PRELIMINARY OFFICIAL STATEMENT DATED MARCH 21, 2023

NEW ISSUE – BOOK ENTRY ONLY

RATINGS:
S&P: Insured: "AA"
Underlying: "AA-"
(See "RATINGS" herein.)

In the opinion of Dannis Woliver Kelley, Bond Counsel to the District, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California, and, assuming continuing compliance after the date of initial delivery of the Bonds with certain covenants contained in the Resolution authorizing the Bonds and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and will not be included in computing the alternative minimum taxable income of the owners thereof; however, interest on the Bonds is taken into account in determining annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. See "TAX MATTERS" herein.

$15,000,000*
LEMON GROVE SCHOOL DISTRICT
(SAN DIEGO COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS,
2022 ELECTION, 2023 SERIES A

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

The Lemon Grove School District (San Diego County, California) General Obligation Bonds, 2022 Election, 2023 Series A (the "Bonds") are being issued by the Lemon Grove School District (the "District") to finance the acquisition, construction, furnishing and equipping of District facilities, and to pay certain costs of issuance associated therewith, as more fully described herein under the caption "THE PROJECTS." The Bonds were authorized at an election within the District held on November 8, 2022 (the "Election") at which at least fifty-five percent of the registered voters voting on the proposition voted to authorize the issuance and sale of $27,000,000 aggregate principal amount of general obligation bonds of the District (the "Authorization"). The Bonds are the first series of general obligation bonds issued under the Authorization and are issued on a parity basis with all other outstanding general obligation bonds of the District.

The Bonds are general obligations of the District only and are not obligations of the County of San Diego (the "County"), the State of California or any of its other political subdivisions. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for each fiscal year upon the taxable property of the District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal of, and premium, if any, and interest on each Bond as the same becomes due and payable.

Interest on the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2023. See ''THE BONDS'' herein.

The Bonds will be issued in book-entry form only, in denominations of $5,000 or integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive certificates representing their interests in the Bonds. Payments on the Bonds will be made by U.S. Bank Trust Company, National Association, as Paying Agent, to DTC for subsequent disbursement to DTC participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System."

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Redemption" herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**. See "BOND INSURANCE" herein and APPENDIX G – "Specimen Municipal Bond Insurance Policy" hereto.

MATURITY SCHEDULE
On Inside Cover

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Dannis Woliver Kelley, Long Beach, California, Bond Counsel, and certain other conditions. Dannis Woliver Kelley, Long Beach, California, is acting as Disclosure Counsel for the District. Certain matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP, Irvine, California. It is anticipated that the Bonds will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about April 12, 2023.

LOOP CAPITAL

The Date of this Official Statement is: ____________ __, 2023.

---
* Preliminary; subject to change.

MATURITY SCHEDULE

$15,000,000*
LEMON GROVE SCHOOL DISTRICT
(SAN DIEGO COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS,
2022 ELECTION, 2023 SERIES A

$7,370,000* Serial Bonds

Maturity (August 1)	Principal Amount*	Interest Rate	Yield	CUSIP[1] (_______)
2024	$195,000			
2025	280,000			
2026	40,000			
2027	45,000			
2028	75,000			
2029	110,000			
2030	145,000			
2031	180,000			
2032	220,000			
2033	265,000			
2034	310,000		C	
2035	355,000		C	
2036	410,000		C	
2037	470,000		C	
2038	535,000		C	
2039	595,000		C	
2040	665,000		C	
2041	740,000		C	
2042	825,000		C	
2043	910,000		C	

$7,630,000* ___% Term Bonds due August 1, 2049; Yield _____%[C], CUSIP[1] __________

* 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. 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, or their agents or counsel assumes responsibility for the accuracy of such numbers.

[C] Yield to first optional par call date of August 1, 2033*.

LEMON GROVE SCHOOL DISTRICT
San Diego County, State of California

Board of Education

Greg Shibley, *President*
Javier Ayala, Ed.D., *Vice President*
Dorinda Miller, *Clerk*
Yajaira Preciado, *Member*
Cheryl Robertson, *Member*

District Administrators

Erica Balakian, *Superintendent*
Mariana Vinson, *Deputy Superintendent*
Sheree Stopper, *Chief Business Official*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Dannis Woliver Kelley
Long Beach, California

Municipal Advisor

Dale Scott & Company, Inc.
San Francisco, California

Paying Agent, Transfer Agent and Registration Agent

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

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

Page

No dealer, broker, salesperson or other person has been authorized by the 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 Bonds 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 Bonds. 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. 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 provided the following sentence for inclusion in this Official Statement. "The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information."

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Bonds offered hereby at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain securities dealers, institutional investors, banks or others at prices lower or higher than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

The District maintains a website. 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 Bonds.

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

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "BOND INSURANCE" and APPENDIX G – "Specimen Municipal Bond Insurance Policy."

$15,000,000*
LEMON GROVE SCHOOL DISTRICT
(SAN DIEGO COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS,
2022 ELECTION, 2023 SERIES A

INTRODUCTION

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

General

The Lemon Grove School District (the "District") proposes to issue $15,000,000* aggregate principal amount of its General Obligation Bonds, 2022 Election, 2023 Series A (the "Bonds") under and pursuant to a bond authorization (the "Authorization") for the issuance and sale of not more than $27,000,000 of general obligation bonds approved by 55% or more of the qualified voters of the District voting on the proposition at a general election held on November 8, 2022 (the "Election"). The Bonds constitute the first series of bonds to be issued under the Authorization. Subsequent to the issuance of the Bonds, $12,000,000* aggregate principal amount of general obligation bonds will remain for issuance pursuant to the Authorization.

Proceeds from the sale of the Bonds will be used to finance the acquisition, construction, furnishing and equipping of District facilities and to pay certain costs of issuance associated therewith. See "THE BONDS – Purpose of Issue" and "THE PROJECTS" herein.

Registration

U.S. Bank Trust Company, National Association will act as the initial registrar, transfer agent and paying agent for the Bonds (the "Paying Agent"). As long as The Depository Trust Company, New York, New York ("DTC") is the registered owner of the Bonds and DTC's book entry-method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. See "THE BONDS – Description of the Bonds" herein.

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 eight school sites, including six elementary schools and two middle schools. The District's average daily attendance ("ADA") for fiscal year 2022-23 is budgeted to be approximately 2,876 students, per its Second Interim Budget Report, and the District has a fiscal year 2022-23 total assessed valuation of $3,874,708,351. The District's audited financial statements for the fiscal year ended June 30, 2022 are attached hereto as APPENDIX B. For further information concerning the District, see the caption "LEMON GROVE SCHOOL DISTRICT" herein.

* Preliminary; subject to change.

Sources of Payment for the Bonds

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal and interest on the Bonds when due. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed by the District in connection with the Bonds. See "THE BONDS – Continuing Disclosure Agreement," "CONTINUING DISCLOSURE" herein and APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto.

Professionals Involved in the Offering

Dannis Woliver Kelley, Long Beach, California, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Bonds. U.S. Bank Trust Company, National Association, Los Angeles, California, is acting as paying agent for the Bonds. Dale Scott & Company, Inc., San Francisco, California, is acting as Municipal Advisor to the District in connection with the issuance of the Bonds. Kutak Rock LLP, Irvine, California, is acting as counsel to the Underwriter with respect to the Bonds. Dannis Woