--
Total	$89,902,887	$7,533,825	$2,812,622	$94,624,090	$2,907,020

Source*: The District.*

General Obligation Bonds

On November 3, 1998, the District received authorization from the voters within the District to issue $12,000,000 aggregate principal amount of general obligation bonds (the "1998 Authorization"). On March 17, 1999, the District caused the issuance of its $7,248,025 General Obligation Bonds, 1998 Election, Series A; on December 14, 2000, the District caused the issuance of its $2,560,587 General Obligation Bonds, 1998 Election, Series B; and on November 7, 2002, the District caused the issuance of its $2,191,178 General Obligation Bonds, 1998 Election, Series C, all under the 1998 Authorization. No further general obligation bonds remain for issuance under the 1998 Authorization, other than refunding bonds.

On November 4, 2008, the District received authorization from the voters within the District to issue $28,000,000 aggregate principal amount of general obligation bonds (the "2008 Authorization"). On May 21, 2009, the District caused the issuance of its $5,000,000 General Obligation Bonds, 2008 Election, Series A (the "2008A Bonds"); on October 14, 2010, the District caused the issuance of its $7,999,480 General Obligation Bonds, 2008 Election, Series B; and on March 30, 2011, the District caused the issuance of its $5,000,000 General Obligation Bonds, 2008 Election, Series C (the "2008C Bonds"), all under the 2008 Authorization. On July 11, 2019, the District issued its $4,120,000 2019 General Obligation Refunding Bonds to refund a portion of the 2008A Bonds and on May 5, 2022 the District issued its $3,056,000 2022 General Obligation Refunding Bond to refund the 2008C Bonds. No further general obligation bonds remain for issuance under the 2008 Authorization, other than refunding bonds.

On November 4, 2014, the District received authorization from the voters within the District to issue $10,000,000 aggregate principal amount of general obligation bonds (the "2014 Authorization"). On June 15, 2015, the District caused the issuance of its $5,000,000 General Obligation Bonds, 2014 Election, Series A; on June 15, 2015, the District caused the issuance of its $1,000,000 General Obligation Ed-Tech Bonds, 2014 Election, Series B; on May 15, 2017, the District caused the issuance of its $3,000,000 General Obligation Bonds, 2014 Election, Series C; and on May 15, 2017, the District caused the issuance of its $1,000,000 General Obligation Ed-Tech Bonds, 2014 Election, Series Dall under the 2014 Authorization. No further general obligation bonds remain for issuance under the 2014 Authorization, other than refunding bonds.

Capital Leases

During fiscal year ended June 30, 2021, the District entered into a lease-purchase agreement for an ionization disinfection system. Monthly payments are due over a period of five years and do not bear interest. The minimum annual lease payments are as follows:

Year Ending June 30	Annual Lease Payments
2022	$82,644
2023	82,644
2024	82,644
2025	82,644
2026	82,644
Total	$371,890

Source*: The District.*

Early Retirement Incentive

In March, 2021, the District provided an early retirement incentive through the Public Agency Retirement Services (PARS) Supplemental Retirement Plan for eligible employees. The retirement plan was financed over five years. The outstanding principal balance remaining as of June 30, 2021 is as follows:

Year Ending June 30	Payment
2022	$ 353,994
2023	353,994
2024	353,994
2025	353,994
2026	353,994
Total	$1,769,972

Source*: The District.*

PROPERTY WITHIN THE DISTRICT

The information provided in the tables below has been provided by California Municipal Statistics, Inc., an independent consulting firm. The District has not independently verified this information and does not guarantee its accuracy.

The information in this section describes property taxation, assessed valuation, and other measures of the tax base of the District. Though the Certificates are not payable directly from property taxes, a large portion of the District's funding under the LCFF is derived from property taxes.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIIIA of the California Constitution. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES" herein.

A State-reimbursed exemption currently provides a credit of $7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

Economic and other factors beyond the District's control, such as general market decline in property values, outbreaks of disease, 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, drought, fire, flood, wildfire, or toxic contamination could cause a reduction in the assessed value of taxable property within the boundaries of the District. See also "RISK FACTORS" herein.

Assessed Valuation by Land Use

The table below sets forth the assessed valuation of the taxable property within the District by land use for fiscal year 2021-22.

LEMON GROVE SCHOOL DISTRICT
2021-22 Assessed Valuation and Parcels by Land Use

Non-Residential:	2021-22 Assessed Valuation [1]	% of Total	No. of Parcels	% of Total
Commercial	$464,751,151	13.50%	333	3.49%
Vacant Commercial	12,085,048	0.35	50	0.52
Industrial	71,925,292	2.09	87	0.91
Vacant Industrial	3,167,037	0.09	10	0.10
Government/Social/Institutional	4,167,705	0.12	63	0.66
Subtotal Non-Residential	$556,096,233	16.16%	543	5.68%
Residential:				
Single Family Residence	$2,157,086,832	62.68%	6,994	73.22%
Condominium/Townhouse	139,657,672	4.06	683	7.15
Mobile Home	6,743,557	0.20	17	0.18
Mobile Home Park	1,607,654	0.05	2	0.02
2-4 Residential Units	336,507,304	9.78	943	9.87
5+ Residential Units/Apartments	227,844,964	6.62	83	0.87
Miscellaneous Residential	393,947	0.01	59	0.62
Vacant Residential	15,579,630	0.45	228	2.39
Subtotal Residential	$2,885,421,560	83.84%	9,009	94.32%
Total	$3,441,517,793	100.00%	9,552	100.00%

[1] Local secured assessed valuation, excluding tax-exempt property.
Source: *California Municipal Statistics, Inc.*

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Largest Taxpayers

The table below sets forth the largest local secured taxpayers within the District in fiscal year 2021-22.

LEMON GROVE SCHOOL DISTRICT
2021-22 Largest Total Secured Taxpayers

	Property Owner	Primary Land Use	2021-22 Assessed Valuation	% of Total (1)
1.	Ultimate Capital LLC	Shopping Center	$ 40,436,296	1.17%
2.	Starboard Lemon grove DST	Shopping Center	20,586,275	0.60
3.	HD Development of Maryland Inc.	Shopping Center	20,294,311	0.59
4.	Miller Family Real Estate LLC	Auto Sales/Service	20,023,916	0.58
5.	Sams Real Estate Business Trust	Shopping Center	19,390,684	0.56
6.	Wal-Mart Real Estate Business Trust	Shopping Center	19,308,858	0.56
7.	Target Corporation	Shopping Center	19,125,230	0.56
8.	Celsius Lemon Grove LLC	Apartments	18,493,804	0.54
9.	8413 Broadway LLC	Apartments	17,165,107	0.50
10.	Retail Portfolio 30-1 LLC	Apartments	16,819,352	0.49
11.	College Grove 6410 LLC	Apartments	15,311,044	0.44
12.	ACI Real Estate Company LLC	Supermarket	14,789,443	0.43
13.	Terrace Gardens LLC	Apartments	14,211,361	0.41
14.	William O. Kobusch Revocable Trust	Auto Sales/Service	12,013,266	0.35
15.	Lemon Grove Holdings LLC	Shopping Center	11,787,161	0.34
16.	Real Asymmetry King LLC	Apartments	11,687,001	0.34
17.	3240 Olive Property LLC	Apartments	10,760,334	0.31
18.	San Diego Grove LP	Commercial	10,161,416	0.30
19.	Food 4 Less of California Inc.	Supermarket	10,011,948	0.29
20.	Taco Aide LLC	Commercial	9,842,809	0.29
			$332,219,616	9.65%

(1) 2021-22 local secured assessed valuation: $3,441,517,793.
Source: *California Municipal Statistics, Inc.*

The top 20 taxpayers on the secured roll for 2021-22 account for 9.65% of the secured assessed value in the District which is $3,441,517,793. According to California Municipal Statistics, Inc., the largest secured taxpayer in the District for fiscal year 2021-22 was Ultimate Capital LLC accounting for 1.17% of the total secured assessed value in the District. No other secured taxpayer accounted for more than 0.60% of the total secured assessed value in the District. The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner.

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Tax Rates

The following table sets forth typical tax rates levied in Tax Rate Area 15-012 by the County within the District for fiscal years 2017-18 through 2021-22:

LEMON GROVE SCHOOL DISTRICT
Typical Tax Rate per $100 Assessed Valuation
(TRA 15-012 [(1)])

	2017-18	2018-19	2019-20	2020-21	2021-22
General Tax Rate	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000
Lemon Grove School District	.08466	.08179	.08239	.08166	.07617
Grossmont High School District	.06613	.06482	.06704	.06326	.06448
Grossmont Community College District	.04671	.04225	.04038	.03797	.04115
Grossmont Healthcare District	.02352	.02352	.02490	.02490	.02459
Metropolitan Water	.00350	.00350	.00350	.00350	.00350
Total Tax Rate	1.22452	1.21588	1.21821	1.21129	1.20989

[(1)] 2021-22 assessed valuation of TRA 15-012 is $968,046,923 which is 27.49% of the District's total assessed valuation.
Source: *California Municipal Statistics, Inc.*

The Teeter Plan

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 for the County, 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 for the County 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 tax collections.

Under the Teeter Plan, the District will receive 100% of its *ad valorem* property tax levied on the secured roll with respect to the Certificates irrespective of actual delinquencies in the collection of property taxes by the County.

The Teeter Plan of the County is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance 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 of the County orders discontinuance of its Teeter Plan, 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. In addition, if the delinquency rate for all *ad valorem* property taxes levied within the District exceeds 3%, the Board of Supervisors can terminate the Teeter Plan with respect to the District. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes would depend upon the collection of *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

There can be no assurance that the County will always maintain the Teeter Plan or will have sufficient funds available to distribute the full amount of the District's share of property tax collections to the District. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. Property tax delinquencies may be impacted by economic and other factors beyond the District's or the County's control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or depression could be caused by many factors outside the control of the District, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of the spread of COVID-19 or other pandemic or natural or manmade disaster. See “RISK FACTORS – COVID-19 Outbreak and its Economic Impact” herein.

The District is not aware of any petitions for the discontinuance of the Teeter Plan now pending in the County.

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Direct and Overlapping Debt

Numerous local agencies that provide public services overlap the District's service area. These local agencies have outstanding debt in the form of general obligation, lease revenue and special assessment bonds. The following table shows the District's estimated direct and overlapping bonded debt. The statement excludes self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations. The District has not reviewed this table and there can be no assurance as to the accuracy of the information contained in the table; inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

The following table is a statement of the District's direct and estimated overlapping bonded debt as of April 1, 2022:

LEMON GROVE SCHOOL DISTRICT
Direct and Overlapping Bonded Indebtedness

2021-22 Assessed Valuation: $3,521,733,385

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/1/22
Metropolitan Water District	0.104%	$ 20,982
Grossmont-Cuyamaca Community College District	5.958	22,738,134
Grossmont Union High School District	6.131	37,904,162
Lemon Grove School District	**100.000**	**24,127,444**
City of La Mesa	5.837	1,033,441
Grossmont Healthcare District	5.622	13,705,709
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$99,529,872
OVERLAPPING GENERAL FUND DEBT(1):		
San Diego County General Fund Obligations	0.581%	$1,425,425
San Diego County Pension Obligation Bonds	0.581	1,980,193
San Diego County Superintendent of Schools Certificates of Participation	0.581	45,202
Grossmont-Cuyamaca Union High School District General Fund Obligations	6.131	1,987,670
City of La Mesa General Fund Obligations	5.837	120,534
City of San Diego General Fund Obligations	0.146	837,266
TOTAL OVERLAPPING GENERAL FUND DEBT		$6,396,290
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$19,960,083
COMBINED TOTAL DEBT		$125,886,245(2)

Ratios to 2021-22 Assessed Valuation:
DIRECT DEBT ($24,127,444) 0.69%

Total Direct and Overlapping Tax and Assessment Debt. 2.83%
Combined Total Debt... 3.57%

Ratios to Redevelopment Incremental Valuation ($651,464,239):
Total Overlapping Tax Increment Debt............................ 3.06%

(1) Excludes Certificates to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: *California Municipal Statistics, Inc.*

SAN DIEGO COUNTY POOLED INVESTMENT FUND

The following information concerning the San Diego County Pooled Investment Fund has been provided by the Treasurer and has not been confirmed or verified by the District. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

Under California law, the District is required to pay all monies received from any source into the San Diego County Treasury to be held on behalf of the District. The Treasurer has authority to implement and oversee the investment of funds on deposit in commingled funds of the Treasury.

Decisions on the investment of funds in the Pooled Investment Fund are made by the Treasurer and his deputies in accordance with established policy guidelines. In the County, investment decisions are governed by California Government Code Sections 53601 and 53635, *et seq*., which govern legal investments by local agencies in the State of California, and a more restrictive Investment Policy proposed by the Treasurer and adopted by the County Board of Supervisors on an annual basis. The Investment Policy is reviewed and approved annually by the County Board of Supervisors. The Treasurer's compliance with the Investment Policy is also audited annually by an independent certified public accountant. See APPENDIX E hereto for the San Diego County Investment Policy Statement.

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SAN DIEGO COUNTY POOL SUMMARY AS OF MAY 31, 2022

Investment Type	Par Value	Book Value	Market Value	% of Portfolio	Market Price	Days To Maturity	YTM	Accrued Interest	Unrealized Gain/Loss
ABS	$ 542,092,151	$ 542,060,018	$ 531,235,460	3.82%	98.00	1,215	1.30%	$ 273,686	$ (10,824,557)
Agency	3,324,613,000	3,326,489,324	3,182,832,695	22.95	95.74	986	1.06	9,664,823	(143,656,629)
Bank Deposit	11,005,586	11,005,586	11,005,586	0.08	100.00	0	0.40	--	--
Commercial Paper	2,866,000,000	2,858,356,158	2,858,356,158	20.55	99.73	69	0.88	--	--
Corporate	541,695,000	543,731,351	531,822,025	3.84	98.18	599	1.64	2,577,886	(11,909,326)
Local Gov Investment Pool	663,354,530	663,354,530	663,354,530	4.77	100.00	0	0.91	--	--
Money Market Fund FI	83,300,010	83,300,010	83,300,010	0.60	100.00	0	0.71	--	--
Municipal Bonds	446,530,000	447,078,787	429,254,895	3.10	96.13	945	1.35	1,358,040	(17,823,892)
Negotiable CD	3,160,000,000	3,160,000,000	3,155,256,570	22.72	99.85	91	0.66	6,050,431	(4,743,430)
Supranationals	1,031,708,000	1,035,325,928	1,002,086,237	7.24	97.13	777	1.31	4,515,883	(33,239,691)
US Treasury	1,520,000,000	1,510,904,972	1,435,949,629	10.35	94.47	1069	1.07	3,470,585	(74,955,343)
Total for May 2022	14,190,298,277	14,181,606,663	13,884,453,795	100.00	97.87	526	0.98	27,911,334	(297,152,868)
Total for April 2022	14,816,433,195	14,809,939,586	14,480,992,673	100.00	97.74	511	0.86	24,394,123	(328,946,914)
Change from Prior Month	(626,134,918)	(628,332,923)	(596,538,878)		0.10	15	0.12	3,517,211	31794,045
Portfolio Effective Duration	1.31								

Return Information	Monthly Return	Annualized	Fiscal Year To Date Return	Annualized	Calendar YTD Return	Annualized
Book Value	0.08%	0.92%	0.68%	0.74%	0.32%	0.77%

Notes
Yield to maturity (YTM) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate of return to the maturity date.
Weighted Days to Maturity is average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.
Yields for the portfolio are aggregated based on the book value of each security.
Monthly Investment Returns are reported gross of fees. Administration fees since fiscal year 17-18 have averaged approximately 7 basis points per annum.
**All Investments held during the month of May 2022 were in compliance with the Investment Policy dated January 1, 2022.
The County Treasurer believes the Treasury Investment Pool contains sufficient cash flow from liquid and maturing securities, bank deposits, and incoming cash to meet the next six months of expected expenditures.
Source: *County Treasurer*.

The District has not made an independent investigation of the investments in the Pooled Investment Fund and has made no assessment of the current County Investment Policy. The value of the various investments in the Pooled Investment Fund 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 County Treasurer, after a review by the Committee and approval by the Board may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pooled Investment Fund will not vary significantly from the values described therein.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES

Article XIIIA of the California Constitution

Article XIIIA of the State Constitution ("Article XIIIA") 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. Determined in this manner, the full cash value is also referred to as the "base year value." 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. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on outstanding general obligation bonds of the District.

Article XIIIA requires a vote of two-thirds 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 June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) on bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. In addition, Article XIIIA requires the approval of two-thirds or more of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues.

Property Tax Base Transfer Constitutional Amendment. On November 3, 2020, voters in the State approved a constitutional amendment entitled Property Tax Transfers, Exemptions and Revenue for Wildfire Agencies and Counties Amendment. Proposition 19: (i) expands special rules that give property tax savings to homeowners that are over the age of 55, severely disabled, or whose property has been impacted by a natural disaster or contamination, when they buy a different home; (ii) narrows existing special rules for inherited properties; and (iii) broadens the scope of legal entity ownership changes that trigger reassessment of properties. The District cannot make any assurance as to what effect the implementation of Proposition 19 will have on assessed valuation of real property in the District.

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 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.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as $4 per $100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of 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 County 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.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. Because 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 of the State Constitution ("Article XIIIB"), 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 California 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 certain 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. However, if a school district's revenues exceed its spending limit, such school district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

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 "–Proposition 98" and "–Proposition 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 and community college 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.

Proposition 98

On November 8, 1988, California 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 the State general fund revenues as the percentage appropriated to such districts in 1986-87, or (b) the amount actually appropriated to such districts from the State 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.

Proposition 111

On June 5, 1990, the voters of California approved the Traffic Congestion Relief and Spending Limitation Act of 1990 ("Proposition 111"), which modified the State Constitution to alter the Article XIIIB spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on July 1, 1990.

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 California 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 is 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 1990 levels (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 "first test") 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 "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, 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 the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendment may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property, and property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 placed certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate per $100,000 of taxable property value projected to be levied as the result of any single election be no more than $60 (for a unified school district), $30 (for a high school or elementary school district), or $25 (for a community college district), when assessed valuation is projected to increase in accordance with Article XIIIA of the Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

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 "Controller")). 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 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, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. 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 Legislative Analyst's Office (the "LAO") on July 15, 2010, the expected 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.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling $1.7 billion statewide. ABx1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12), which, together with ABx1 26, is referred to herein as the "Dissolution Act." The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a "Successor Agency"). All property tax revenues that would have been allocated to such redevelopment agency will be allocated to the Successor Agency, to be used for the payment of pass-through payments to local taxing entities and to any other "enforceable obligations" (as defined in the Dissolution Act), as well to pay certain administrative costs. The Dissolution Act defines "enforceable obligations" to include bonds, loans, legally requirement payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations. Tax revenues in excess of such amounts, if any, will be distributed to local taxing entities in the same proportions as other tax revenues.

The District can make no representations as to the extent to which its property tax apportionments may be offset by the future receipt of pass through tax increment revenues, or any other surplus property tax revenues pursuant to the Dissolution Act.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increased the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 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 temporary tax increases were included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Proposition 98" and "— Proposition 111" herein. From an accounting perspective, the revenues generated from the temporary tax increases were 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 were and will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds are 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 boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

Proposition 55

At the November 8, 2016 general election, the voters in the State approved the Tax Extension of Education and Healthcare Initiative ("Proposition 55") which extends the increase in personal income tax on high-income taxpayers imposed under Proposition 30 until 2030. Proposition 55 did not extend the sales and use tax increases imposed under Proposition 30 which expired in the end of 2016.

Proposition 51

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

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

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 State legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and State legislature will select among eligible projects as part of the annual state budget process.

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

Proposition 2

Proposition 2, a legislatively referred Constitutional amendment approved by the voters in November, 2014 ("Proposition 2"), changed the way in which the State pays off existing debts, funds its reserves and draws from those reserves in times of economic slowdowns, as well as requires that reserves be set aside for schools and community colleges under certain circumstances. In addition, as a result of the passage of Proposition 2, new rules for school district reserves were implemented.

Under Proposition 2, the State is required annually to deposit 1.5% of general fund revenues into the Budget Stabilization Account ("BSA"). From fiscal year 2015-16 through 2029-30, under Proposition 2, one half of the amount required to be deposited to the BSA must be applied to the payment of debts for pension and retiree benefits and specified debts to local governments and certain other State accounts. In years when capital gains tax revenues exceed 8% of general fund revenues, a portion of such excess capital gains tax revenue is also required to be applied to the pay down of State debt. Deposits to the BSA are required until the amount on hand in the BSA reaches 10% of general fund revenues. Once the maximum has been reached, the required deposit amount may be applied to other expenditures.

In the event the Governor were to declare a budget emergency, Proposition 2 would permit a smaller deposit to the BSA. A budget emergency may be called if there is a natural disaster such as an earthquake or flood or general fund revenues reach a certain minimum level. Withdrawals from the BSA, under Proposition 2, are permitted upon a majority vote of the legislature only when the Governor has declared a budget emergency. If a budget emergency is called for two straight years in a row, in the second budget emergency year, the entire amount on hand might be withdrawn.

Public School System Stabilization Account. In the event capital gains tax revenues collected by the State in any given fiscal year exceed 8% of general fund revenues, a portion of such excess is required to be deposited into the State's Public School System Stabilization Account (the "PSSSA") which serves as a reserve account for school funding in years when the State budget is smaller. See "State Budget Measures –

2021-22 State Budget" above for information regarding the deposit of funds to the PSSSA in fiscal year 2021-22.

SB 858 and SB 751. State regulations require school districts to budget a reserve for economic uncertainties. The recommended minimum amounts vary from 1% to 5% of total expenditures and other financing uses, depending on the district's ADA. SB 858, adopted in June 2014, imposed limitations relating to ending fund balances for school districts. Beginning in 2015–16, a school district that proposes to adopt or revise a budget that includes an ending fund balance that is two to three times higher than the state's minimum recommended reserve for economic uncertainties must substantiate the need for the higher balance. SB 751, which was adopted in October 2017 and amended Section 42127.01 of the Education Code, placed certain restrictions on the amount of a school district's ending fund balances if a certain amount of funds is available in the PSSSA. In a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds 3% of the combined total of general fund revenues appropriated for school districts for that fiscal year, (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Proposition 98"), a school district's adopted or revised budget may not contain an assigned or unassigned ending fund balance higher than 10% of expenditures and other financing uses. A county superintendent could waive the prohibition, pursuant to specified conditions, for up to two consecutive years within a three-year period. SB 751 does not apply to school districts with an ADA of less than 2,501 students and basic aid school districts.

If the cap is triggered, unless exempted, a school district would be required to increase expenditures in order to bring its ending fund balance down to the maximum level. The PSSSA appears to be intended to provide a substitute for local reserves in the event of a future economic downturn.

The District is required to maintain a reserve for economic uncertainties at least equal to 3.0% of general fund expenditures and other financing uses. On June 30, 2021, the District had available reserves of $1,585,144. The District is unable to predict what the effect on its budget will be following implementation of these new rules. It is anticipated that if the cap is triggered, it will materially change the District's current policies on reserves.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 26, 98 and 111 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.

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STATE OF CALIFORNIA FISCAL ISSUES

State Budget Measures

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

2021-22 State Budget. Governor Newsom signed legislation which enacted the budget for the State for fiscal year 2021-22 (the "2021-22 State Budget") on July 12, 2021. The 2021-22 State Budget projected approximately $175.3 billion in general fund revenues with a prior year balance of $28.2 billion for total resources of $203.6 billion, and $196.4 billion in expenditures for fiscal year 2021-22. For fiscal year 2020-21, the 2021-22 State Budget included $194.3 billion in resources (an increase of over $54.6 billion from the 2020-21 State Budget) and $166 billion in expenditures. The 2021-22 State Budget projected $25.2 billion in reserves including $15.8 billion in the BSA for fiscal emergencies, $900 million in the Safety Net Reserve, $4.5 billion in the PSSSA, and an estimated $4 billion in the State's operating reserve. The $4.5 billion balance in the PSSSA in fiscal year 2021-22 was projected to trigger the 10% cap on school district reserves beginning in fiscal year 2022-23. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Proposition 2" herein for more information regarding school district reserves.

The 2021-22 State Budget prioritized one-time spending over ongoing spending, allocating 85% of discretionary funds to one-time spending. The 2021-22 State Budget provided relief to families and small businesses by expanding the Golden State Stimulus to provide $600 tax refunds to middle-class families with an adjusted gross income of $75,000 or less as well as $500 to qualified families and $1.5 billion to the Small Business COVID-19 Relief Grant Program. In order to increase equity, access and affordability to public higher education, the 2021-22 State Budget increased the base budget for both the University of California and California State University by 5% and funds $500 base deposits to college savings accounts for all public school students from low-income families, English learners, and foster youth. To combat homelessness, the 2021-22 State Budget provided approximately $12 billion over two years, including $5.8 billion for Project Homekey to expand the portfolio of housing.

The 2021-22 State Budget also addressed environmental matters facing California. The 2021-22 State Budget authorized $958 million to advance wildfire prevention and forest resilience investments and funded an additional 30 fire crews. $5.1 billion was included over four years for water resilience and drought preparedness and response to support safe drinking water, wastewater and water conveyance infrastructure and other water programs. The 2021-22 State Budget commits $2.7 billion in fiscal year 2021-22 and $3.9 billion over three years for zero-emission vehicle and infrastructure investments.

With respect to K-12 education, the 2021-22 State Budget included total funding of $123.9 billion ($65.5 billion general fund and $58.4 billion other funds) for all K-12 education programs. The 2021-22 State Budget estimated Proposition 98 funds of $79.3 billion in fiscal year 2019-20, $93.4 billion in fiscal year 2020-21 and $93.7 billion in fiscal year 2021-22. For K-12 schools, that resulted in Proposition 98 per pupil spending of $13,976 in 2021-22, a $3,322 increase over the 2020-21 per pupil spending levels. Additionally, in the same period, per pupil spending from all sources increased to $21,555. As a result of such increased funding, all prior year K-12 deferrals were eliminated in fiscal year 2021-22.

The 2021-22 State Budget included a compounded LCFF COLA of 4.05%, representing a back-filled fiscal year 2020-21 COLA of 2.31% and a fiscal year 2021-22 COLA of 1.70%. Also included was $520 million to provide a 1.00% increase in LCFF base funding which resulted in an increase in LCFF funding of 5.07% over 2020-21 levels. In order to increase the number of adults providing direct services to students, an on-going increase of $1.1 billion to the LCFF concentration grant, increasing the concentration grant from 50% to 65% of the LCFF base grant, was included, as well.

Additional significant provisions of the 2021-22 State Budget relating to K-12 education include the following:

- Universal Transitional Kindergarten - Establishment of universal transitional kindergarten, phased-in over five years, with full implementation by 2025-26 and $200 million in one-time Proposition 98 funds for planning and implementation grants and $100 million one-time Proposition 98 funds to train and increase the number of early childhood educators.

- Expanded Community School Model - $3 billion in Proposition 98 general funds to expand the community school model in communities with a high level of poverty to provide integrated health, mental health and social services alongside high-quality, supportive education.

- A-G Completion Improvement Grant Program - $547.5 million in Proposition 98 funds for the A-G Completion Improvement Grant Program, which will fund high schools to increase the number of students, particularly those eligible for free and/or reduced price meals, English learners, and foster youth.

- Expanded Learning Time - $1.8 billion in Proposition 98 funds for expanded-day, full-year instruction and enrichment for all elementary school students, with a focus on the school districts with the highest concentrations of low-income students, English language learners, and youth in foster care.

- Educator Retention and Training - $1.5 billion in Proposition 98 funds for the Educator Effectiveness Block Grant and $250 million in Proposition 98 funds to provide incentive grants to attract and retain National Board Certified teachers to teach in high poverty schools, serve as mentors for other instructional staff, and support teachers in pursuing National Board certification.

- Workforce Preparation - $500 million to support 25,000 grants for teacher credential candidates who commit to teach at a priority school, in a high-need subject matter area, for four years and $350 million in Proposition 98 funds to support teacher preparation residencies and other teacher credentialing programs.

- Universal School Nutrition - $54 million to reimburse all meals served to students beginning in the 2022-23 school year, regardless of income eligibility, under the federal universal meals provision, at an estimated cost of $650 million in Proposition 98 funds annually and $150 million in one-time Proposition 98 funds for school districts to upgrade kitchen infrastructure and equipment and training to food service employees.

- Disabled Students - $450 million in one-time Proposition 98 general funds to provide recovery supports for students with disabilities.

- Increased Special Education Funding - $396.9 million in Proposition 98 funds to increase the base rate for special education funding and Early Intervention - $186.1 million ongoing Proposition 98 funds to provide a 4.05% COLA for special education funding.

- $260 million in ongoing Proposition 98 general funds to support early intervention services for preschool-aged children.

2022-23 State Budget. Governor Newsom signed legislation which enacted the budget for the State for fiscal year 2022-23 (the "2022-23 State Budget") on June 30, 2022. The 2022-23 State Budget projects approximately $219.7 billion in general fund revenues with a prior year balance of $22.5 billion for total resources of $242.2 billion, and $234.4 billion in expenditures for fiscal year 2022-23. For fiscal year 2021-22, the 2022-23 State Budget estimates $265.4 billion in resources and $242.9 billion in expenditures. The

2022-23 State Budget projects $37.2 billion in reserves including $23.3 billion in the BSA for fiscal emergencies, $900 million in the Safety Net Reserve, $9.5 billion in the PSSSA, and an estimated $3.5 billion in the State's operating reserve. The BSA is now at its constitutional maximum (10% of General Fund revenues) requiring $465 million to be dedicated for infrastructure investments in fiscal year 2022-23. Over the multi-year forecast period, the 2022-23 State Budget reflects $8 billion in supplemental deposits split evenly between the BSA and the Safety Net Reserve. As a result of the deposits to the PSSSA, the 10% cap on school district reserves will be applicable in fiscal year 2022-23. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICTS – Proposition 2" herein for more information regarding school district reserves.

The 2022-23 State Budget prioritizes one-time spending over ongoing spending, allocating 93% of discretionary funds to one-time spending. The 2022-23 State Budget provides an over $17 billion broad-based relief package, including a refund of up to $1,050 that will benefit millions of Californians based on income level and the size of household. The relief package also includes increased grants for the State's lowest income families and individuals, and additional funding for food banks.

The 2022-23 State Budget also addresses environmental matters facing California. The 2022-23 State Budget includes $1.2 billion to advance wildfire prevention and forest resilience investments and funds an additional 1,265 new positions to expand the State's wildfire response capacity. $1.2 billion is included for immediate drought support with an additional $1.5 billion deferred for allocation for long-term water resilience. The 2022-23 State Budget also allocates $4.3 billion to provide energy reliability insurance through the development of a strategic reserve, protection to ratepayers, and accelerated deployment of clean energy projects, with an additional $3.8 billion deferred for allocation later in the summer of 2022 to further reliability and affordability, and accelerate the State's clean energy future.

With respect to K-12 education, the 2022-23 State Budget includes total funding of $128.6 billion ($78.6 billion general fund and $50 billion other funds) for all K-12 education programs. The 2022-23 State Budget estimates Proposition 98 funds of $96.1 billion in fiscal year 2020-21, $110.2 billion in fiscal year 2021-22, and $110.4 billion in fiscal year 2022-23 for K-14 education programs. For K-12 schools, this results in Proposition 98 per pupil spending of $16,993 in 2022-23, a $3,017 increase over the 2021-22 per pupil spending levels. Additionally, in the same period, per pupil spending from all sources increases to $22,893.

The 2022-23 State Budget includes an LCFF COLA of 6.56%. Additionally, the 2022-23 State Budget includes $4.32 billion ongoing Proposition 98 funds to increase LCFF base funding by an additional 6.28%. The 2022-23 State Budget also includes $101.2 million ongoing Proposition 98 funds to augment LCFF funding for county offices of education.

To support school districts with a declining student population, the 2022-23 State Budget provides that school districts may use the greater of the current year or prior year ADA or an average of the three prior years' ADA to calculate LCFF funding. Further, to minimize reductions in LCFF funding that would otherwise occur due to increased absences in fiscal year 2021-22, the 2022-23 State Budget enables school districts that can demonstrate they provided independent study offerings during fiscal year 2021-22 to be funded at the greater of their current year ADA or their current year enrollment adjusted for pre-COVID-19 absence rates in the 2021-22 fiscal year. The 2022-23 State Budget includes $2.8 billion of ongoing funding under Proposition 98 and $413 million in one-time funding under Proposition 98 to implement these school fiscal stabilization policies.

Additional significant provisions of the 2022-23 State Budget relating to K-12 education include the following:

- Learning Recovery Emergency Fund - $7.9 billion in one-time Proposition 98 funds to support learning recovery initiatives through the 2027–28 school year.

- Arts, Music, and Instructional Materials Discretionary Block Grant - $3.6 billion one-time Proposition 98 funds for arts and music programs, standards-aligned professional development, instructional materials, developing diverse book collections, operational costs, and expenses related to the COVID-19 Pandemic.

- Expanded Community School Model - $1.1 billion in Proposition 98 funds to expand the community school model and provide grants for high needs schools in communities with high levels of poverty.

- Educator Workforce – $48.1 million for training and retention of well-prepared educators including waiving certain teacher examination fees, grants for integrated teacher preparation programs and operations support for the Commission on Teacher Credentialing,.

- Teacher and School Counsel Residencies - $250 million one-time Proposition 98 funds to expand residency slots for teachers and school counselors and eligibility for the Golden State Teacher Grant Program.

- Educator Support for Science, Technology, Engineering, and Mathematics (STEM) Instruction - $85 million one-time Proposition 98 funds to for the Next Generation Science Standards, the California Math Framework, the California Computer Science Standards, and the math and science domains of the California Preschool Learning Foundations.

- State Preschool - $312.7 million in Proposition 98 funds and $172.3 million in other funds to increase State Preschool Program adjustment factors for students with disabilities, dual language learners, and childhood mental health, $250 million one-time Proposition 98 funds to support the Inclusive Early Education Expansion Program, $300 million one-time Proposition 98 funds for planning and implementation grants, $166.2 million Proposition 98 funds to support the full-year costs of State preschool rate increases and $148.7 million one-time funds to maintain reimbursement rate increases.

- Transitional Kindergarten - $614 million in Proposition 98 funds for the first year of expanded eligibility for transitional kindergarten and $383 million Proposition 98 funds to add one additional staff person to every transitional kindergarten class.

- Expanded Learning Opportunities Program – $3 billion Proposition 98 funds to accelerate expanded-day, full-year instruction and enrichment focused on school districts with the highest concentrations of low-income students, English language learners, and youth in foster care.

- Community Engagement Initiative - $100 million in Proposition 98 funds to further positive relationship building between school districts and local communities.

- Special Education - $500 million in Proposition 98 funds for the special education funding formula, amending the special education funding formula to calculate special education base funding allocations at the local educational agency level, and consolidating the special education extraordinary cost pools into a single cost pool to simplify the current funding formula.

- College and Career Pathways - $500 million in Proposition 98 funds to support the development of pathway programs focused on technology, health care, education, and climate-related fields and $200 million in Proposition 98 funds to strengthen and expand student access and participation in dual enrollment opportunities.

- Home-to-School Transportation - $637 million in Proposition 98 funds to reimburse school districts for up to 60% of their transportation costs in the prior year.

- Zero Emission School Buses - $1.5 billion in Proposition 98 general funds for greening school bus fleets.

- Nutrition - $596 million in Proposition 98 funds for universal subsidized school meals, $611.8 million in Proposition 98 funds to augment the state meal reimbursement rate, $600 million in Proposition 98 funds for school kitchen infrastructure upgrades and equipment, food service employee training, and compensation related to serving fresh, minimally processed California-grown foods, and $100 million in Proposition 98 funds for procurement practices for plant-based, restricted diet meals, California-grown or California-produced, sustainably grown, or whole or minimally processed foods, or to prepare meals fresh onsite.

- K-12 School Facilities – Approximately $1.4 billion in Proposition 51 funds for school construction projects as well as $1.3 billion in 2021-22, $2.1 billion in 2023-24 and $875 million in 2024-25 for new construction and modernization projects, and $100 million in 2021-22 and $550 million in 2023-24 for the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program.

Future Actions. The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will, in the future, take further measures which would, in turn, adversely affect the District. Further State actions taken to address any budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions. See also "- COVID-19 Outbreak and its Economic Impact" for a discussion of COVID-19 and its impact on the State economy.

The District cannot predict the extent to which the State will encounter budgetary difficulties and what budget actions will be taken to resolve those difficulties in future fiscal years. The District also cannot predict the impact future State Budgets will have on District finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the District cannot 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. The COVID-19 pandemic has already resulted in significant negative economic effects at State and federal levels, and additional negative economic effects are possible, each of which could negatively impact anticipated State revenue levels. In addition, the pandemic could also result in higher State expenditures, of both a direct nature (such as those related to managing the outbreak) and an indirect nature (such as higher public usage of need-based programs resulting from unemployment or disability). See "RISK FACTORS – COVID-19 Outbreak and its Economic Impact" "– Impact of COVID-19 on California School Districts" herein. The District also cannot predict whether the federal government will provide additional funding in amounts sufficient to offset any of the fiscal impacts of the COVID-19 pandemic described above.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than 9 months following the end of the District's fiscal year (currently ending June 30), which date would be March 31, commencing with the report for the 2021-22 fiscal year, which would be due on March 31, 2023, and to provide notices of the occurrence of certain enumerated events. The District has entered into a Continuing Disclosure Agreement ("Continuing Disclosure Agreement") for the benefit of the Owners of the Certificates. The Annual Report and each notice of enumerated events will be filed by the District with the Electronic Municipal Markets Access system ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB"), or any other repository then recognized by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Within the last five years, the District failed to timely file the audited financial statements for fiscal year 2016-17 and the annual report and audited financial statements for fiscal year 2017-18. The District has engaged Dale Scott & Company, Inc. to act as Dissemination Agent with respect to the undertaking to be entered into with respect to the Certificates and to assist the District with compliance with its current and future continuing disclosure obligations.

TAX MATTERS

The delivery of the Certificates is subject to the delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California, that interest with respect to the Certificates is exempt from personal income taxes of the State of California. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change. Interest with respect to the Certificates is not excluded from gross income for federal income tax purposes.

Form of Special Counsel Opinion. The form of the proposed opinion of Special Counsel relating to the Certificates is attached to this Official Statement as APPENDIX C.

CERTAIN LEGAL MATTERS

Dannis Woliver Kelley, Long Beach, California, Special Counsel, will render an opinion with respect to the Certificates substantially in the form attached hereto as APPENDIX C. Copies of such approving opinion will be available at the time of delivery of the Certificates. Certain matters will also be passed on for the District by Dannis Woliver Kelley, as Disclosure Counsel, for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, and for the Corporation and the Trustee by their respective counsels. Dannis Woliver Kelley expresses no opinion to the Owners of the Certificates as to the accuracy, completeness or fairness of this Official Statement.

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 have the District lease the Property to the Corporation and lease it back from the Corporation, or the validity or enforceability of the Trust Agreement, the Lease, the Assignment Agreement or the Site Lease.

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

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal bond insured rating of "AA" to the Certificates with the expectation that the

Insurer will issue and deliver the Policy at closing. S&P has also assigned its underlying municipal bond rating of "A+" to the Certificates without regards to the Policy. Such ratings reflects only the views of S&P and an explanation of the significance of such rating may be obtained as follows: S&P at Municipal Finance Department, 55 Water Street, New York, New York 10041, tel. (212) 208-8000. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

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.

UNDERWRITING

RBC Capital Markets, LLC (the "Underwriter"), has agreed to purchase the Certificates at the purchase price of $__________ (reflecting the principal amount represented by the Certificates less an Underwriter's discount of $___________), at the rates and yields shown on the inside cover page hereof. The Underwriter may offer and sell the Certificates to certain dealers and others at yields other than the yields stated on the inside cover page. The offering prices may be changed from time to time by the Underwriter.

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

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ADDITIONAL INFORMATION

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

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

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

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

LEMON GROVE SCHOOL DISTRICT

By: ____
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 the Lease, the Trust Agreement, the Assignment Agreement and the Site Lease for the complete terms thereof. Copies of the Lease, the Trust Agreement, the Assignment Agreement and the Site Lease 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 herein or elsewhere in the Official Statement have the meanings set forth in the Lease or the Trust Agreement.

"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 such amounts as will 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, taxes of any sort whatsoever payable by the Corporation as a result of its ownership of the Property or undertaking of the transactions contemplated in the Lease or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, any and all amounts due to the Insurer and the Reserve Insurer under the Trust Agreement (other than amounts paid by the Insurer and the Reserve Insurer, to Certificate Owners under the Policy and the Reserve Policy, which are considered Lease Payments or Reserve Replenishment Rent, as applicable, under the Lease Agreement), 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 on insurance maintained pursuant to the Lease or to indemnify the Corporation, the Trustee and their respective employees, officers, agents and directors.

"Assignment Agreement" means the Assignment Agreement related to the Certificates, dated on even date with the Lease and the Trust Agreement, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

"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 are authorized or required by law or executive order to remain closed.

"Certificate" or "Certificates" means the $7,600,000* aggregate principal amount of Lemon Grove School District (San Diego County, California) 2022 Certificates of Participation executed and delivered by the Trustee pursuant to the Trust Agreement.

"Certificate Payment Date" means February 1 and August 1 of each year commencing August 1, 2023.

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

* Preliminary; subject to change.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate dated as of the Closing Date, executed by the District.

"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, Secretary or Treasurer 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 the securities described in paragraph A of the definition of "Permitted Investments."

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

"Delivery Cost Requisition" means a written requisition substantially in the form attached to the Trust Agreement.

"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 financing of the Project from the proceeds of the Certificates, including, but not limited to: the premium for any insurance policies purchased to satisfy the Reserve Requirement or to guarantee payment of the Certificates; 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; 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.

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

"District" means the Lemon Grove 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 and the Chief Business Official of the District or any other person authorized by the Superintendent 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 securities depository for the Certificates.

"Event of Default" means an event of default under the Lease.

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

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

"Insurer" means Assured Guaranty Municipal Corporation, or any successor thereto or assignee thereof.

"Interest Component" means the portion of the Lease Payments designated in Exhibit A to the Lease.

"Lease" means the Lease Agreement related to the Certificates, dated as of August 1, 2022, 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 Deposit Date" means the 15th day next preceding the respective Certificate Payment Date (or if such day is not a Business Day, the next succeeding Business Day).

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

"Lease Year" means the period extending from August 1 of each calendar year to July 31 of the subsequent calendar year; provided that the first Lease Year shall commence on the Closing Date and end on July 31, 2022.

"Lessor" means the Corporation.

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

"Net Proceeds" means any remaining proceeds of any insurance, performance bonds, or taking by eminent domain or condemnation, paid with respect to the Property 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.

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

A. Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

B. Certificates for the payment or prepayment of which funds or Defeasance 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

C. 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.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, or which the District may, pursuant to provisions of the Trust Agreement, 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 Trust Agreement; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the District hereby certifies will not materially impair the use of the Property by the District; (vii) that certain lease by and between the District and Literacy First Charter Schools (concerning its Liberty Charter School operated on the Property) for the period from the Closing Date through its expiration on July 31, 2022; and (viii) 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 District certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the owners of the Certificates by the Trust Agreement and the Assignment Agreement and to which the Corporation and the Insurer 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 the moneys proposed to be invested therein:

A. For all purposes, including defeasance investments, 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:

1. Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations");

2. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;

3. Obligations fully and unconditionally guaranteed as to timely 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; or

4. Evidences of ownership of proportionate interests in future interest and principal payments on obligations described above 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.

B. For all purposes other than defeasance investments, 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:

1. Federal Housing Administration debentures.

2. The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(a) Federal Home Loan Mortgage Corporation (FHLMC)

(b) Participation certificates (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(1) Senior Debt obligations

(c) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)

(d) Consolidated system-wide bonds and notes

(e) Federal Home Loan Banks (FHL Banks)

(f) Consolidated debt obligations

(g) Federal National Mortgage Association (FNMA)

(1) Senior debt obligations

(2) Mortgage-backed securities (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)

3. Unsecured certificates of deposit (including those placed by a third party pursuant to an agreement between the Trustee and the Corporation), time deposits, trust accounts, trust funds, interest bearing deposits, overnight bank deposits, interest bearing money market accounts and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better at the time of investment by S&P and "Prime-1" at the time of investment by Moody's, which may include the Trustee and its affiliates.

4. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $15 million.

5. Commercial paper (having original maturities of not more than 270 days) rated at the time of purchase "A-1+" by S&P and "Prime-1"' by Moody's.

6. Money market mutual funds rated at the time of investment "AAm" or "AAm-G" by S&P, or better, and if rated by Moody's rated "Aa2" or better, including mutual 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 or serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (i) the Trustee or an affiliate of the Trustee receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise; (ii) the Trustee collects fees for services rendered, which fees are separate from the fees received from such funds; and (iii) services performed for such funds may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

7. 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 at the time of investment "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.

8. Direct general short-term obligations of any state agency or subdivision or agency thereof described in paragraph (7) above and at the time of investment rated "A-1+" by S&P and "MIG-1" by Moody's.

9. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in paragraph (7) above and rated at the time of investment "AA-" or better by S&P and "Aa3" or better by Moody's.

10. Pre-refunded municipal obligations rated at the time of investment in the highest rating category then assigned to the United States of America by S&P and Moody's meeting the following requirements:

(a) (1) such municipal obligations are 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;

(b) 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;

(c) 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");

(d) 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;

(e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(f) 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.

11. 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 the time of investment at least "A-" by S&P and "A3" by Moody's including the Trustee and any of its affiliates; 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 the time of investment at least "A-" by S&P and "A3" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at the time of investment at least "A-" by S&P and "A3" by Moody's and acceptable to the Insurer (each an "Eligible Provider"), provided that:

(a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 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");

(b) the trustee or a third party acting solely as agent therefore 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 such collateral shall be marked to market;

(c) the collateral shall be marked to market on a daily basis and the provider or Custodian shall 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;

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

(e) the repurchase agreement shall 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; and

(f) the repurchase agreement shall provide that if during its term the provider's rating at the time of investment 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 notify the District, the Trustee and the Insurer within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (i) provide a written guarantee acceptable to the Insurer, (ii) post Eligible Collateral, or (iii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the Trustee (who shall give such direction if so directed by the Insurer) repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the District or the Trustee.

12. Investment agreements with a domestic or foreign bank or corporation, the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is at the time of investment rated at least "AA-" by S&P and "Aa3" by Moody's, and acceptable to the Insurer, each of which shall be an Eligible Provider, provided that:

(a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service;

(b) 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 hereby agree 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;

(c) the provider shall send monthly reports to the Trustee, the District and the Insurer 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;

(d) the investment agreement shall 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 shall state that the obligation of the provider to make payments thereunder ranks pari passé with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

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

(f) the District, the Trustee and the Insurer shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;

(g) the District, the Trustee and the Insurer shall receive an opinion of foreign counsel to the provider (if applicable) that: (1) 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;

(h) the investment agreement shall provide that if during its term:

(1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either: (i) provide a written guarantee acceptable to the Insurer; (ii) post Eligible Collateral with the District, the Trustee or a third party acting solely as agent therefore (the "Custodian") free and clear of any third party liens or claims; (iii) assign the agreement to an Eligible Provider; or (iv) repay the principal of and accrued but unpaid interest on the investment;

(2) 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 shall 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;

(i) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall 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 shall be marked to market on a daily basis and the provider or Custodian shall 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;

(j) the investment agreement shall state and an opinion of counsel shall 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;

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

13. 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.

"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.

"Principal Office" means the principal corporate trust 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 except that with respect to presentation of Certificates for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Project" means the Project, as defined in the Lease.

"Project Cost Requisition" means a written requisition substantially in the form attached 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.

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

"Property" means the Property, as defined in the Lease, and as further described under the caption "THE PROPERTY" herein.

"Purchaser" means RBC Capital Markets Inc., as purchaser of the Certificates on the Closing Date.

"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.

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

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

"Reserve Insurer" means Assured Guaranty Municipal Corporation, or any successor thereto or assignee thereof.

"Reserve Policy" means the municipal bond debt service reserve insurance policy issued by the Reserve Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof.

"Reserve 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 twelve month period ending on August 1) then payable under the Lease with respect to the Certificates and Additional Certificates, (2) 125% of the average annual aggregate Lease Payments (calculated based on Fiscal Years) then payable under the Lease with respect to the Certificates and Additional Certificates, or (3) 10% of the original face amount of the Certificates and Additional Certificates (less original issue discount if in excess of two percent (2%) of the stated Principal Component amount at maturity).

"S&P" means S&P Global Ratings or any successors or assigns thereto.

"Site Lease" means the Site Lease related to the Certificates, dated the date of the Trust Agreement and Lease, by and between the Corporation and the District, and any duly authorized and executed amendments thereto.

"Special Counsel" means Dannis Woliver Kelley, or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax status of interest on obligations issued by states and their political subdivisions and acceptable to the District.

"State" means the State of California.

"Term" means the time during which the Lease is in effect, as provided in the Lease, as further described under the caption "THE LEASE AGREEMENT — Term of the Lease" herein.

"Trustee" means U.S. Bank Trust Company, 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" means the Trust Agreement, related to the Certificates, dated on even date with the Assignment Agreement and the Lease, by and among the Trustee, the Corporation and the District, and any duly authorized and executed amendment thereto.

THE LEASE AGREEMENT

Lease; Interests in the Property

Pursuant to the terms of the Lease, the Corporation agrees to lease the Property to the District and the District agrees to lease the Property from the Corporation. During the Term of the Lease, the Corporation will hold a leasehold interest in the Property under the Site Lease. Upon the expiration of the Term of the Lease, the leasehold interest of the Corporation in the Property under the Site Lease and all right, title and interest of the Corporation in and to the Property will transfer to and vest in the District.

Term of the Lease

The Term of the Lease will commence as of the date of its execution and ends on August 1, 2032, unless extended pursuant to the Lease, or terminated prior thereto upon the earliest of any of the following events: (a) a default by the District and the Corporation's election to terminate the Lease; (b) the payment by the District of all Lease Payments, Reserve Replenishment Rent and any Additional Payments required by the Lease; or (c) the deposit of funds or Defeasance Securities with the Trustee in amounts sufficient to pay all Lease Payments as will become due.

Lease Payments

The District agrees to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Property, Lease Payments in such semiannual amounts as are sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates. Lease Payments will be due and payable on the fifteenth day of the month (or if such date is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Date. Certain amounts held in the Lease Payment Fund on any Lease Payment Date are credited towards the Lease Payment then due and payable. The District must make all Lease Payments, Additional Payments and Reserve Replenishment Rent payments when due notwithstanding any dispute between the Corporation and the District, including a dispute as to the failure of any portion of the Property to perform the task for which it is leased, and cannot withhold any Lease Payment pending the final resolution of such dispute. Any Lease Payment in default continues as an obligation of the District until fully paid, with interest, 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. The Corporation and the District have agreed and determined that the total rental under the Lease represents the fair rental value of the Property. The District covenants to take such action as may be necessary to include and maintain all Lease Payments, Additional Payments and Reserve Replenishment Rent in its annual budgets (to the extent the amounts of such Additional Payments and Reserve Replenishment Rent are known to the District at the time its annual budget is proposed) and to provide the Trustee annually with a certificate to this effect. Pursuant to the Assignment Agreement, the Corporation has assigned its right to receive and to collect Lease Payments, Reserve Replenishment Rent, and Prepayments to the Trustee in trust for the benefit of the Owners of the Certificates. (See "THE ASSIGNMENT AGREEMENT" herein.)

Reserve Replenishment Rent

The District has agreed to pay to the Trustee from its first legally available moneys, after payment of the Lease Payments, Reserve Replenishment Rent to replace amounts withdrawn from the Reserve Fund in order to pay interest or principal represented by the Certificates; provided, however, that such obligation to pay will only occur if (i) the Lease Payments are not in abatement, and (ii) the amount of the Lease Payments and Additional Payments due in each year is less than the fair market rental value of the Property as determined in an appraisal filed with the Trustee.

The District's obligation to fund Reserve Replenishment Rent is subject to the District's right to pay such Reserve Replenishment Rent over a period of not more than twelve (12) 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; provided, however, if such payments would cause the sum of the Lease Payments and the Reserve Replenishment Rent to exceed the fair rental value in a Fiscal Year, then the amount of the Reserve Replenishment Rent shall be reduced so that such fair rental value amount is not exceeded and the remainder of the Reserve Replenishment Rent shall be paid in equal monthly installments in the subsequent Fiscal Year until fully paid.

Abatement of Lease Payments in Event of Loss of Use

Lease Payments will be paid in consideration of the right of possession and the continued quiet use and enjoyment of the Property during each period for which such Lease Payments are to be paid. The obligation of the District to pay Lease Payments, Reserve Requirement Rent and Additional Payments will be abated, in whole or in part, during any period in which, by reason of damage, destruction, interference due to title defect 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 the use and possession of such portion of the Property by the District. The amount of such abatement will be determined by the District such that the resulting Lease Payments, Reserve Replenishment Rent and Additional Payments represent fair consideration for the use and possession of the portion of the Property not damaged, destroyed, interfered with or taken. Such abatement will commence with such damage, destruction, interference 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 and the Lease Payment Fund, as well as other special sources of money, including the proceeds of rental interruption or use and occupancy insurance, will be applied to pay the Lease Payments.

Maintenance, Utilities, Taxes and Assessments

The District is responsible for all repair and maintenance of the Property throughout the Term of the Lease. The District must pay for or otherwise arrange for the payment of the cost of the repair and replacement of any portion of the Property resulting from ordinary wear and tear or want of care on the part of the District or any sublessee thereof. The District will also pay all taxes and assessments, including but not limited to utility charges, charged to the Corporation or the District or levied, assessed or charged against any portion of the Property or the respective interests or estates therein. The District is obligated to pay special assessments or governmental charges only to the extent they are required to be paid during the Term of the Lease.

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; provided that if any such lien is established and the District must first notify or cause to be notified the Corporation 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 must provide the Corporation 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 Corporation.

Disclaimers

The Corporation 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.

Insurance

The District must maintain or cause to be maintained the following insurance:

Public Liability and Property Damage. The District must maintain or caused to be maintained, throughout the Term of the Lease, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the District and the Corporation, their directors, officers, agents and employees. Said policy or policies must 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. 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 the amount of $150,000 (subject to a deductible clause of not to exceed $75,000) 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 in the Lease. 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 the provisions of the Lease, may be maintained in the form of self-insurance by the District.

Workers' Compensation. The District must maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California 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 subsequently enacted as an amendment or supplement thereto (with provision for self-insurance of no more than $1,000,000).

Casualty and Theft. The District must maintain, throughout the Term of the Lease, insurance against loss or damage to any item or portion of the Property caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance. Such extended coverage insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards normally covered by such insurance. Such insurance will be maintained in an amount (except that such insurance may be subject to deductible clauses of not to exceed $50,000 for any one loss) not less than the greater of (i) the replacement cost of the Property and (ii) the aggregate principal amount of the Certificates at the time Outstanding. 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 the provisions of the Lease, may be maintained in the form of self-insurance by the District.

Rental Interruption or Use and Occupancy. The District must maintain 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 described in the Lease. Such rental interruption or use and occupancy insurance shall name the Trustee as loss payee. Such insurance may be maintained as part of or in conjunction with any other rental income insurance carried by the District.

Title Insurance. The District must obtain and, throughout the Term of the Lease, maintain or cause to be maintained title insurance on the Property, in the form of an CLTA title policy, 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 and the Insurer subject only to Permitted Encumbrances. Said policy shall insure (a) the Corporation's ground leasehold estate in the Property under the Site Lease, and (b) the District's leasehold estate under the Lease in the Property, subject only to Permitted Encumbrances. The Net Proceeds of such insurance shall be applied as provided in the Lease. The Trustee shall be provided with a title insurance policy in an amount equal to principal amount of the Certificates.

Substitution or Release of the Property

The District has the right to substitute alternate real property for any portion of the Property described in the Lease 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 to the Lease and satisfying the conditions set forth below. All costs and expenses incurred in connection with such substitution or release will be borne by the District. Notwithstanding any such substitution, there will be no reduction in or abatement of the Lease Payments due from the District as a result of such substitution. No substitution will be permitted unless: (1) any substituted property is free from any liens, other than Permitted Encumbrances, as certified by the District in a certificate delivered to the Trustee; (2) the District provides prior written notice thereof to each rating agency then rating the Certificates; (3) the District provides a certification to the Insurer and the Trustee to the effect that the real property remaining after such substitution or release (a) has a fair rental value in each Fiscal Year during the remaining Term greater than or equal to the Lease Payments due in such Fiscal Year such that the Lease Payments payable by the District pursuant to the Lease will not be reduced, and (b) has an equivalent or greater useful life as the Property to be released, and (c) that the useful life of the substituted real Property exceeds the remaining Term; (4) with respect to substitution, the District obtains or causes to be obtained an CLTA title insurance policy (with Western Regional exceptions) 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 Corporation, 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 site leasehold interest of the Corporation or the District, as applicable, to the substituted real property); (5) 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; (6) upon any substitution or release, the District, the Corporation and the Trustee will execute and the District will record with the office of the County Recorder, County of San Diego, 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; and (7) the District will certify to the Trustee and the Insurer that any substituted real property is of approximately the same degree of essentiality to the District as the portion of the Property being released.

Assignment and Subleasing

Except as provided in the Lease, the Trust Agreement and the Assignment Agreement, the Corporation will not assign the Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained therein and any assignment in contravention thereof shall be void. The District may sublease all or any portion of the Property (with the prior written consent of the Insurer), so long as such sublease does not, in the opinion of Special Counsel, adversely affect (1) the exemption from State personal income tax of the Interest Component evidenced by the Certificates, or (2) affect the validity of the Lease, subject to all of the following conditions: (a) the Lease and the obligation of the District to make Lease Payments under the Lease will remain obligations of the District; (b) the District will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation, the Insurer, the Trustee and S&P, a true and complete copy of such sublease; and (c) any sublease of the Property by the District shall expressly provide that such sublease is subject to all rights of the Corporation under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement in the event of a default by the District.

Events of Default and Remedies

Events of Default Defined. The following constitute "events of default" under the Lease (each, an "Event of Default") and the terms "events of default" and "default" will mean, whenever they are used in the Lease, any one or more of the following events:

(i) Failure by the District to pay any Lease Payment required to be paid under the Lease by the corresponding Lease Payment Date, and failure by the District to timely pay any Reserve Replenishment Rent, if and when required.

(ii) Failure by the District to observe and perform any warranty, covenant, condition or agreement contained in the Lease or in the Trust Agreement or in the Site Lease, other than the default described in (i) 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 Corporation, the Insurer, the Trustee or the Owners of not less than 20% in aggregate principal amount of the Certificates then Outstanding, provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Corporation 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 shall not exceed 60 days without the prior written consent of the Insurer.

(iii) 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 be enacted in the future.

Remedies. Whenever any Event of Default described above will have happened and be continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease as described below. The Corporation has no right under any circumstances, however, to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. After the occurrence of an Event of Default under the Lease the District will surrender possession of the Property to the Corporation if requested to do so by the Corporation, the Trustee or the Certificate Owners, in accordance with the provisions of the Lease. So long as the Insurer is not in default under the Insurance Policy, the Insurer, acting alone, shall have the right to direct and control all remedies upon an event of default including, without limitation, the election to terminate or not to terminate the Lease.

No Termination: Repossession and Re-Lease on Behalf of District. In the event the Corporation does not elect to terminate the Lease, the Corporation may, with the consent of the District, repossess the Property, and re-lease it for the account of the District, in which event the District's obligation will continue to accrue from year to year in accordance with such Lease and the District will continue to receive the value of the use of the Property to the Lease 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 Corporation re-enters or not. The District agrees 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 in such Lease, and to reimburse the Corporation for any deficiency arising out of the re-leasing of the Property, or, in the event that the Corporation 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 Lease Term, 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 under the Lease, notwithstanding such repossession by the Corporation, or any suit brought by the Corporation for repossession of the Property, or the exercise of any other remedy by the Corporation.

The District irrevocably appoints the Corporation its agent and attorney-in-fact for purposes of repossessing or re-leasing the Property in the event of default. In addition, the District exempts and agrees to save harmless the Corporation from any cost, loss or damage arising from or occasioned by any such repossession and re-leasing of the Property. The District waives all claims for damages caused by the Corporation in repossessing the Property as provided in the Lease and all claims for damage that may result from the destruction of or injury to the Property, and all claims for damages to or loss of any property belonging to the District that may be in or upon the Property.

Termination: Repossession and Re-Lease. In the event of the termination of the Lease by the Corporation at its option and in the manner provided by the Lease on account of default by the District (and notwithstanding any repossession of the Property by the Corporation in any manner whatsoever or the re-leasing of the Property), the District nevertheless agrees to pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease 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 Corporation 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 Corporation, from such re-leasing over total Lease Payments, Reserve Replenishment Rent and Additional Payments that would have been due under the Lease and the fees, expenses and costs of the Trustee as assignee of the Corporation 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 Corporation 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 Corporation will have given written notice to the District of the election on the part of the Corporation to terminate the Lease. The District covenants and agrees that no surrender of the Property for the remainder of the Term of the Lease or any termination of the Lease will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice. No such termination will be effected either by operation of law or act of the parties to the Lease, except only in the manner in the Lease expressly provided.

The re-leasing of the Property shall be subject to the opinion of Special Counsel that such re-leasing will not cause the Interest Component evidenced by the Certificates to be subject to State personal income tax.

In the event the Corporation does not elect to terminate the Lease in the manner provided therein or to exercise its right to re-enter and re-lease, the Corporation may collect each installment of Lease Payments as the same become due and enforce any other terms or provisions of the Lease to be kept or performed by the District, regardless of whether or not the District has abandoned the Property.

The District's rights and remedies are assigned to the Trustee and are exercisable by the Trustee and the Owners of the Certificates as provided in the Trust Agreement. (See "THE ASSIGNMENT AGREEMENT" herein.)

THE TRUST AGREEMENT

Additional Certificates

Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee will, with the written consent of the Insurer, upon written request or requests of the District Representative and of 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 shall have been compliance with all of the following conditions, which are conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement shall 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 under the Trust Agreement for the Certificates executed and delivered on the Closing Date, as shall be necessary or appropriate, which supplemental agreement shall require that prior to the delivery of such Additional Certificates there shall be on deposit in the Reserve Fund established under the Trust Agreement or in a reserve fund established under such supplemental agreement an amount equal to the Reserve Requirement upon the execution and delivery of the Additional Certificates;

(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 will have been amended by the parties thereto if necessary to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Deposit 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 shall not prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement);

(d) The District and the Corporation will have determined that the Lease Payments to be paid by the District (including those evidenced by the Additional Certificates) do not exceed the fair rental value of the Property pursuant to the Lease.

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

(f) The Trustee will 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);

(g) The Trustee will 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);

(h) 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, shall 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), and (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);

(i) The District will have provided each rating agency then rating the Certificates written notice of the proposed execution and delivery of such Additional Certificates at the addresses indicated in the Trust Agreement and will receive a rating confirmation that the current rating or ratings of the Outstanding Certificates will not be reduced, withdrawn or suspended as a result of the execution and delivery of such Additional Certificates from each rating agency then rating the Certificates.

(j) There will 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;

(k) Upon the execution and delivery of such Additional Certificates, there will have been delivered to the Trustee cash or a Reserve Facility sufficient to increase the amount on deposit in the Reserve Fund, or a reserve fund established under the supplemental agreement, to the Reserve Requirement (calculated with respect to all Outstanding Certificates and Additional Certificates);

(l) Such other conditions will have been satisfied, and such other instruments will have been duly executed and delivered to the Trustee (with a copy to each rating agency then rating the Certificates), 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 shall 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 shall 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, shall be in the sole discretion of the District.

The Trustee

Indemnification. The District shall, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents, representatives 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 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 construction or acquisition of the Project or the expenditure of Project Costs; (vi) the exercise and performance by the Trustee of its powers and duties under the Trust Agreement or any related document; (vii) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates or this Agreement; (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; or (viii) the acceptance of administration of the trust or trusts under the Trust Agreement, including the costs and expenses of defending itself against any claim (whether asserted by the District, the Corporation, any Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties under the Trust Agreement. The indemnification set forth in the Trust Agreement shall extend to the Trustee's officers, directors, agents, representatives, employees, successors and assigns. No indemnification will be made under this Section or elsewhere in the Trust Agreement or other agreements for willful misconduct or negligence by the Trustee, its officers, agents, employees, successors or assigns. The District's obligations under the Trust Agreement shall remain valid and binding notwithstanding maturity and payment of the Certificates, or the resignation or removal of the Trustee.

Removal. The Insurer and, so long as there is no Event of Default, the District (with the prior consent of the Insurer), may remove the Trustee upon 30 days written notice initially appointed, and any successor thereto, and may appoint a successor or successors thereto.

Resignation. The Trustee may, upon prior written notice to the District, the Insurer, if any, and the Corporation, and so long as the Insurance Policy is in full force and effect to the Insurer, resign; provided that such resignation will not take effect until the successor Trustee is appointed. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee, subject to the written approval of the Insurer. In the event the District does not name a successor Trustee within 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.

Successor. Any successor Trustee will be a bank, association, corporation 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 and upon receipt of written approval of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). Upon such acceptance, the successor Trustee will mail notice thereof to the Owners at their respective addresses set forth on the Certificate registration books.

Funds; Pledge

The Trust Agreement creates (1) a Project Fund; (2) a Delivery Cost Fund, (3) a Prepayment Fund, (4) a Lease Payment Fund, (5) a Reserve Fund, and (6) a Net Proceeds Fund, to be held in trust by the Trustee.

The Project Fund. The moneys in the Project Fund will be expended for Project Costs. 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 by the Trustee of a Project Cost Requisition signed by the District Representative. The Trustee will be absolutely protected in making any disbursement from the Project Fund in reliance upon a Project Cost Requisition signed by the District Representative. Each such Project Cost Requisition 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.

Notwithstanding the foregoing, upon the occurrence of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Project Fund will not be disbursed without the Insurer's consent (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), but shall instead be applied to the payment of debt service or redemption of the Certificates.

The Delivery Cost Fund. The moneys in the Delivery Cost Fund will be used and withdrawn by the Trustee from time to time to pay the Delivery Costs upon submission of a Delivery Cost Requisition of the District stating (a) the person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Delivery Cost Fund, and (e) that such amounts have not been the subject of a prior Delivery Cost Requisition. On the earlier of (i) _____, 20__, or (ii) the date of receipt by the Trustee of a Delivery Cost Requisition therefor, all amounts (if any) remaining in the Delivery Cost Fund will be withdrawn therefrom by the Trustee and transferred to the Lease Payment Fund. Thereafter, the Delivery Cost Fund will be closed.

The Prepayment Fund. Moneys to be used for prepayment of the Certificates will be deposited into the Prepayment Fund and used solely for the purpose of prepaying the Certificates in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates to the Trustee. Any funds remaining in the Prepayment Fund after prepayment and payment of all Certificates Outstanding with respect to such Prepayment Fund, including payment of any applicable fees and expenses to the Trustee and any other Additional Payments payable under the Lease, or provision made thereof satisfactory to the Trustee, will be withdrawn by the Trustee and remitted to the District.

The Lease Payment Fund. Lease Payments and any proceeds from the re-letting or any other distribution of the Property pursuant to the Lease will be deposited in or credited to the Lease Payment Fund.

Amounts in the Lease Payment Fund must be used solely for the purpose of paying the principal and interest evidenced by the Certificates as the same become due and payable in accordance with the Trust Agreement, as follows: on each Certificate Payment Date, the Trustee first will set aside an amount sufficient to pay the interest evidenced by the Certificates becoming due and payable on such date, and mail 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.

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

The Net Proceeds Fund. Any Net Proceeds received by the District in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Property must be transferred to the Trustee and deposited by the Trustee in the Net Proceeds Fund.

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 for prepayment of all or part of the Certificates. Any balance of the Net Proceeds remaining in the Net Proceeds Fund after replacement or repair has been completed shall, with the prior written consent of the Insurer, be disbursed to the District. Any amounts remaining in the Net Proceeds Fund after payment or provision for payment of all Certificates, shall be paid to the District as provided in the Trust Agreement.

Proceeds of any policy of title insurance received by the Trustee with respect to the Property shall 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 shall 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 consent of the Insurer, immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates.

Security Interest in Moneys and Funds. The Corporation and the District, as their interests may appear, grant 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, including without limitation, the Lease Payment Fund, the Reserve Fund (including the Reserve Policy), the Prepayment 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 in the Trust Agreement and in the Lease.

Pledge of Lease Payments and Proceeds. The Lease Payments and any proceeds from the re-letting or any other disposition of the Property pursuant to the Lease (the "Lease Proceeds") are irrevocably pledged to and will be used for the punctual payment of the interest and principal represented by the Certificates, for reimbursement of draws under the Reserve Policy, and except for as permitted under the Trust Agreement with respect to Additional Certificates, the Lease Payments and Lease Proceeds will not be used for any other purpose while any of the Certificates remain Outstanding. This pledge will constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms of the Trust Agreement.

Reserve Fund

All moneys at any time on deposit in the Reserve Fund (including any Reserve Facility 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 on the Certificates and applied solely as provided in the Trust Agreement. On the Closing Date, there will be deposited in the Reserve Fund the Reserve Policy.

Reserve Replenishment Rent. Any Reserve Replenishment Rent payable pursuant to the Lease will be deposited in the Reserve Fund.

Transfers of Excess. The Trustee will, on or before February 15 and August 15 of each year, provide written notice to the District of any moneys which are estimated to be on hand in the Reserve Fund in excess of the Reserve Requirement on the next succeeding January 1 or July 1, as the case may be, and one Business Day 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 the partial Prepayment of Lease Payments the District may instruct the Trustee to reduce the cash amounts on deposit in the Reserve Fund to the Reserve Requirement as of such date and may direct the Trustee to transfer excess cash amounts from the Reserve Fund for any lawful purpose.

Application of Reserve Fund in Event of Deficiency in Lease Payment Fund. The District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Reserve Insurer and shall pay interest thereon from the date of payment by the Reserve Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (x) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 5%, and (ii) the then applicable highest rate of interest on the Certificates and (y) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Reserve Insurer shall specify. If the interest provisions of this subparagraph (a) 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 herein, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding hereunder to the extent that interest otherwise due hereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by the Reserve Insurer, with the same force and effect as if the District had specifically designated such extra sums to be so applied and the Reserve Insurer had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created herein 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.

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

Amounts in respect of Policy Costs paid to the Reserve Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Reserve 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. The obligation to pay Policy Costs shall be secured by a valid lien on all revenues and other collateral pledged as security for the Certificates (subject only to the priority of payment provisions set forth under the Trust Agreement).

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

If the District shall fail to pay any Policy Costs in accordance with the requirements above, Reserve Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Trust Agreement other than (i) acceleration of the maturity of the Certificates or (ii) remedies which would adversely affect owners of the Certificates.

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

The Corporation shall include any Policy Costs then due and owing the Reserve Insurer in the calculation of the additional bonds test and the rate covenant in the Trust Agreement.

The Trust Agreement shall require the Trustee to ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions above and to provide notice to the Reserve Insurer in accordance with the terms of the Reserve Policy at least five business days prior to each date upon which interest or principal is due on the Certificates. Where deposits are required to be made by the Corporation with the Trustee to the debt service fund for the Certificates more often than semi-annually, the Trustee shall be instructed to give notice to the Reserve Insurer of any failure of the Corporation to make timely payment in full of such deposits within two business days of the date due.

Moneys in Funds; Investment

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners and for the purposes specified in the Trust Agreement, 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.

Investment. Moneys held by the Trustee under the Trust Agreement 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. Notwithstanding anything to the contrary contained in the Trust Agreement, investments purchased with funds on deposit in the Reserve Fund should have an average aggregate weighted term to maturity of not greater than five years unless invested as permitted in the Trust Agreement pursuant to which funds may be withdrawn, without penalty, to make payments. Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement will be credited to the respective fund for which it is held, except as otherwise provided in the Trust Agreement.

Amendments Permitted

With Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time, with notice to any rating agency then rating the Certificates, by a supplemental agreement or amendment thereto which will become effective when the written consents of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided below, will be filed with the Trustee. No such modification or amendment will (1) 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 diminish the security afforded by the Insurance Policy without the prior written consent of the Owner of such Certificate and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy); or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement thereto without the prior written consent of the Owners of all Certificates then Outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy); or (3) modify any of the rights or obligations of the Trustee without its written assent thereto; or (4) amend the section of the Trust Agreement pertaining to amendments without the prior written consent of the Owners of all Certificates then outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). The Trustee will have the right to require such opinions of counsel as it deems necessary concerning (i) the lack of material adverse effect of the amendment on Owners; (ii) the amendment's effect on the tax status of interest, specifically that the amendment will not affect the tax status of interest with respect to the Certificates; and (iii) that such amendment is authorized or permitted under the terms of the Trust Agreement (and, if applicable, the Lease) and complies with the provisions of the Trust Agreement. Any such supplemental agreement or amendment will become effective as provided in the Trust Agreement.

Without Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement or amendments thereto, with the prior written consent of the Insurer, with notice to any rating agency then rating the Certificates, but without the consent of any such Owners, but only to the extent permitted by law and only: (1) to add to the covenants and agreements of the District and the Corporation under the Trust Agreement; (2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in the Lease; (3) in regard to matters arising under the Trust Agreement or the Lease, as the parties thereto may deem necessary or desirable and which will not adversely affect the interest of the Owners or the Insurer (unless the Insurer has consented, in writing, to such amendment); (4) to substitute the Property, or a portion thereof, in accordance with the Lease, with the consent of the Insurer ; (5) to add to the rights of the Trustee; or (6) to maintain the rating or ratings assigned to the Certificates; or (7) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement. No such modification or amendment, however, will modify any of the rights or obligations of the Trustee or the Insurer without their written assent thereto. Any such supplemental agreement will become effective upon execution and delivery by the parties thereto.

Limitation of Liability

Limited Liability of the District. Except for the payment of Lease Payments, Additional Payments, Reserve Replenishment Rent and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the District contained in the Trust Agreement 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 in the Trust Agreement, 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. The Trustee will have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates.

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 in the Trust Agreement or in the Certificates assigned to or imposed upon it. The Trustee will not be responsible for the sufficiency or enforceability of the Lease, Site Lease or 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.

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 under the Trust Agreement.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates 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.

Events of Default and Remedies

Remedies. If an Event of Default happens, 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; provided, however, that notwithstanding anything in the Trust Agreement 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; provided further that so long as the Insurer will not be in default in its payment obligations under the Insurance Policy, the Insurer will control all remedies upon an Event of Default.

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 of 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 Insurer or Owners in declaring such Event of Default and in performing its duties under the Trust Agreement, 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;

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, Insurer: to the extent not included in clauses First, Second or Third above, to the payment of all amounts then due to the Insurer and Reserve Insurer, as certified in writing to the Trustee.

Defeasance

If and when any Outstanding Certificates will be paid and discharged in any one or more of the following ways —

(1) Payment or Prepayment: by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(2) Cash: if prior to maturity and having given at least thirty (30) days' prior written notice of prepayment by depositing with the Trustee, in trust, concurrent with the giving of such notice, an amount of cash which (together with cash then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any; or

(3) Defeasance Securities: by irrevocably depositing with the Trustee, in trust, Defeasance Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon (and, in the event of payment or provision for payment of all Outstanding Certificates, moneys then on deposit in the Lease Payment Fund and the Reserve Fund together with the 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 under the Trust Agreement 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 paragraphs (2) and (3) 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 paragraphs (2) and (3) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in the Lease Payments under the Lease.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest with respect to the Certificates will be paid by the Insurer pursuant to the Insurance Policy, the Certificates will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the assignment and pledge of the Lease Payments and all covenants, agreements and other obligations of the District to the Owners will continue to exist and will run to the benefit of the Insurer, and the Insurer will be subrogated to the rights of such Owners.

Prior to any defeasance becoming effective under the Trust Agreement, the District will cause to be delivered at least five business days prior to any defeasance becoming effective (i) an executed copy of a report, addressed to the Trustee and the District, in form and substance acceptable to the District of a nationally recognized firm of certified public accountants, verifying that the Defeasance Securities and cash, if any, satisfy the requirements described above; (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, which escrow agreement will be in form and substance acceptable to the Insurer; and (iii) a copy of an Opinion of Special Counsel, dated the date of such defeasance and addressed to the Trustee, the District, and the Insurer in form and substance acceptable to the Trustee, the District and the Insurer, to the effect that such Certificates are no longer Outstanding under the Trust Agreement.

Notwithstanding the foregoing, if the defeasance is effected by means of a cash deposit only, the escrow deposit agreement referenced above shall not be necessary to effect such defeasance, though the other requirements above shall still apply.

Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to one of the procedures described in the Trust Agreement, 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, any amounts due and owing to the Insurer, and any other Additional Payments due under the Lease.

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 a Lease after a default), including, without limitation: (1) the right to receive and collect all of the Lease Payments, Additional Payments, Prepayments and Reserve Replenishment Rent 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, Reserve Replenishment Rent, and any other amounts required to be deposited in the Lease Payment Fund, the Prepayment Fund, the Reserve 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 be paid its fees and expenses for re-leasing 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, right, title and interest in the Property. The term of the Site Lease will commence as of the date of the Lease to the Site 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.

APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY

The Certificates are not obligations of the County of San Diego (the "County") and do not represent a lien or charge against any funds or property of the County. The following information is provided only to give prospective investors an overview of the general economic condition of the Lemon Grove School District (the "District") and the County. The following information has been obtained from 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 historical data and results presented in the tables that follow may differ materially from future results as a result of economic or other factors, including as a result of the impact of COVID-19. For more information on the impact of the COVID-19 pandemic, see "DISTRICT FINANCIAL INFORMATION – COVID-19 Outbreak and its Economic Impact" and "– Impact of COVID-19 on California School Districts" herein.

General

The County is located in the southwestern corner of the State of California and is bordered by the Pacific Ocean to the west, Orange and Riverside Counties to the north and Imperial County to the east. The County includes 70 miles of the Pacific Ocean coastline, the Anza-Borrego Desert in the eastern portion of the County, the Laguna Mountains and the San Diego Bay, one of the world's largest natural deep-water harbors. The County is the second-most populous county in California, the fifth-most populous county in the United States, and encompasses approximately 4,526 square miles.

Transportation

Transportation within and without the County is available by car, train, bus and air. Several interstate highways provide access to the County. Interstate Highway 5 runs parallel to the Pacific Coast from the Mexico border and runs north through the County and the State. Interstate Highway 15 provides access inland from the County northeast through Riverside, San Bernardino, Las Vegas and Salt Lake City, while Interstate Highway 8 runs east through the southern United States. In addition, several State routes provide access from the County to adjacent counties and other regions of the State.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown San Diego area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport, there are several general aviation airports located in the County, including McClellan-Palomar Airport in Carlsbad. Amtrak provides rail service through the County and local bus and light rail service is available in the City and provides connecting services between most cities in the County.

Education

The County has many higher education opportunities for residents as well as for students who travel from outside of the County to attend its universities. The County is home to three public state universities: University of California, San Diego; San Diego State University; and California State University, San Marcos; as well as four private universities: University of San Diego, Point Loma Nazarene University, Alliant International University, and National University. In addition, the County has 23 public elementary school districts, six high school districts, and 13 unified school districts providing kindergarten through twelfth grade educational services throughout the County. There are also five community college districts in the County.

Population

The following table summarizes the population of the cities, including the City, within the County and the County.

POPULATION
Cities of the County and the County of San Diego
Calendar Years 2017 through 2021

Area	2017	2018	2019	2020	2021[1]
Carlsbad	113,321	113,994	113,986	114,664	115,501
Chula Vista	266,427	268,588	271,362	273,384	274,449
Coronado	24,314	21,416	23,880	21,422	22,357
Del Mar	4,286	4,289	4,288	4,271	4,258
El Cajon	103,778	103,954	103,741	103,576	103,243
Encinitas	62,347	62,394	62,296	62,243	62,289
Escondido	150,798	151,068	151,311	151,803	151,688
Imperial Beach	27,528	27,599	27,869	27,978	27,774
La Mesa	59,965	60,057	59,833	59,621	59,578
Lemon Grove	26,609	26,575	26,515	26,432	26,345
National City	61,802	62,673	62,701	62,496	62,749
Oceanside	176,145	176,569	177,365	176,969	176,754
Poway	49,539	49,518	49,343	49,096	48,936
San Diego	1,400,582	1,416,956	1,421,675	1,421,462	1,411,034
San Marcos	94,081	95,032	96,865	97,281	96,302
Santee	56,245	56,450	57,308	57,430	56,800
Solana Beach	13,774	13,866	13,876	13,872	13,827
Vista	**102,136**	**102,498**	**102,277**	**102,570**	**103,268**
Balance Of County	509,689	507,622	506,828	504,709	498,252
Incorporated	2,793,677	2,813,496	2,826,491	2,826,570	2,826,570
County Total	3,303,366	3,321,118	3,333,319	3,331,279	3,315,404

(1) This report provides population estimates for January 1, 2011, through January 1, 2020, and provisional population estimates for January 1, 2021, for the state, counties, and cities.

Source*: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2021, with 2010 Census Benchmark. Sacramento, California, May 2021.*

Employment

The table below provides the California Employment Development Department's estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major industry in the County from calendar years 2016 through 2020.

WAGE AND SALARY EMPLOYMENT
County of San Diego
Calendar Years 2016 through 2020

Industry Category	2016	2017	2018	2019	2020
Mining and Logging	300	300	400	400	300
Construction	76,300	79,500	83,700	84,000	81,900
Transportation, Warehousing & Utilities	29,700	32,000	33,300	34,300	33,300
Financial Activities(1)	73,000	74,600	76,000	76,500	74,300
Professional & Business Services	234,700	239,100	249,000	255,700	247,700
Educational & Health Services	198,700	204,300	208,900	216,600	210,200
Leisure & Hospitality	190,400	195,600	199,600	201,700	144,900
Other Services	54,400	55,000	55,500	56,400	44,500
Manufacturing					
Durable Goods	81,200	81,500	83,700	86,300	85,600
Nondurable Goods	27,200	27,900	28,600	29,400	28,300
Total Manufacturing	108,400	109,400	112,300	115,700	113,800
Trade, Transportation & Utilities					
Wholesale Trade	43,700	43,800	43,800	44,000	41,000
Retail Trade	147,500	149,000	148,000	145,800	134,200
Total Trade	220,900	224,700	225,100	224,200	208,500
Government					
Federal Government	46,800	46,900	47,100	47,600	48,700
State & Local Government	195,500	199,400	201,000	201,000	188,400
Total Government	242,200	246,300	248,100	248,600	237,100
Total Farm	8,900	8,700	9,300	9,700	9,200
Total Nonfarm	1,422,600	1,452,300	1,482,200	1,503,200	1,385,300
Total, All Industries	1,431,500	1,461,000	1,491,500	1,512,900	1,394,500

(1) Includes finance, insurance, and real estate.

Source: *State of California Employment Development Department, Labor Market Information Division, Employment by Industry Data based on March 2020 benchmark.*

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The following table summarizes the labor force, employment and unemployment figures for the County, the State and the United States from 2016 through 2020.

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT[1]
County of San Diego, State of California and United States
2016 through 2020

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate[2]
2016				
San Diego County	1,563,200	1,489,100	74,100	4.7%
California	19,012,000	17,965,400	1,046,600	5.5
United States	159,187,000	151,436,000	7,751,000	4.9
2017				
San Diego County	1,571,900	1,508,200	63,600	4.0%
California	19,173,800	18,246,800	927,000	4.8
United States	160,320,000	153,337,000	6,982,000	4.4
2018				
San Diego County	1,579,700	1,526,300	53,400	3.4%
California	19,263,900	18,442,400	821,500	4.3
United States	162,075,000	155,761,000	6,314,000	3.9
2019				
San Diego County	1,580,100	1,528,300	51,800	3.3%
California	19,353,700	18,550,500	803,200	4.2
United States	163,539,000	157,538,000	6,001,000	3.7
2020				
San Diego County	1,538,400	1,396,500	141,800	9.2%
California	18,821,200	16,913,100	1,908,100	10.1
United States	160,742,000	147,795,000	12,947,000	8.1

(1) Labor force data for all geographic areas for 1990 to 2021 now reflect the March 2020 annual revision (or benchmark) and Census 2014 population controls at the state level.
(2) Unemployment rate is calculated using unrounded data.

Source: *California State Employment Development Department and U.S. Department of Labor.*

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Personal Income

The following tables show the personal income and per capita personal income for the County, the State and United States from 2016 through 2020.

PERSONAL INCOME
County of San Diego, State of California, and United States
2016-2020
(Dollars in Thousands)

Year	County	State	United States
2016	$181,985,201	$2,218,458,000	$16,092,713,000
2017	188,526,586	2,318,644,000	16,845,028,000
2018	195,679,529	2,431,822,000	17,681,159,000
2019	202,642,332	2,544,235,000	18,402,004,000
2020	220,825,596	2,763,312,000	19,607,447,000

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

PER CAPITA PERSONAL INCOME[(1)]
County of San Diego, State of California, and United States
2016-2020

Year	County	State	United States
2016	$55,056	$56,667	$49,812
2017	56,802	58,942	51,811
2018	58,719	61,663	54,098
2019	60,845	64,513	56,047
2020	66,266	70,192	59,510

(1) Per capita personal income is the total personal income divided by the total midyear population estimates of the U.S. Bureau of the Census. All dollar estimates are not adjusted for inflation.
Source*: U.S. Department of Commerce, Bureau of Economic Analysis.*

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Major Employers

The following table sets forth the ten largest employers in the County in 2021.

MAJOR EMPLOYERS
County of San Diego
2021

Employer	Number of Employees	Percentage of Total County Employment
U.C. San Diego	35,802	2.52%
Sharp Healthcare	19,468	1.37
County of San Diego	17,954	1.26
City of San Diego	11,820	0.83
General Atomics (and affiliated companies)	6,745	0.47
San Diego State University	6,454	0.45
Rady Children's Hospital San Diego	5,711	0.40
San Diego Community College District	5,400	0.38
Sempra Energy	5,063	0.36
YMCA of San Diego County	5,057	0.36
Total	119,474	8.40

Source*: County of San Diego 'Comprehensive Annual Financial Report' for the year ending June 30, 2021.*

Commercial Activity

A summary of taxable sales within the County from 2016 through 2020, the most recent data available, is shown in the following table.

TAXABLE SALES
County of San Diego
2016-2020
(Dollars in Thousands)

Year	Retail and Food Permits	Retail and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2016	58,391	$39,089,506.19	95,326	$55,921,010.12
2017	59,798	40,371,714.60	97,412	57,551,359.51
2018	59,836	41,886,824.90	100,674	59,041,041.69
2019	59,447	42,816,938.43	101,901	61,365,277.20
2020	62,897	40,893,920.99	109,428	58,183,066.55

Source*: California Department of Tax and Fee Administration, Taxable Sales - Counties by Type of Business (Taxable Table 3), April 2021.*

Building Activity

In addition to annual building permit valuations, the numbers of permits for new dwelling units issued each year from 2016 through 2020 are shown in the following tables for the County.

BUILDING PERMIT VALUATIONS
San Diego County
2016-2020
(Dollars in Thousands)

Permit Type	2016	2017	2018	2019	2020
Residential	$2,472,237	$2,632,826	$2,680,400	$2,084,655	$2,647,919
Non-Residential	1,782,421	2,371,303	1,896,378	2,359,541	1,973,800
Total	$4,254,658	$5,004,128	$4,576,778	$4,444,196	$4,621,719
Units					
Single Family	2,420	3,960	3,421	3,045	3,160
Multiple Family	7,680	6,056	6,190	4,405	6,326
Total	10,100	10,016	9,611	7,450	9,486

Note: Totals may not add to sum because of rounding.
Source: *Construction Industry Research Board.*

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APPENDIX C

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

[closing date]

Board of Education
Lemon Grove School District
Lemon Grove, California

Re: $___________ 2022 Certificates of Participation Evidencing the Fractional Interests of the Owners thereof in Lease Payments to be Made by the Lemon Grove School District (San Diego, California) (Federally Taxable)

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Lemon Grove School District (the "District") in connection with the authorization, execution and delivery by the District of that certain Lease Agreement, dated as of August 1, 2022 (the "Lease"), by and between the Public Property Financing Corporation of California (the "Corporation") and the District. We have also reviewed that certain Trust Agreement, dated as of August 1, 2022 (the "Trust Agreement"), by and among U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), the Corporation and the District. All capitalized terms used herein shall have the meaning given them in the Trust Agreement unless otherwise defined.

Pursuant to the Trust Agreement, the Trustee will execute and deliver the $________ 2022 Certificates of Participation (the "Certificates") evidencing undivided proportionate interests of the owners of the Certificates in lease payments (the "Lease Payments") to be made by the District pursuant to the Lease. Pursuant to that certain Assignment Agreement, dated as of August 1, 2022 (the "Assignment Agreement"), the Corporation has assigned to the Trustee the Corporation's right to receive Lease Payments and certain other amounts paid by the District under the Lease.

The Certificates are dated their date of delivery. The Certificates mature on the dates and in the amounts set forth in the Trust Agreement. Interest due with respect to the Certificates is payable on the dates and at the rates per annum set forth in the Trust Agreement. The Certificates are registered Certificates in the form set forth in the Trust Agreement and are subject to optional and extraordinary prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreement.

In rendering the opinions set forth below, we have examined certified copies of the proceedings of the District and the Corporation, and other information submitted to us relative to the execution and delivery of the Certificates. We have examined originals, or copies identified to our satisfaction as being true copies, of the Trust Agreement, the Lease, the Site Lease, dated August 1, 2022 (the "Site Lease"), by and between the Corporation and the District, the resolutions of the District and the Corporation adopted with respect to the Certificates, and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraph of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement and the Lease.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The District is duly organized and legally existing under the laws of the State of California.

(2) The obligation of the District to pay Lease Payments in accordance with the terms of the Lease is a legal, valid and binding obligation payable from the funds of the District lawfully available therefor, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against school districts in the State of California. The obligation of the District to make Lease Payments under the Lease does not constitute a debt of the District, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the District, the State of California or any political subdivision thereof.

(3) The Lease, the Site Lease and the Trust Agreement have been duly authorized, executed and delivered by the District and constitute valid and legally binding agreements of the District enforceable against the District in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against school districts in the State of California, except that we express no opinion as to any provisions in the Lease or the Trust Agreement with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(4) Interest with respect to the Certificates is exempt from personal income taxes of the State of California.

Ownership of tax-exempt obligations such as the Certificates may result in collateral tax consequences. The nature and extent of these other tax consequences will depend upon the particular tax status of the owner of the Certificates or such owner's other items of income or deduction. We express no opinion with respect to any federal, state, or local tax consequences, under present law or any proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease, the Site Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. 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 not taken) or do occur (or do not occur). Our engagement as Special Counsel terminates upon the execution and delivery of the Certificates.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Preliminary Official Statement relating to the Certificates or other offering material relating to the Certificates and expressly disclaim any duty to advise the owners of the Certificates with respect to matters contained in the Preliminary Official Statement.

Respectfully submitted,

DANNIS WOLIVER KELLEY

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APPENDIX D

DISTRICT'S AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2021

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Lemon Grove School District

AUDIT REPORT
June 30, 2021

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

OTHER INDEPENDENT AUDITORS' REPORTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Lemon Grove School District
Lemon Grove, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lemon Grove School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Lemon Grove 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 each major fund and the aggregate remaining fund information of Lemon Grove School District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

Change in Accounting Principle

As described in Note 1 and Note 15 to the basic financial statements, the Lemon Grove School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, which established accounting and financial reporting standards for the identification and reporting of fiduciary activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in net OPEB liability and related ratios, schedule of District contributions and investment returns for OPEB, 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 Lemon Grove School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 January 28, 2022 on our consideration of Lemon Grove School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lemon Grove School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lemon Grove School District's internal control over financial reporting and compliance.

Christy White, Inc.

San Diego, California
January 28, 2022

INTRODUCTION

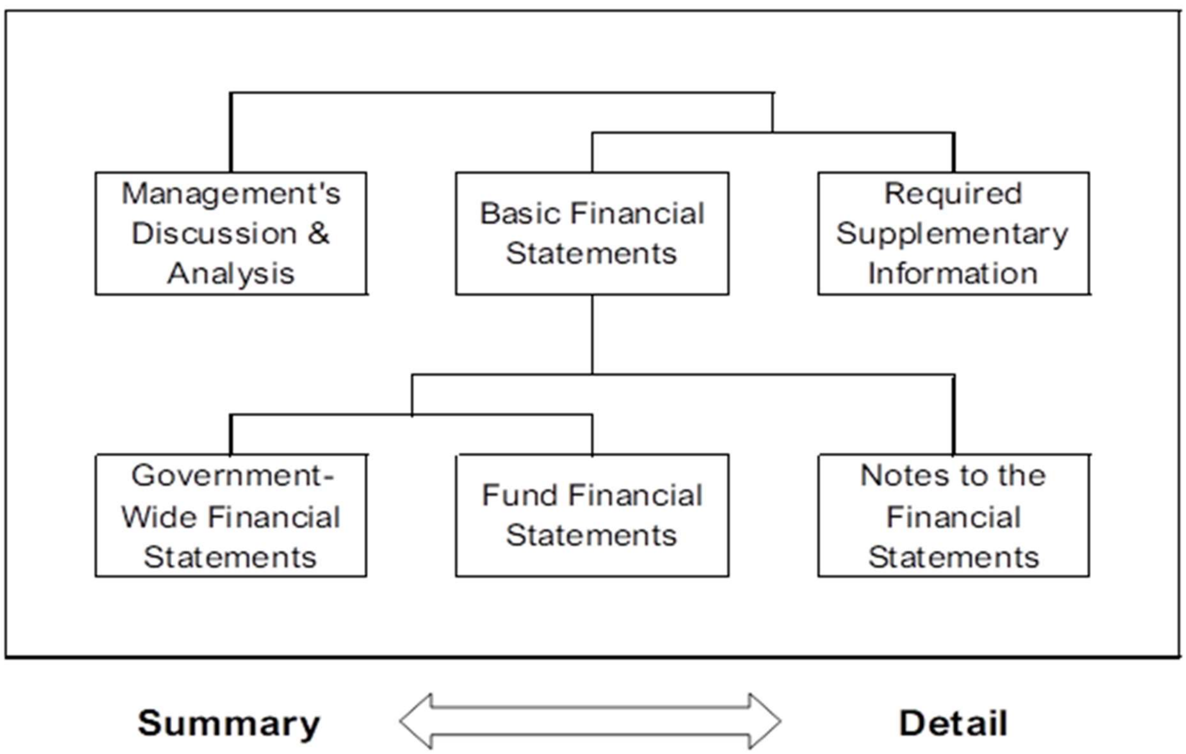
Our discussion and analysis of Lemon Grove School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2021. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's combined net position was $(8,167,961) at June 30, 2021. This was an increase of $133,310 from the prior year, after restatement. This includes a net position of $(8,176,163) related to governmental activities and $8,202 related to business-type activities.
- Overall combined revenues were $56,914,340 which exceeded overall combined expenses of $56,781,030.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financial Section



OVERVIEW OF FINANCIAL STATEMENTS (continued)

Components of the Financial Section (continued)

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.

    - **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.

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 combined net position was $(8,167,961) at June 30, 2021, as reflected in the table below. Of this amount, $(47,367,597) 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			Business-Type Activities		
	2021	2020	Net Change	2021	2020	Net Change
ASSETS						
Current and other assets	$ 53,341,316	$ 36,906,183	$ 16,435,133	$ 9,515	$ 8,568	$ 947
Capital assets	41,425,291	40,598,423	826,868	-	-	-
Total Assets	94,766,607	77,504,606	17,262,001	9,515	8,568	947
DEFERRED OUTFLOWS OF RESOURCES	12,583,122	13,303,707	(720,585)	-	-	-
LIABILITIES						
Current liabilities	17,409,582	7,731,255	9,678,327	1,313	-	1,313
Long-term liabilities	91,717,070	83,259,220	8,457,850	-	-	-
Total Liabilities	109,126,652	90,990,475	18,136,177	1,313	-	1,313
DEFERRED INFLOWS OF RESOURCES	6,399,240	8,526,324	(2,127,084)	-	-	-
NET POSITION						
Net investment in capital assets	17,885,040	18,129,439	(244,399)	-	-	-
Restricted	21,314,596	7,771,094	13,543,502	-	-	-
Unrestricted	(47,375,799)	(34,609,019)	(12,766,780)	8,202	8,568	(366)
Total Net Position	$ (8,176,163)	$ (8,708,486)	$ 532,323	$ 8,202	$ 8,568	$ (366)

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 the amount so that you can see our total revenues and expenses for the year.

	Governmental Activities			Business-Type Activities		
	2021	2020	Net Change	2021	2020	Net Change
REVENUES						
Program revenues						
Charges for services	$ 1,296,037	$ 1,452,217	$ (156,180)	$ 829	$ -	$ 829
Operating grants and contributions	15,946,211	8,394,628	7,551,583	-	-	-
General revenues						
Property taxes	11,135,787	10,419,246	716,541	-	-	-
Unrestricted federal and state aid	26,923,607	29,793,842	(2,870,235)	-	-	-
Other	1,611,751	1,465,281	146,470	118	171	(53)
Total Revenues	56,913,393	51,525,214	5,388,179	947	171	776
EXPENSES						
Instruction	32,656,802	28,626,767	4,030,035	-	-	-
Instruction-related services	4,448,545	4,138,814	309,731	-	-	-
Pupil services	4,692,861	4,852,033	(159,172)	-	-	-
General administration	5,291,360	4,037,168	1,254,192	-	-	-
Plant services	4,199,745	3,516,953	682,792	-	-	-
Ancillary and community services	1,113,665	1,060,637	53,028	-	-	-
Debt service	2,100,602	2,158,986	(58,384)	-	-	-
Other outgo	136,354	96,780	39,574	-	-	-
Depreciation	2,139,783	2,098,495	41,288	-	-	-
Other	-	-	-	1,313	-	1,313
Total Expenses	56,779,717	50,586,633	6,193,084	1,313	-	1,313
Change in net position	133,676	938,581	(804,905)	(366)	171	(537)
Net Position - Beginning, as Restated*	(8,309,839)	(9,647,067)	1,337,228	8,568	8,397	171
Net Position - Ending	$ (8,176,163)	$ (8,708,486)	$ 532,323	$ 8,202	$ 8,568	$ (366)

**Beginning net position was restated for the 2021 year only.*

The cost of all our governmental activities this year was $56,779,717 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only $11,135,787 because a portion of 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	
	2021	**2020**
Instruction	$ 22,669,651	$ 23,497,653
Instruction-related services	3,578,240	3,544,622
Pupil services	862,829	2,307,979
General administration	4,827,504	3,830,229
Plant services	2,643,804	2,829,564
Ancillary and community services	630,305	403,772
Debt service	2,100,602	2,158,986
Transfers to other agencies	84,751	68,488
Depreciation	2,139,783	2,098,495
Total	$ 39,537,469	$ 40,739,788

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 $39,399,391 which is more than this year's restated beginning fund balance of $36,780,460. The District's General Fund had $1,536,367 more in operating revenues than expenditures for the year ended June 30, 2021, but experienced an overall decrease in fund balance of $2,139,922 due to net financing uses in the amount of $3,676,289. The Special Reserve Fund for Capital Outlay Projects experienced an overall increase in fund balance of $4,516,398 primarily due to a $4,095,000 transfer received from the General Fund.

CURRENT YEAR BUDGET 2020-2021

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a periodic 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 ASSETS AND LONG-TERM LIABILITIES

Capital Assets

By the end of 2020-2021 the District had invested $41,425,291 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2021	2020	Net Change
CAPITAL ASSETS			
Land	$ 333,932	$ 333,932	$ -
Construction in progress	980,316	757,324	222,992
Land improvements	8,820,290	7,481,516	1,338,774
Buildings & improvements	52,215,966	51,193,146	1,022,820
Furniture & equipment	8,572,178	8,190,113	382,065
Accumulated depreciation	(29,497,391)	(27,357,608)	(2,139,783)
Total Capital Assets	$ 41,425,291	$ 40,598,423	$ 826,868

Long-Term Liabilities

At year-end, the District had $91,717,070 in long-term liabilities, an increase of 4.68% 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		
	2021	2020	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	$ 41,185,054	$ 41,889,506	$ (704,452)
Capital leases	371,890	-	371,890
Early retirement incentive	1,769,972	-	1,769,972
Compensated absences	216,930	309,172	(92,242)
Net OPEB liability	2,441,437	2,845,000	(403,563)
Net pension liability	48,638,807	44,859,209	3,779,598
Less: current portion of long-term liabilities	(2,907,020)	(2,288,197)	(618,823)
Total Long-term Liabilities	$ 91,717,070	$ 87,614,690	$ 4,102,380

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.

In its March 2021 and June 2021 quarterly reports, the UCLA Anderson Forecast anticipated a robust recovery from the COVID-19–induced recession that began in March 2020. However, in its September 2021 quarterly report, hopes for blockbuster economic growth have been tempered by the spread of the COVID-19 delta variant and stagnating vaccination rates, which in turn have led to consumer caution and supply constraints. As a result, what could have been a couple of years of blockbuster economic performance will now likely feature solid but unspectacular growth. The economy is currently down 5.3 million payroll jobs from its pre-COVID peak, and there is little evidence to suggest that the expiration of enhanced unemployment benefits will lead to a surge in job applications.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

Fiscal policy for the funding of public education changes annually based on fluctuations in State revenues. Governor Gavin Newsom's "California Comeback Plan" includes a mix of ongoing and one-time investments of $100 billion made possible by an unanticipated surge in state revenues and robust federal stimulus funding.

Landmark legislation passed in year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). 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.

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.

The May 2021 Budget Revision provides additional funding to further reduce the funding deferrals that were included in the 2020-21 Enacted Budget. The Governor's Budget in January proposed paying down $9.2 billion of the K–12 deferrals. The May 2021 Budget Revision proposes paying down an additional $1.1 billion, leaving a balance of $2.6 billion at the end of the 2021–22 fiscal year.

The District participates in state employee pensions plans, California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2021. The amount of the liability is material to the financial position of the District. Beginning in 2021-22, the CalSTRS Board has limited authority to increase or decrease rates by a maximum of 1% annually (not to exceed 20.25% of creditable compensation), the projected employer contribution rate for 2021-22 is 16.92%. The CalPERS Board adopted an employer contribution rate of 22.91% for 2021-22. The projected increased pension costs to school employers remain a significant fiscal factor.

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 2021-22 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 Lemon Grove School District Business Office at (619) 825-5600.

LEMON GROVE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 35,057,226	$ 8,671	$ 35,065,897
Accounts receivable	18,109,187	844	18,110,031
Inventory	174,903	-	174,903
Capital assets, not depreciated	1,314,248	-	1,314,248
Capital assets, net of accumulated depreciation	40,111,043	-	40,111,043
Total Assets	94,766,607	9,515	94,776,122
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	11,310,123	-	11,310,123
Deferred outflows related to OPEB	1,272,999	-	1,272,999
Total Deferred Outflows of Resources	12,583,122	-	12,583,122
LIABILITIES			
Accrued liabilities	3,946,275	1,313	3,947,588
Unearned revenue	10,556,287	-	10,556,287
Long-term liabilities, current portion	2,907,020	-	2,907,020
Long-term liabilities, non-current portion	91,717,070	-	91,717,070
Total Liabilities	109,126,652	1,313	109,127,965
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	2,330,286	-	2,330,286
Deferred inflows related to OPEB	4,068,954	-	4,068,954
Total Deferred Inflows of Resources	6,399,240	-	6,399,240
NET POSITION			
Net investment in capital assets	17,885,040	-	17,885,040
Restricted:			
Capital projects	8,333,278	-	8,333,278
Debt service	2,712,590	-	2,712,590
Educational programs	2,732,740	-	2,732,740
Food service	2,126,606	-	2,126,606
Associated student body	12,775	-	12,775
PRSP Section 115 trust	5,396,607	-	5,396,607
Unrestricted	(47,375,799)	8,202	(47,367,597)
Total Net Position	$ (8,176,163)	$ 8,202	$ (8,167,961)

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

LEMON GROVE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	$ 32,656,802	$ 21,063	$ 9,966,088	$ (22,669,651)		
Instruction-related services						
Instructional supervision and administration	1,567,036	17,838	510,803	(1,038,395)		
Instructional library, media, and technology	224,445	-	4,496	(219,949)		
School site administration	2,657,064	-	337,168	(2,319,896)		
Pupil services						
Home-to-school transportation	359,774	-	101,335	(258,439)		
Food services	2,339,060	-	3,268,149	929,089		
All other pupil services	1,994,027	870	459,678	(1,533,479)		
General administration						
Centralized data processing	768,784	-	98,543	(670,241)		
All other general administration	4,522,576	15,457	349,856	(4,157,263)		
Plant services	4,199,745	829,872	726,069	(2,643,804)		
Ancillary services	1,113,665	410,937	72,423	(630,305)		
Interest on long-term debt	2,100,602	-	-	(2,100,602)		
Other outgo	136,354	-	51,603	(84,751)		
Depreciation (unallocated)	2,139,783	-	-	(2,139,783)		
Total Governmental Activities	$ 56,779,717	$ 1,296,037	$ 15,946,211	(39,537,469)		
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	1,313	829	-		$ (484)	
Total Business-Type Activities	1,313	829	-		(484)	
Total School District	$ 56,781,030	$ 1,296,866	$ 15,946,211			$ (39,537,953)
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes				7,884,597	-	7,884,597
Property taxes, levied for debt service				3,197,546	-	3,197,546
Property taxes, levied for other specific purposes				53,644	-	53,644
Federal and state aid not restricted for specific purposes				26,923,607	-	26,923,607
Interest and investment earnings				1,052,528	118	1,052,646
Miscellaneous				559,223	-	559,223
Subtotal, General Revenue				39,671,145	118	39,671,263
CHANGE IN NET POSITION				133,676	(366)	133,310
Net Position - Beginning, as Restated				(8,309,839)	8,568	(8,301,271)
Net Position - Ending				$ (8,176,163)	$ 8,202	$ (8,167,961)

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

LEMON GROVE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2021

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 18,754,185	$ 5,166,773	$ 10,960,589	$ 34,881,547
Accounts receivable	16,990,104	4,748	1,079,931	18,074,783
Due from other funds	461,393	1,700,000	63,164	2,224,557
Stores inventory	141,048	-	33,855	174,903
Total Assets	$ 36,346,730	$ 6,871,521	$ 12,137,539	$ 55,355,790
LIABILITIES				
Accrued liabilities	$ 3,036,399	$ -	$ 150,216	$ 3,186,615
Due to other funds	1,762,065	-	451,432	2,213,497
Unearned revenue	10,476,081	43,189	37,017	10,556,287
Total Liabilities	15,274,545	43,189	638,665	15,956,399
FUND BALANCES				
Nonspendable	161,048	-	34,055	195,103
Restricted	7,554,489	6,828,332	11,464,819	25,847,640
Committed	2,893,041	-	-	2,893,041
Assigned	8,878,463	-	-	8,878,463
Unassigned	1,585,144	-	-	1,585,144
Total Fund Balances	21,072,185	6,828,332	11,498,874	39,399,391
Total Liabilities and Fund Balances	$ 36,346,730	$ 6,871,521	$ 12,137,539	$ 55,355,790

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

LEMON GROVE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2021

Total Fund Balance - Governmental Funds		$ 39,399,391
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	$ 70,922,682	
Accumulated depreciation	(29,497,391)	41,425,291
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:		(712,365)
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	$ 41,185,054	
Capital leases	371,890	
Early retirement incentive	1,769,972	
Compensated absences	216,930	
Net OPEB liability	2,441,437	
Net pension liability	48,638,807	(94,624,090)
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	$ 11,310,123	
Deferred inflows of resources related to pensions	(2,330,286)	8,979,837
Deferred outflows and inflows of resources relating to OPEB:		
In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported.		
Deferred outflows of resources related to OPEB	$ 1,272,999	
Deferred inflows of resources related to OPEB	(4,068,954)	(2,795,955)

(continued on the following page)

Internal service funds:		
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:		151,728
Total Net Position - Governmental Activities	$	(8,176,163)

LEMON GROVE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	$ 34,042,524	$ -	$ -	$ 34,042,524
Federal sources	5,599,120	-	3,413,990	9,013,110
Other state sources	5,394,001	-	1,800,708	7,194,709
Other local sources	4,157,682	421,398	3,567,683	8,146,763
Total Revenues	49,193,327	421,398	8,782,381	58,397,106
EXPENDITURES				
Current				
Instruction	30,610,810	-	823,219	31,434,029
Instruction-related services				
Instructional supervision and administration	1,334,193	-	196,749	1,530,942
Instructional library, media, and technology	194,311	-	-	194,311
School site administration	2,600,682	-	-	2,600,682
Pupil services				
Home-to-school transportation	322,942	-	-	322,942
Food services	702	-	2,163,004	2,163,706
All other pupil services	1,778,340	-	137,524	1,915,864
General administration				
Centralized data processing	677,815	-	-	677,815
All other general administration	4,742,456	-	207,137	4,949,593
Plant services	3,501,621	-	191,344	3,692,965
Facilities acquisition and maintenance	705,529	-	2,026,857	2,732,386
Ancillary services	1,009,884	-	3,426	1,013,310
Transfers to other agencies	136,354	-	-	136,354
Debt service				
Principal	41,321	-	1,122,389	1,163,710
Interest and other	-	-	1,662,777	1,662,777
Total Expenditures	47,656,960	-	8,534,426	56,191,386
Excess (Deficiency) of Revenues Over Expenditures	1,536,367	421,398	247,955	2,205,720
Other Financing Sources (Uses)				
Transfers in	5,500	4,095,000	-	4,100,500
Other sources	413,211	-	-	413,211
Transfers out	(4,095,000)	-	(5,500)	(4,100,500)
Net Financing Sources (Uses)	(3,676,289)	4,095,000	(5,500)	413,211
NET CHANGE IN FUND BALANCE	(2,139,922)	4,516,398	242,455	2,618,931
Fund Balance - Beginning, as Restated	23,212,107	2,311,934	11,256,419	36,780,460
Fund Balance - Ending	$ 21,072,185	$ 6,828,332	$ 11,498,874	$ 39,399,391

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

LEMON GROVE 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, 2021

Net Change in Fund Balances - Governmental Funds			$ 2,618,931
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:	$ 2,966,651	
	Depreciation expense:	(2,139,783)	826,868
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:			1,163,710
Debt proceeds:			
In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:			(413,211)
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:			(19,888)
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.			(550,751)

(continued on the following page)

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:		92,242
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:		520,313
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:		(2,489,849)
Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:		(1,769,972)
Amortization of debt issuance premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is:		132,814
Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:		22,469
Change in Net Position of Governmental Activities	$	133,676

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

LEMON GROVE SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2021

	Business-Type Activities Enterprise Fund	Governmental Activities Self-Insurance Fund
ASSETS		
Current assets		
Cash and investments	$ 8,671	$ 175,679
Accounts receivable	844	34,404
Total current assets	9,515	210,083
Total Assets	9,515	210,083
LIABILITIES		
Current liabilities		
Accrued liabilities	1,313	47,295
Due to other funds	-	11,060
Total current liabilities	1,313	58,355
Total Liabilities	1,313	58,355
NET POSITION		
Restricted	8,202	151,728
Total Net Position	$ 8,202	$ 151,728

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

LEMON GROVE SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	Business-Type Activities Enterprise Fund	Governmental Activities Self-Insurance Fund
OPERATING REVENUES		
Charges for services	$ 829	$ 368,677
Total operating revenues	829	368,677
OPERATING EXPENSES		
Salaries and benefits	1,313	-
Professional services	-	348,281
Total operating expenses	1,313	348,281
Operating income/(loss)	(484)	20,396
NON-OPERATING REVENUES/(EXPENSES)		
Interest income	118	2,073
Total non-operating revenues/(expenses)	118	2,073
CHANGE IN NET POSITION	(366)	22,469
Net Position - Beginning	8,568	129,259
Net Position - Ending	$ 8,202	$ 151,728

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

LEMON GROVE SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

	Business-Type Activities Enterprise Fund	Governmental Activities Self-Insurance Fund
Cash flows from operating activities		
Cash received from user charges	$ 829	$ 368,677
Cash received (paid) from assessments made to (from) other funds	(808)	821
Cash payments for payroll, insurance, and operating costs	-	(332,251)
Net cash provided by (used for) operating activities	21	37,247
Cash flows from investing activities		
Interest received	118	2,073
Net cash provided by (used for) investing activities	118	2,073
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	139	39,320
CASH AND CASH EQUIVALENTS		
Beginning of year	8,532	136,359
End of year	$ 8,671	$ 175,679
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income/(loss)	$ (484)	$ 20,396
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables	(808)	821
Increase (decrease) in accrued liabilities	1,313	14,107
Increase (decrease) in due to other funds	-	1,923
Net cash provided by (used for) operating activities	$ 21	$ 37,247

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Lemon Grove School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual.* The accounting policies of the District conform to 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-8 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. 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.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its proprietary funds. Separate statements for each fund category – governmental and proprietary – 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fund Financial Statements. (continued)
Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

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: 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:

Student Activity Fund: This fund may be used to account for student body activities that do not meet the fiduciary criteria established in GASB Statement No. 84.

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).

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections* 38090–38093). 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).

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).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Project Funds: (continued)

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).

State School Building Lease-Purchase Fund: This fund is used primarily to account separately for state apportionments for the reconstruction, remodeling, or replacing of existing school buildings or the acquisition of new school sites and buildings, as provided in the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (*Education Code* Section 17000 et seq.).

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

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.

Proprietary Funds

Enterprise Fund: This fund is used to account for an activity for which a fee is charged to external users for goods or services.

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section* 17566).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus

Government-Wide and Proprietary Fund Financial Statements
The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

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 reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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.

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. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

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.

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)

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 and Improvements	20 – 50 years
Furniture and Equipment	5 – 15 years
Vehicles	5 – 15 years

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

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)

Postemployment Benefits Other Than Pensions (OPEB)
For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 – June 30, 2020

Gains and losses related to changes in net OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented 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. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement was postponed by GASB Statement No. 95 and is effective for periods beginning after December 15, 2019. The District has implemented this Statement as of June 30, 2021.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement was postponed by GASB Statement No. 95 and is effective for periods beginning after June 15, 2021. The District has not yet determined the impact on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. This standard's primary objectives are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The statement was postponed by GASB Statement No. 95 and is effective for periods beginning after December 15, 2021. The District has not yet determined the impact on the financial statements.

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. This standard's primary objectives are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. A portion of this statement was effective upon issuance, while the majority of this statement was postponed by GASB Statement No. 95 and is effective for periods beginning after June 15, 2021. The District has implemented the requirements that were effective upon issuance but has not yet determined the impact on the financial statements for the requirements of this statement that are not yet effective.

GASB Statement No. 97 – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This standard's primary objectives are to increase consistency and comparability related to reporting fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The statement is effective for periods beginning after June 15, 2021. The District has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Fund	Governmental Activities	Business-Type Activities
Investment in county treasury	$ 29,343,733	$ 174,948	$ 29,518,681	$ 8,635
Fair market value adjustment	108,232	731	108,963	36
Cash on hand and in banks	12,775	-	12,775	-
Cash with fiscal agent	5,396,607	-	5,396,607	-
Cash in revolving fund	20,200	-	20,200	-
Total	$ 34,881,547	$ 175,679	$ 35,057,226	$ 8,671

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 Diego 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.

Cash with Fiscal Agent – The District has established a Section 115 trust with Public Agency Retirement Services (PARS) as part of a pension rate stabilization program (PRSP).

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 $29,636,315, which is equal to the adjusted book value as of June 30, 2021. The average weighted maturity for this pool is 613 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, 2021, the pooled investments in the County Treasury were rated at least A.

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, 2021, 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 Diego County Treasury Investment Pool and the PARS PRSP trust 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, 2021 were as follows:

	Uncategorized
Investment in county treasury	$ 29,636,315
PARS PRSP trust account	5,396,607
Total	$ 35,032,922

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2021 consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Governmental Activities	Business-Type Activities
Federal Government						
Categorical aid	$ 10,216,762	$ -	$ 751,078	$ -	$ 10,967,840	$ -
State Government						
Apportionment	3,278,083	-	-	-	3,278,083	-
Categorical aid	2,094,081	-	313,593	-	2,407,674	-
Lottery	234,713	-	-	-	234,713	-
Local Government						
Other local sources	1,166,465	4,748	15,260	34,404	1,220,877	844
Total	$ 16,990,104	$ 4,748	$ 1,079,931	$ 34,404	$ 18,109,187	$ 844

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	Balance July 01, 2020	Additions	Deletions	Balance June 30, 2021
Governmental Activities				
Capital assets not being depreciated				
Land	$ 333,932	$ -	$ -	$ 333,932
Construction in progress	757,324	980,316	757,324	980,316
Total Capital Assets not Being Depreciated	1,091,256	980,316	757,324	1,314,248
Capital assets being depreciated				
Land improvements	7,481,516	1,338,774	-	8,820,290
Buildings & improvements	51,193,146	1,022,820	-	52,215,966
Furniture & equipment	8,190,113	382,065	-	8,572,178
Total Capital Assets Being Depreciated	66,864,775	2,743,659	-	69,608,434
Less Accumulated Depreciation				
Land improvements	2,689,128	310,514	-	2,999,642
Buildings & improvements	19,542,077	1,180,011	-	20,722,088
Furniture & equipment	5,126,403	649,258	-	5,775,661
Total Accumulated Depreciation	27,357,608	2,139,783	-	29,497,391
Governmental Activities				
Capital Assets, net	$ 40,598,423	$ 1,584,192	$ 757,324	$ 41,425,291

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2021 were as follows:

	Due From Other Funds			
Due To Other Funds	**General Fund**	**Special Reserve Fund for Capital Outlay Projects**	**Non-Major Governmental Funds**	**Total**
General Fund	$ -	$ 1,700,000	$ 62,065	$ 1,762,065
Non-Major Governmental Funds	450,333	-	1,099	451,432
Self-Insurance Fund	11,060	-	-	11,060
Total	$ 461,393	$ 1,700,000	$ 63,164	$ 2,224,557

Due from the General Fund to the Special Reserve Fund for Capital Outlay Projects for capital improvement reserve.	$ 1,700,000
Due from the General Fund to the Building Fund for RRMA expenditures.	26,920
Due from the General Fund to the Capital Facilities Fund for RRMA expenditures.	20,535
Due from the General Fund to the Child Development Fund to adjust indirect costs.	14,592
Due from the General Fund to the Cafeteria Fund to correct cash balance.	18
Due from the Child Development Fund to the Building Fund for expenditure reclassification.	1,099
Due from the Child Development Fund to the General Fund for indirect costs and reclassification of personnel costs.	334,287
Due from the Cafeteria Fund to the General Fund for indirect costs and CNS bad debt.	116,046
Due from the Self-Insurance Fund to the General Fund for year-end adjustments.	11,060
Total	$ 2,224,557

B. Operating Transfers

Interfund transfers for the year ended June 30, 2021 consisted of the following:

	Interfund Transfers In		
Interfund Transfers Out	**General Fund**	**Special Reserve Fund for Capital Outlay Projects**	**Total**
General Fund	$ -	$ 4,095,000	$ 4,095,000
Non-Major Governmental Funds	5,500	-	5,500
Total	$ 5,500	$ 4,095,000	$ 4,100,500

Transfer from the General Fund to the Special Reserve Fund for Capital Outlay Projects for various reserve funds.	$ 4,095,000
Transfer from the Cafeteria Fund to the General Fund for year-end adjustment.	5,500
Total	$ 4,100,500

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2021 consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	District-Wide	Governmental Activities	Business-Type Activities
Payroll	$ 660,560	$ 25,404	$ -	$ -	$ 685,964	$ -
Construction	-	79,371	-	-	79,371	-
Vendors payable	1,211,877	45,441	47,295	-	1,304,613	1,313
Due to grantor government	163,962	-	-	-	163,962	-
PARS trust contribution	1,000,000	-	-	-	1,000,000	-
Unmatured interest	-	-	-	712,365	712,365	-
Total	$ 3,036,399	$ 150,216	$ 47,295	$ 712,365	$ 3,946,275	$ 1,313

NOTE 7 – UNEARNED REVENUE

Unearned revenue balances at June 30, 2021 consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Governmental Activities
Federal sources	$ 10,459,348	$ -	$ 37,017	$ 10,496,365
State categorical sources	16,733	-	-	16,733
Local sources	-	43,189	-	43,189
Total	$ 10,476,081	$ 43,189	$ 37,017	$ 10,556,287

NOTE 8 – LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2021 consisted of the following:

	Restated Balance July 01, 2020	Additions	Deductions	Balance June 30, 2021	Balance Due In One Year
Governmental Activities					
General obligation bonds	$ 26,460,661	$ -	$ 904,707	$ 25,555,954	$ 1,428,512
Unamortized premium	1,565,900	-	132,814	1,433,086	132,814
Accreted interest	13,645,263	1,571,044	1,020,293	14,196,014	909,056
Subtotal general obligation bonds	41,671,824	1,571,044	2,057,814	41,185,054	2,470,382
Direct placement general obligation bonds	217,682	-	217,682	-	-
Total general obligation bonds	41,889,506	1,571,044	2,275,496	41,185,054	2,470,382
Capital leases	-	413,211	41,321	371,890	82,644
Early retirement incentive	-	1,769,972	-	1,769,972	353,994
Compensated absences	309,172	-	92,242	216,930	-
Net OPEB liability	2,845,000	-	403,563	2,441,437	-
Net pension liability	44,859,209	3,779,598	-	48,638,807	-
Total	$ 89,902,887	$ 7,533,825	$ 2,812,622	$ 94,624,090	$ 2,907,020

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Capital lease payments are made in the General Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

NOTE 8 – LONG-TERM LIABILITIES (continued)

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2021 amounted to $216,930 which was a decrease of $92,242 from the prior year. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. General Obligation Bonds

2019 General Obligation Refunding Bonds

On July 11, 2019, the District issued $4,120,000 of Series 2019 (Bank Qualified) general obligation refunding bonds. Proceeds from the bonds were used to establish an escrow portfolio to defease the remaining outstanding bonds issued in Election of 2008, Series A. The net proceeds received for the Series 2019 Refunding Bonds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the Election of 2008 General Obligation Bonds, Series A that were advance refunded. 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 financial statements. 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 as an expense over the life of the bond. This refunding reduced total debt service payments by $1,174,316 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,054,001.

The outstanding general obligation bonded debt of the District as of June 30, 2021 is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2020	Additions	Deductions	Bonds Outstanding June 30, 2021
General obligation bonds:								
1998 Election, Series A	3/4/1999	2/1/2024	3.10 - 4.50%	$ 7,248,025	$ 776,165	$ -	$ 181,955	$ 594,210
1998 Election, Series B	11/30/2000	11/1/2025	3.90 - 6.72%	2,560,587	895,325	-	103,924	791,401
1998 Election, Series C	10/18/2002	8/1/2027	2.50 - 5.62%	2,191,178	1,499,691	-	93,828	1,405,863
2008 Election, Series B	9/23/2010	8/1/2050	6.10 - 9.71%	7,999,480	7,999,480	-	-	7,999,480
2008 Election, Series C	3/15/2011	8/1/2028	2.00 - 5.00%	5,000,000	3,560,000	-	320,000	3,240,000
2014 Election, Series A	6/15/2015	8/1/2044	2.00 - 3.00%	5,000,000	4,810,000	-	-	4,810,000
2014 Election, Series C	5/15/2017	8/1/2026	3.00 - 5.00%	3,000,000	2,910,000	-	80,000	2,830,000
2019 Refunding Bonds	7/11/2019	8/1/2033	4.00%	4,120,000	4,010,000	-	125,000	3,885,000
Subtotal general obligation bonds:					26,460,661	-	904,707	25,555,954
Direct placement general obligation bonds:								
2014 Election, Series D Ed-Tech	5/15/2017	8/1/2020	1.7%	1,000,000	217,682	-	217,682	-
Subtotal direct placement general obligation bonds:					217,682	-	217,682	-
					$ 26,678,343	$ -	$ 1,122,389	$ 25,555,954

The annual requirements to amortize all general obligations bonds payable outstanding at June 30, 2021 is as follows:

Year Ended June 30,	Principal	Interest	Total
2022	$ 1,428,512	$ 1,706,276	$ 3,134,788
2023	1,464,400	1,747,264	3,211,664
2024	1,541,433	1,791,322	3,332,755
2025	1,640,089	1,822,658	3,462,747
2026	1,688,261	1,860,514	3,548,775
2027 - 2031	5,167,197	6,227,940	11,395,137
2032 - 2036	2,573,638	4,978,675	7,552,313
2037 - 2041	2,762,452	4,690,375	7,452,827
2042 - 2046	5,472,137	2,607,580	8,079,717
2047 - 2051	1,817,835	-	1,817,835
Total	$ 25,555,954	$ 27,432,604	$ 52,988,558

NOTE 8 – LONG-TERM LIABILITIES (continued)

C. Capital Lease

During the year ended June 30, 2021, the District entered into a lease-purchase agreement for an ionization disinfection system. Monthly payments are due over a period of five years and do not bear any interest. Future minimum lease payments under this agreement are as follows:

Year Ended June 30,	Lease Payments
2022	$ 82,644
2023	82,644
2024	82,644
2025	82,644
2026	41,314
Total	$ 371,890

D. Early Retirement Incentive

In March 2021, the District provided an early retirement incentive through the PARS (Public Agency Retirement Services) Supplementary Retirement Plan for eligible employees. The incentive was financed over five years. The outstanding principal balance remaining as of June 30, 2021 is as follows:

Year Ended June 30,	Payment
2022	$ 353,994
2023	353,994
2024	353,994
2025	353,995
2026	353,995
Total	$ 1,769,972

E. Other Postemployment Benefits

The District's beginning net OPEB liability was $2,845,000 and decreased by $403,563 during the year ended June 30, 2021. The ending net OPEB liability at June 30, 2021 was $2,441,437. See Note 10 for additional information regarding the net OPEB liability.

F. Net Pension Liability

The District's restated beginning net pension liability was $44,859,209 and increased by $3,779,598 during the year ended June 30, 2021. The ending net pension liability at June 30, 2021 was $48,638,807. See Note 11 for additional information regarding the net pension liability.

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2021:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	$ 20,000	$ -	$ 200	$ 20,200
Stores inventory	141,048	-	33,855	174,903
Total non-spendable	161,048	-	34,055	195,103
Restricted				
Educational programs	2,157,882	-	574,858	2,732,740
Food service	-	-	2,126,606	2,126,606
Associated student body	-	-	12,775	12,775
Capital projects	-	6,828,332	5,325,625	12,153,957
Debt service	-	-	3,424,955	3,424,955
PRSP Section 115 trust	5,396,607	-	-	5,396,607
Total restricted	7,554,489	6,828,332	11,464,819	25,847,640
Committed				
Other commitments	2,893,041	-	-	2,893,041
Total committed	2,893,041	-	-	2,893,041
Assigned				
Payroll reserve	7,325,276	-	-	7,325,276
Deferred maintenance	1,553,187	-	-	1,553,187
Total assigned	8,878,463	-	-	8,878,463
Unassigned	1,585,144	-	-	1,585,144
Total Fund Balance	$ 21,072,185	$ 6,828,332	$ 11,498,874	$ 39,399,391

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 3 percent of General Fund expenditures and other financing uses.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Lemon Grove School District (District) administers a single-employer defined benefit plan (Plan) that is used to provide postemployment benefits other than pensions (OPEB) for employee groups. The District participates in the Southern California Schools VEBA for its health plan coverage. Employee groups are as follows:

Certificated Employees
The District provides retiree medical, dental, and vision coverage to eligible retirees to the retirees' attainment of age 65 under Option 1 or to age 70 under Option 2. Eligibility for retiree healthcare benefits requires retirement under STRS on or after age 55 with at least 10 years of continuous District eligible service. Retirees with less than 15 years of district eligible services can elect Option 1 or Option 2.

Once an option has been selected, the retiree may not change to another. Retirees who move outside of coverage area shall receive either cash payment equal to District premiums or reimbursement for insurance purchased outside of coverage areas, whichever is less. A retiree can elect to remain under District coverage after age 65 or 70, depending on election, at his/her own cost. Retirees can elect dependent medical, dental, and vision coverage on a self-pay basis.

Classified Employees
The District provides retiree dental and medical coverage to eligible retirees to the retirees' attainment of 65. Eligibility for retiree benefits requires retirement under PERS on or after age 55 with at least 10 years of continuous District eligible service.

The District does not provide any financial contribution for coverage beyond age 65. Retirees can elect dependent medical and dental coverage on a self-pay basis. Retirees who move outside of coverage area shall receive either cash payment equal to District premiums or reimbursement for insurance purchased outside of coverage area, whichever is less.

Management and Confidential Employees
The District provides retiree medical, dental, vision and life insurance coverage to eligible retirees to the retirees' attainment of age 70. Eligibility for retiree benefits requires employee to have completed 10 years of continuous service under the provisions of the STRS/PERS, of which 5 years immediately preceding retirement shall have been full time service to the District.

The District's contribution shall be at the same rate that the District contributes for employee only coverage on behalf of its active employee within the Certificated bargaining unit. The District does not provide any financial contribution for coverage beyond age 70. However, the retiree may elect to remain in District group coverage at his/her own cost. Retirees who move outside of coverage area shall receive either cash payment equal to District premiums or reimbursement for insurance purchased outside of coverage area, whichever is less. Retirees can elect dependent medical, dental and vision coverage on a self-pay basis. Management employees will be eligible for other retirement plans granted to other employee groups upon eligibility and approval by the Governing Board on an individual retiree basis.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

B. OPEB Plan Fiduciary Net Position

The District prefunds for its retiree benefits through a Public Agency Retirement Services (PARS) Trust, a public agency agent multiple-employer trust administered by Phase II Systems, a California corporation, doing business as PARS. In addition to the direct payment of current retiree benefits, the District may make a discretionary contribution determined by management of the District based on budget implications. Plan members are not required to contribute to the plan. The District contributed $250,000 to the PARS OPEB trust during the year ended June 30, 2021. This amount does not reflect the contributions for the direct payment of current retiree benefits to VEBA.

At the measurement date of June 30, 2020, the cash and investments accumulated in the OPEB Trust Fund totaled $4,519,457.

C. Benefits Provided

In general, the District provides medical and dental coverage to eligible retirees through the age of 65 (age 70 for some employees depending on retirement option selected and employee group). Some employee groups also receive a financial contribution for vision and/or life insurance. The District participated in the Southern California Schools VEBA for its health plan coverage. In general, the premium rates charged to participating employers are the same for each medical plan within each region and are the same for both active and retired employees covered under the same medical plan.

D. Contributions

The contribution requirements of Plan members and the Lemon Grove School District are established and may be amended by the Lemon Grove School District. The District has accumulated assets in a trust that meets the criteria in paragraph 4 of GASB Statement 75. Contributions to the trust are summarized above. Detailed information about the Plan's fiduciary net position is available in the separately issued PARS financial reports and may be obtained from the PARS Headquarters, 4350 Von Karman Avenue, Suite 100, Newport Beach, CA 92660.

E. Plan Membership

Membership of the Plan consisted of the following:

	Number of participants
Inactive employees receiving benefits	60
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	321
Total number of participants**	381

*Information not provided
**As of the June 30, 2019 valuation date

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

F. Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2021, were as follows:

Total OPEB liability	$ 6,960,894
Plan fiduciary net position	(4,519,457)
District's net OPEB liability	$ 2,441,437
Plan fiduciary net position as a percentage of total OPEB liability	64.93%

G. Investments

Investment Strategy
The U.S. Bank Income Strategy is invested in various asset classes in percentages approved by PARS. Generally, equities are intended to help build the value of the Plans portfolio over the long term while bonds are intended to help provide income and stability of principal. Strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds. The Trust utilized the First American Prime Obligation Fund Z Money Market Fund as a depository for plan contributions. Cash contributions into the Trust are received in the depository account and invested in the money market mutual funds. At least once a month, contributions, net of funds scheduled for immediate participant distributions, are transferred from the depository accounts to other investments selected by member agency plans. No participant distributions were made during the current fiscal year.

The U.S. Bank Index Strategy portfolio consist of the following asset classes and corresponding benchmarks:

Asset Class	Percentage of Portfolio	Assumed Gross Return
All Fixed Income	80%	4.500%
All Equities	15%	7.795%
Short-Term Government Fixed	5%	3.250%

Concentrations
The Plan holds investments explicitly in the US Bank Income Index Strategy which represents an amount greater than 5% of the Plan's fiduciary net position.

Rate of Return
For the year ended, June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 3.80 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

H. Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2021 was determined by an actuarial valuation as of June 30, 2019 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020:

Economic assumptions:

Inflation	2.75%
Payroll increases	2.75%
Discount rate	5.00%
Expected rate of return	5.00%
Healthcare trend rate	4.00%

Non-economic assumptions:

Mortality:	
Certificated	2020 CalSTRS Mortality
Classified	2017 CalPERS Mortality for Miscellaneous and Schools Employees
Retirement rates:	2017 CalPERS 2.0%@55 and 2.0%@62 Rates for Schools Employees 2020 CalSTRS 2.0%@60 and 2.0%@62 Rates
Participation rates:	98% of active employees meeting eligibility requirements

The actuarial assumptions used in the June 30, 2019 valuation were based on a review of plan experience during the period July 1, 2018 to June 30, 2019.

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed eighteen years.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

I. Changes in Net OPEB Liability

	June 30, 2021
Total OPEB Liability	
Service cost	$ 382,996
Interest on total OPEB liability	306,798
Difference between expected and actual experience	147,758
Changes of assumptions	(324,101)
Benefits payments	(745,165)
Net change in total OPEB liability	(231,714)
Total OPEB liability - beginning	7,192,608
Total OPEB liability - ending (a)	$ 6,960,894
Plan fiduciary net position	
Contributions - employer	$ 745,165
Net investment income	193,677
Benefit payments	(745,165)
Administrative expenses	(21,828)
Net change in plan fiduciary net position	171,849
Plan fiduciary net position - beginning	4,347,608
Plan fiduciary net position - ending (b)	$ 4,519,457
District's net OPEB liability - ending (a) - (b)	$ 2,441,437
Plan fiduciary net position as a percentage of the total OPEB liability	64.93%
Covered-employee payroll	$ 20,438,094
District's net OPEB liability (asset) as a percentage of covered-employee payroll	11.95%

J. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Lemon Grove School District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (4.00%)	Valuation Discount Rate (5.00%)	1% Increase (6.00%)
Net OPEB liability	$ 2,913,335	$ 2,441,437	$ 2,058,644

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

K. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Lemon Grove School District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease (3.00%)	Valuation Trend Rate (4.00%)	1% Increase (5.00%)
Net OPEB liability	$ 1,748,063	$ 2,441,437	$ 3,215,211

L. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2021, the Lemon Grove School District recognized OPEB expense of $51,750. At June 30, 2021, the Lemon Grove School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ 18,526	$ 62,408
Differences between expected and actual experience	164,225	1,150,317
Changes in assumptions	518,185	2,856,229
District contributions subsequent to the measurement date	572,063	-
Total	$ 1,272,999	$ 4,068,954

The $572,063 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2022	$ 158,818	$ 601,854
2023	158,818	581,318
2024	158,818	580,899
2025	158,814	567,221
2026	16,418	567,221
Thereafter	49,250	1,170,441
Total	$ 700,936	$ 4,068,954

NOTE 11 – 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	$ 35,141,147	$ 8,534,764	$ 2,170,970	$ 4,572,986
PERS Pension	13,497,660	2,775,359	159,316	2,997,768
Total	$ 48,638,807	$ 11,310,123	$ 2,330,286	$ 7,570,754

A. 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:

1. 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 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.

2. 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 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.

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Contributions
Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 10.205% of their salary for fiscal year 2021, 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 2021 was 19.10% of annual payroll reduced to 16.15% pursuant to California Senate Bill 90 (SB 90). The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were $3,763,277 for the year ended June 30, 2021.

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 $2,050,108 to CalSTRS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2021, 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	$	35,141,147
State's proportionate share of the net pension liability associated with the District		18,115,118
Total	$	53,256,265

The net pension liability was measured as of June 30, 2020, 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, 2019 and rolling forward the total pension liability to June 30, 2020. 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, 2020, the District's proportion was 0.036 percent, which was unchanged from its proportion measured as of June 30, 2019.

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2021, the District recognized pension expense of $4,572,986. In addition, the District recognized pension expense and revenue of $566,395 for support provided by the State. At June 30, 2021, 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	$ 834,751	$ -
Differences between expected and actual experience	62,008	991,040
Changes in assumptions	3,426,760	-
Changes in proportion and differences between District contributions and proportionate share of contributions	447,968	1,179,930
District contributions subsequent to the measurement date	3,763,277	-
Total	$ 8,534,764	$ 2,170,970

The $3,763,277 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, 2022. 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
2022	$ 674,784	$ 692,672
2023	1,468,922	623,049
2024	1,769,570	390,884
2025	637,834	270,000
2026	145,035	145,411
2027	75,342	48,954
Total	$ 4,771,487	$ 2,170,970

NOTE 11 – PENSION PLANS (continued)

A. 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, 2019, and rolling forward the total pension liability to June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

* 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 MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period of July 1, 2015 through June 30, 2018.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2020 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2020, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Public Equity	42%	4.80%
Real Estate	15%	3.60%
Private Equity	13%	6.30%
Fixed Income	12%	1.30%
Risk Mitigating Strategies	10%	1.80%
Inflation Sensitive	6%	3.30%
Cash/Liquidity	2%	-0.40%
	100%	

*20-year geometric average

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the 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 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	$ 53,093,378	$ 35,141,147	$ 20,319,052

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 11 – PENSION PLANS (continued)

B. 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 7.0% 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 2021 was 22.68% of annual payroll reduced to 20.70% pursuant to California Senate Bill 90 (SB 90). Contributions to the plan from the District were $1,317,628 for the year ended June 30, 2021.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the District reported a liability of $13,497,660 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019 and rolling forward the total pension liability to June 30, 2020. 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, 2020, the District's proportion was 0.044 percent, which was an increase of 0.002 percent from its proportion measured as of June 30, 2019.

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)
For the year ended June 30, 2021, the District recognized pension expense of $2,997,768. At June 30, 2021, 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	$ 280,978	$ -
Differences between expected and actual experience	669,443	-
Changes in assumptions	49,496	-
Changes in proportion and differences between District contributions and proportionate share of contributions	457,814	159,316
District contributions subsequent to the measurement date	1,317,628	-
Total	$ 2,775,359	$ 159,316

The $1,317,628 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, 2022. 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
2022	$ 504,619	$ 159,316
2023	450,284	-
2024	368,654	-
2025	134,174	-
Total	$ 1,457,731	$ 159,316

NOTE 11 – PENSION PLANS (continued)

B. 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, 2019, and rolling forward the total pension liability to June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

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 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from 1997 to 2015.

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 adjusted to account for assumed administrative expenses.

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	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.0%	-0.92%
	100.0%		

*An expected inflation of 2.00% used for this period.
**An expected inflation of 2.92% used for this period.

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS) (continued)

Discount Rate
The discount rate used to measure the total pension liability was 7.15 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 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 19,405,348	$ 13,497,660	$ 8,594,576

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 12 – 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, 2021.

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, 2021.

C. Construction Commitments

As of June 30, 2021, the District had commitments with respect to unfinished capital projects of $547,138.

NOTE 13 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2021, total deferred outflows related to pensions was $11,310,123 and total deferred inflows related to pensions was $2,330,286.

B. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2021, total deferred outflows related to other postemployment benefits was $1,272,999 and total deferred inflows related to other postemployment benefits was $4,068,954.

NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in two joint powers agreement (JPA) entities, the San Diego County Schools Risk Management (SDCSRM) and the Fringe Benefit Consortium (FBC). The relationship between the District and the JPAs is such that the JPAs are not component units of the District.

The JPAs arrange for and provide for various types of insurances for its member districts as requested. The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPAs. The District also participates in the Small Districts Pool for Miscellaneous Property Insurance Program in order to assist with cost sharing of claims.

The JPAs 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 JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

NOTE 15 – RESTATEMENT OF NET POSITION AND FUND BALANCE

The beginning net position of Governmental Activities and the beginning fund balance for the Student Activity Fund have been restated due to the implementation of GASB Statement No. 84, *Fiduciary Activities*. Based on the clarifications provided by GASB Statement No. 84 and California Education Code regarding associated student body (ASB) accounts, it has been determined that the District's ASB accounts are not fiduciary because they do not meet the criteria established by GASB Statement No. 84, paragraph 11(c)(2) regarding administrative involvement. In addition, the beginning fund balance of the General Fund has been restated due to the clarifications provided by GASB Statement No. 84 as the PARS PRSP trust account balance is now reported within this fund. The beginning net position of Governmental Activities and the beginning fund balance for the Cafeteria Fund have also been restated in order to more accurately reflect the substance of transactions that occurred in the prior year.

The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	$ (8,708,486)
Restatement	398,647
Net Position - Beginning, as Restated	$ (8,309,839)

The effect on beginning fund balance is presented as follows:

	General Fund	Student Activity Fund	Cafeteria Fund
Fund Balance - Beginning, as Previously Reported	$ 18,428,685	$ -	$ 1,003,575
Restatement	4,783,422	11,912	(41,217)
Fund Balance - Beginning, as Restated	$ 23,212,107	$ 11,912	$ 962,358

REQUIRED SUPPLEMENTARY INFORMATION

LEMON GROVE SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts Original	Budgeted Amounts Final	Actual* (Budgetary Basis)	Variances - Final to Actual
REVENUES				
LCFF sources	$ 31,027,904	$ 33,773,574	$ 33,623,124	$ (150,450)
Federal sources	2,680,024	9,763,132	5,599,120	(4,164,012)
Other state sources	4,200,555	4,499,340	6,017,748	1,518,408
Other local sources	3,341,094	3,242,040	3,483,188	241,148
Total Revenues	41,249,577	51,278,086	48,723,180	(2,554,906)
EXPENDITURES				
Certificated salaries	19,187,916	20,204,529	19,926,712	277,817
Classified salaries	7,175,924	7,135,965	6,520,151	615,814
Employee benefits	11,930,203	12,163,107	12,693,919	(530,812)
Books and supplies	1,383,908	6,212,241	2,188,617	4,023,624
Services and other operating expenditures	4,475,077	6,247,920	5,495,229	752,691
Capital outlay	330,000	880,866	458,590	422,276
Other outgo				
Excluding transfers of indirect costs	68,914	68,914	136,354	(67,440)
Transfers of indirect costs	(209,426)	(239,469)	(203,397)	(36,072)
Total Expenditures	44,342,516	52,674,073	47,216,175	5,457,898
Excess (Deficiency) of Revenues Over Expenditures	(3,092,939)	(1,395,987)	1,507,005	2,902,992
Other Financing Sources (Uses)				
Transfers in	-	-	5,500	5,500
Transfers out	(253,000)	(253,000)	(5,634,201)	(5,381,201)
Net Financing Sources (Uses)	(253,000)	(253,000)	(5,628,701)	(5,375,701)
NET CHANGE IN FUND BALANCE	(3,345,939)	(1,648,987)	(4,121,696)	(2,472,709)
Fund Balance - Beginning	15,974,793	15,974,793	15,974,793	-
Fund Balance - Ending	$ 12,628,854	$ 14,325,806	$ 11,853,097	$ (2,472,709)

* 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:

- The amounts on that schedule include the financial activity of the Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects in accordance with the fund type definitions promulgated by GASB Statement No. 54.
- The schedule above does not include the audit adjustment disclosed in the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.

See accompanying notes to required supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2021

	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Total OPEB Liability				
Service cost	$ 382,996	$ 690,131	$ 670,030	$ 644,260
Interest on total OPEB liability	306,798	432,028	422,797	402,172
Changes of benefit terms	-	-	-	109,895
Difference between expected and actual experience	147,758	(1,491,426)	57,548	-
Changes of assumptions	(324,101)	(3,301,896)	906,826	-
Benefits payments	(745,165)	(747,348)	(691,902)	(641,110)
Net change in total OPEB liability	(231,714)	(4,418,511)	1,365,299	515,217
Total OPEB liability - beginning	7,192,608	11,611,119	10,245,820	9,730,603
Total OPEB liability - ending (a)	$ 6,960,894	$ 7,192,608	$ 11,611,119	$ 10,245,820
Plan fiduciary net position				
Contributions - employer	$ 745,165	$ 1,259,795	$ 1,441,902	$ 1,141,110
Net investment income	193,677	260,487	155,565	240,684
Benefit payments	(745,165)	(759,795)	(691,902)	(641,110)
Administrative expenses	(21,828)	(9,165)	(7,969)	-
Net change in plan fiduciary net position	171,849	751,322	897,596	740,684
Plan fiduciary net position - beginning	4,347,608	3,596,286	2,698,690	1,958,006
Plan fiduciary net position - ending (b)	$ 4,519,457	$ 4,347,608	$ 3,596,286	$ 2,698,690
District's net OPEB liability - ending (a) - (b)	$ 2,441,437	$ 2,845,000	$ 8,014,833	$ 7,547,130
Plan fiduciary net position as a percentage of the total OPEB liability	64.93%	60.45%	30.97%	26.34%
Covered-employee payroll	$ 20,438,094	$ 19,891,089	$ 23,880,000	$ 20,750,000
District's net OPEB liability (asset) as a percentage of covered-employee payroll	11.95%	14.30%	33.56%	36.37%

See accompanying notes to required supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF INVESTMENT RETURNS – OPEB
FOR THE YEAR ENDED JUNE 30, 2021

	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Annual money-weighted rate of return, net of investment expense	3.80%	5.78%	7.10%	5.75%

See accompanying notes to required supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2021

	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.036%	0.036%	0.036%	0.037%	0.036%	0.038%	0.035%
District's proportionate share of the net pension liability	$ 35,141,147	$ 32,723,462	$ 32,743,251	$ 33,978,320	$ 28,965,507	$ 25,482,856	$ 20,452,944
State's proportionate share of the net pension liability associated with the District	18,115,118	17,852,978	18,747,134	20,101,450	16,351,741	13,801,402	13,265,160
Total	$ 53,256,265	$ 50,576,440	$ 51,490,385	$ 54,079,770	$ 45,317,248	$ 39,284,258	$ 33,718,104
District's covered payroll	$ 19,477,647	$ 19,942,945	$ 19,141,562	$ 19,664,261	$ 17,792,880	$ 17,425,563	$ 15,592,630
District's proportionate share of the net pension liability as a percentage of its covered payroll	180.4%	164.1%	171.1%	172.8%	162.8%	146.2%	131.2%
Plan fiduciary net position as a percentage of the total pension liability	71.8%	72.6%	71.0%	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

See accompanying notes to required supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
FOR THE YEAR ENDED JUNE 30, 2021

	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.044%	0.042%	0.043%	0.047%	0.047%	0.046%	0.047%
District's proportionate share of the net pension liability	$ 13,497,660	$ 12,135,747	$ 11,569,222	$ 11,227,903	$ 9,106,162	$ 6,817,159	$ 5,346,997
District's covered payroll	$ 6,454,724	$ 5,799,169	$ 5,785,679	$ 6,036,053	$ 5,583,405	$ 5,143,199	$ 4,944,983
District's proportionate share of the net pension liability as a percentage of its covered payroll	209.1%	209.3%	200.0%	186.0%	163.1%	132.5%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	70.0%	70.0%	70.8%	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

See accompanying notes to required supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2021

	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 3,763,277	$ 3,545,923	$ 3,160,586	$ 2,782,747	$ 2,473,764	$ 1,909,176	$ 1,547,390
Contributions in relation to the contractually required contribution*	(3,763,277)	(3,545,923)	(3,160,586)	(2,782,747)	(2,473,764)	(1,909,176)	(1,547,390)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 20,176,496	$ 19,477,647	$ 19,942,945	$ 19,141,562	$ 19,664,261	$ 17,792,880	$ 17,425,563
Contributions as a percentage of covered payroll	18.65%	18.21%	15.85%	14.54%	12.58%	10.73%	8.88%

*Amounts do not include on-behalf contributions

See accompanying notes to required supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2021

	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 1,317,628	$ 1,256,368	$ 1,053,368	$ 889,989	$ 838,287	$ 661,466	$ 605,406
Contributions in relation to the contractually required contribution*	(1,317,628)	(1,256,368)	(1,053,368)	(889,989)	(838,287)	(661,466)	(605,406)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 6,363,507	$ 6,454,724	$ 5,799,169	$ 5,785,679	$ 6,036,053	$ 5,583,405	$ 5,143,199
Contributions as a percentage of covered payroll	20.71%	19.46%	18.16%	15.38%	13.89%	11.85%	11.77%

*Amounts do not include on-behalf contributions

See accompanying notes 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 Changes in Net OPEB Liability and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the net OPEB liability, and the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the net OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for OPEB.

Changes in Assumptions

The discount rate increased from 4.33% to 5.00% in the most recent measurement.

Schedule of District's Contributions for OPEB

This 10-year schedule is not required to be presented as there was no actuarially determined contribution, nor any contribution requirement established by statute or contract.

Schedule of OPEB Investment Returns

This schedule presents information on the annual money weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

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.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuations for CalSTRS and CalPERS.

Changes in Assumptions

There were no changes in economic assumptions since the previous valuations for CalSTRS and CalPERS.

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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, 2021, the District incurred an excess of expenditures over appropriations in the General Fund presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	**Actual**	**Excess**
General Fund			
Employee benefits	$ 12,163,107	$ 12,693,919	$ 530,812
Other outgo			
Excluding transfers of indirect costs	$ 68,914	$ 136,354	$ 67,440
Transfers of indirect costs	$ (239,469)	$ (203,397)	$ 36,072

SUPPLEMENTARY INFORMATION

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster	AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	$ 1,149,037
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	105,359
Title III, English Learner Student Program	84.365	14346	79,763
Title VIII, Impact Aid	84.041	10015	92,715
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	641,998
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	47,516
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	380
Subtotal Special Education Cluster			689,894
COVID-19 Emergency Acts Funding/Education Stabilization Fund Discretionary Grants:			
Governor's Emergency Education Relief (GEER) Fund	84.425C	15517	20,531
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	15536	6,887
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D	15547	299,878
Child Nutrition: COVID CARES Act Supplemental Meal Reimbursement	84.425	15535	81,200
Subtotal Education Stabilization Fund Discretionary Grants			408,496
Total U. S. Department of Education			2,525,264
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through California Department of Education:			
COVID-19 Emergency Acts Funding/Extending Summer Food Service Program and SSO:			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	801,566
National School Lunch Program	10.555	13391	1,245,767
USDA Commodities **[2]**	10.555	*	31,472
Subtotal Child Nutrition Cluster			2,078,805
CACFP Claims - Centers and Family Day Care	10.558	13393	1,212,091
Total U. S. Department of Agriculture			3,290,896
U. S. DEPARTMENT OF THE TREASURY:			
Passed through California Department of Education:			
COVID-19 Emergency Acts Funding:			
Coronavirus Relief Fund (CRF): Learning Loss Mitigation **[1]**	21.019	25516	2,613,573
Total U. S. Department of the Treasury			2,613,573
Total Federal Expenditures			$ 8,429,733

[1] - Major Program
[2] - In-Kind Contribution
***** - Pass-Through Entity Identifying Number not available or not applicable

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2021

Grade Level	2020-21 Number of Days	Status
Kindergarten	180	Complied
Grade 1	180	Complied
Grade 2	180	Complied
Grade 3	180	Complied
Grade 4	180	Complied
Grade 5	180	Complied
Grade 6	180	Complied
Grade 7	180	Complied
Grade 8	180	Complied

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

	2022 (Budget)	2021	2020	2019
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	$ 53,678,092	$ 48,728,680	$ 45,605,904	$ 47,686,785
Expenditures And Other Financing Uses	56,993,519	52,850,376	45,536,594	46,948,351
Net change in Fund Balance	$ (3,315,427)	$ (4,121,696)	$ 69,310	$ 738,434
Ending Fund Balance	$ 8,537,670	$ 11,853,097	$ 15,974,793	$ 15,905,483
Available Reserves*	$ 1,709,806	$ 1,585,144	$ 2,104,592	$ 8,131,715
Available Reserves As A Percentage Of Outgo	3.00%	3.00%	4.62%	17.32%
Long-term Liabilities	$ 91,717,070	$ 94,624,090	$ 85,547,417	$ 90,802,401
Average Daily Attendance At P-2***	2,955	3,243	3,243	3,395

The General Fund ending fund balance has decreased by $4,052,386 over the past two years. The fiscal year 2021-22 budget projects a further decrease of $3,315,427. 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 two of the past three years but anticipates incurring an operating deficit during the 2021-22 fiscal year. Total long-term obligations have increased by $3,821,689 over the past two years.

Average daily attendance has decreased by 152 ADA over the past two years. An additional decrease of 288 ADA is anticipated during the 2021-22 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**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 Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54. In addition, the schedule above does not include the audit adjustment disclosed in the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.

***Due to the COVID-19 pandemic, Average Daily Attendance at P-2 was not reported in 2021. Funding was based on Average Daily Attendance at P-2 as reported in 2020.

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects
June 30, 2021, annual financial and budget report fund balance	$ 11,853,097	$ 1,553,187	$ 2,893,041
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Expanded Learning Opportunities (ELO) grant adjustment	(623,747)	-	-
PARS PRSP trust account	5,396,607	-	-
Fund balance transfer (GASB 54)	4,446,228	(1,553,187)	(2,893,041)
Net adjustments and reclassifications	9,219,088	(1,553,187)	(2,893,041)
June 30, 2021, audited financial statement fund balance	$ 21,072,185	$ -	$ -

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2021

	Student Activity Fund	Child Development Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
ASSETS									
Cash and investments	$ 12,775	$ 630,882	$ 1,546,862	$ 3,856,617	$ 1,488,296	$ 76	$ 126	$ 3,424,955	$ 10,960,589
Accounts receivable	-	277,427	790,548	6,932	5,024	-	-	-	1,079,931
Due from other funds	-	14,592	18	28,019	20,535	-	-	-	63,164
Stores inventory	-	-	33,855	-	-	-	-	-	33,855
Total Assets	$ 12,775	$ 922,901	$ 2,371,283	$ 3,891,568	$ 1,513,855	$ 76	$ 126	$ 3,424,955	$ 12,137,539
LIABILITIES									
Accrued liabilities	$ -	$ 12,657	$ 57,559	$ 70,889	$ 9,111	$ -	$ -	$ -	$ 150,216
Due to other funds	-	335,386	116,046	-	-	-	-	-	451,432
Unearned revenue	-	-	37,017	-	-	-	-	-	37,017
Total Liabilities	-	348,043	210,622	70,889	9,111	-	-	-	638,665
FUND BALANCES									
Non-spendable	-	-	34,055	-	-	-	-	-	34,055
Restricted	12,775	574,858	2,126,606	3,820,679	1,504,744	76	126	3,424,955	11,464,819
Total Fund Balances	12,775	574,858	2,160,661	3,820,679	1,504,744	76	126	3,424,955	11,498,874
Total Liabilities and Fund Balance	$ 12,775	$ 922,901	$ 2,371,283	$ 3,891,568	$ 1,513,855	$ 76	$ 126	$ 3,424,955	$ 12,137,539

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2021

	Student Activity Fund	Child Development Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
REVENUES									
Federal sources	$ -	$ 41,895	$ 3,372,095	$ -	$ -	$ -	$ -	$ -	$ 3,413,990
Other state sources	-	1,611,156	161,416	-	-	-	-	28,136	1,800,708
Other local sources	4,289	55,827	27,943	62,055	221,418	-	2	3,196,149	3,567,683
Total Revenues	4,289	1,708,878	3,561,454	62,055	221,418	-	2	3,224,285	8,782,381
EXPENDITURES									
Current									
Instruction	-	823,219	-	-	-	-	-	-	823,219
Instruction-related services									
Instructional supervision and administration	-	196,749	-	-	-	-	-	-	196,749
Pupil services									
Food services	-	-	2,163,004	-	-	-	-	-	2,163,004
All other pupil services	-	137,524	-	-	-	-	-	-	137,524
General administration									
All other general administration	-	94,506	108,891	-	3,740	-	-	-	207,137
Plant services	-	47,576	85,756	58,012	-	-	-	-	191,344
Facilities acquisition and maintenance	-	68,234	-	1,958,623	-	-	-	-	2,026,857
Ancillary services	3,426	-	-	-	-	-	-	-	3,426
Debt service									
Principal	-	-	-	-	-	-	-	1,122,389	1,122,389
Interest and other	-	-	-	-	-	-	-	1,662,777	1,662,777
Total Expenditures	3,426	1,367,808	2,357,651	2,016,635	3,740	-	-	2,785,166	8,534,426
Excess (Deficiency) of Revenues Over Expenditures	863	341,070	1,203,803	(1,954,580)	217,678	-	2	439,119	247,955
Other Financing Sources (Uses)									
Transfers out	-	-	(5,500)	-	-	-	-	-	(5,500)
Net Financing Sources (Uses)	-	-	(5,500)	-	-	-	-	-	(5,500)
NET CHANGE IN FUND BALANCE	863	341,070	1,198,303	(1,954,580)	217,678	-	2	439,119	242,455
Fund Balance - Beginning, as Restated	11,912	233,788	962,358	5,775,259	1,287,066	76	124	2,985,836	11,256,419
Fund Balance - Ending	$ 12,775	$ 574,858	$ 2,160,661	$ 3,820,679	$ 1,504,744	$ 76	$ 126	$ 3,424,955	$ 11,498,874

See accompanying note to supplementary information.

The Lemon Grove School District was established in 1893 and is located in the eastern portion of San Diego County. There were no changes to the District boundaries during the current fiscal year. The District operates four elementary schools and two K-8 schools. In addition, the District operates a licensed pre-school program.

GOVERNING BOARD

Member	Office	Term Expires
Larry Loschen*	President	2022
Cheryl Robertson	Vice President	2024
Yajaira Preciado	Member	2024
Timothy Shaw	Member	2022
Greg Shibley	Member	2022

DISTRICT ADMINISTRATORS

Erica Balakian
Superintendent

Sheree Stopper
Chief Business Official

Marianna Vinson
Executive Director – Educational Services

Rebecca Burton
Executive Director – Student Services and Special Education

Tomas Chavez
Executive Director – Human Resources

* This position was vacated as of June 30, 2021. The board appointed Dr. Javier Ayala to fill the vacant board position on August 24, 2021.

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 Revenues, 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, 2021 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2021.

	AL Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		$ 9,013,110
CRF: Learning Loss Mitigation	21.019	(541,482)
Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act- One-time Stipend	93.575	(41,895)
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		$ 8,429,733

The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with article 8 (commencing with section 46200) of chapter 2 of part 26 of the *Education Code*.

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

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
Lemon Grove School District
Lemon Grove, 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 Lemon Grove School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Lemon Grove School District's basic financial statements, and have issued our report thereon dated January 28, 2022. Our opinion on the financial statements was qualified because we were unable to obtain sufficient appropriate audit evidence supporting the amounts at which capital assets and related accumulated depreciation were reported.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lemon Grove School District's internal control over financial reporting (internal control) as a basis for designing 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 Lemon Grove School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lemon Grove 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 Lemon Grove School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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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.

Christy White, Inc.

San Diego, California
January 28, 2022

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
Lemon Grove School District
Lemon Grove, California

Report on Compliance for Each Major Federal Program

We have audited Lemon Grove 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 Lemon Grove School District's major federal programs for the year ended June 30, 2021. Lemon Grove 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 Lemon Grove 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 Lemon Grove 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 Lemon Grove School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Lemon Grove 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, 2021.

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Report on Internal Control Over Compliance

Management of Lemon Grove 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 Lemon Grove 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 Lemon Grove 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.

Christy White, Inc.

San Diego, California
January 28, 2022

CHRISTY WHITE
Certified Public Accountants serving
K-12 School Districts and Charter
Schools throughout California

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Lemon Grove School District
Lemon Grove, California

Report on State Compliance

We have audited Lemon Grove School District's compliance with the types of compliance requirements described in the *2020-2021 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 Lemon Grove School District's state programs for the fiscal year ended June 30, 2021, 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 Lemon Grove 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 *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810 as regulations. 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 Lemon Grove 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 Lemon Grove School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Lemon Grove 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, 2021.

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Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Lemon Grove School District's compliance with the state laws and regulations applicable to the following items:

PROGRAM NAME	PROCEDURES PERFORMED
Local Education Agencies Other Than Charter Schools	
Attendance and Distance Learning	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
K-3 Grade Span Adjustment	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Charter Schools	
Independent Study-Course Based; for charter schools	Not Applicable
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
Charter School Facility Grant Program	Not Applicable

Christy White, Inc.

San Diego, California
January 28, 2022

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LEMON GROVE SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2021

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:	

AL Number(s)	Name of Federal Program or Cluster
21.019	CRF: Learning Loss Mitigation

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

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, 2021.

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, 2021.

FIVE DIGIT CODE	AB 3627 FINDING TYPE
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
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, 2021.

FINDING #2020-001: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000)

Criteria: Per Education Code Section 8483.7(a)(1)(A), each school that establishes a program pursuant to this article is subject to semiannual attendance reporting requirements. Amounts reported to the California Department of Education for the semi-annual attendance reports should be supported by written contemporaneous documentation that is accurate and reported in accordance with the related sections of Education Code 8483.

Condition: During the testing of ASES program attendance for the 1st Half Base Attendance reporting period, auditors noted the following discrepancies based on review of the daily attendance detail for the sample month of November 2019 in comparison to the amounts reported to the State for the 1st Half of the 2019-20 school year.

School Site	Students Served per Monthly Report	Students Served per Scanned Detail	Variance
San Miguel ES - After School	1,282	1,193	(89)

Effect: The result is an overstatement of 89 students for the month of November 2019. As shown in the table above, the adjusted number of students served during the period based on the detail provided is 1,193.

Cause: An error in CitySpan, the web-based attendance collection portal, occurred which caused the overstatement of 89 students served at San Miguel Elementary School on November 22, 2019. When the malfunction was identified, the ASES Secretary submitted an attendance revision to SDCOE on March 3, 2020, which they reported to CDE.

Questioned Costs: None. The ASES program funding is not affected as long as the pupil participation level is maintained at 85% of the projected attendance or greater. Since the finding noted does not cause the District to fall below 85% of the targeted annual attendance, there are no questioned costs.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommended that the implement procedures to allow for proper review and analysis of attendance reports prior to submitting future reports in order to ensure accuracy.

Corrective Action Plan: In the event that a date range needs to be modified in the web-based attendance system, due to a school calendar change, a re-check of all manual revisions that had been previously submitted to the SDCOE will be performed to ensure that date modification does not have an effect on the attendance data.

Current Status: Implemented.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the Lemon Grove School District (the "District") in connection with the execution and delivery of $___________ of the District's 2022 Certificates of Participation (Federally Taxable) (the "Certificates"). The Certificates are being issued pursuant to a Resolution adopted by the Board of Education of the District on May 31, 2022 (the "Resolution"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Resolution.

In consideration of the execution and delivery of the Certificates by the District and the purchase of such Certificates by the Underwriter described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Bondholders and in order to assist the participating underwriter (the "Underwriter") in complying with Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Resolution, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

"Bondholder" or "Holder" means any holder of the Certificates or any beneficial owner of the Certificates so long as they are immobilized with DTC.

"Dissemination Agent" shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent (or otherwise by the District), which Agent has evidenced its acceptance in writing. The Dissemination Agent shall be Dale Scott & Company, Inc.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Listed Event" means any of the events listed in Section 6 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at http://emma.msrb.org/, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Certificates have been assigned. The Final Official Statement relating to the Certificates is dated ____________, 2022 ("Final Official Statement").

SECTION 4. Provision of Annual Reports.

(a) The District shall cause the Dissemination Agent, not later than 9 months after the end of the District's fiscal year (currently ending June 30), which date would be March 31, commencing with the report for the fiscal year ending June 30, 2022, which would be due on March 31, 2023, to provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the District, in a timely manner, shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of the MSRB each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or an official of the District, the Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. Content of Annual Report. The District's Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to the MSRB as soon as practical after it has been made available to the District.

(b) Operating data, including the following information with respect to the District's preceding fiscal year (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Adopted general fund budget for the current fiscal year;

(ii) Assessed valuations for the current fiscal year;

(iii) Top twenty taxpayers within the District for the current fiscal year;

(iv) Average daily attendance; and

(iv) Property tax levy, collections and delinquencies, only if the County terminates or discontinues the Teeter Plan with the District.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or to the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each other document so incorporated by reference.

SECTION 6. Reporting of Significant Events.

(a) The District agrees to provide or cause to be provided to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Certificates not later than ten (10) Business Days after the occurrence of the event:

(i) Principal and interest payment delinquencies.

(ii) Unscheduled draws on any debt service reserves reflecting financial difficulties.

(iii) Unscheduled draws on any credit enhancements reflecting financial difficulties.

(iv) Substitution of or failure to perform by any credit provider.

(v) Adverse tax opinions with respect to the tax status of the Certificates or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) with respect to the Certificates;

(vi) Tender Offers;

(vii) Defeasances;

(viii) Rating changes;

(ix) Bankruptcy, insolvency, receivership or similar event of the obligated person; or

(x) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person which reflect financial difficulties.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material, not later than ten (10) Business Days after the occurrence of the event:

(i) Unless described in paragraph 6(a)(v) hereof, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;

(ii) Modifications of rights to Bond holders;

(iii) Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution or sale of property securing repayment of the securities;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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;

(vii) Appointment of a successor or additional Paying Agent or Trustee or the change of name of a Paying Agent or Trustee; and

(viii) Incurrence of a Financial Obligation of the obligated person or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders;

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 6(a) hereof, or determines that knowledge of a Listed Event described in Section 6(b) hereof would be material under applicable federal securities laws, the District shall within ten (10) Business Days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Resolution.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Certificates, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Certificates.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Paying Agent as set forth in the Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review 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. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Certificates, the District, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Agreement and the Certificates.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement under the following conditions, provided no amendment to this Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Listed Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement.

SECTION 11. Default. The District shall give notice to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Bondholder 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 Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

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

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: ___________, 2022

LEMON GROVE SCHOOL DISTRICT

By: ____________________________________
Superintendent

Acceptance of duties as Dissemination Agent:

DALE SCOTT & CO., INC.

By: ____________________________________
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Lemon Grove School District

Name of Issue: $___________ Lemon Grove School District (San Diego County, California) 2022 Certificates of Participation

Date of Issuance: _________, 2022

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Certificates as required by Section 4(a) of the Continuing Disclosure Agreement dated ____________, 2022. The Issuer anticipates that the Annual Report will be filed by ___________________.

Dated: ___________________________

[ISSUER/DISSEMINATION AGENT]

By: __________________________

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APPENDIX F

BOOK ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, premium, if any, and interest with respect to the Certificates to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to www.dttc.com http://www.dtcc.com/*is presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (the "Certificates"). The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Certificates in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to

whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Prepayment notices shall be sent to DTC. If less than all of the Certificates within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, prepayment price and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Certificate Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Certificates by causing the Direct Participant to transfer the Participant's interest in the Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the Trustee's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical Certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.

AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE CERTIFICATES, THE TRUSTEE WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100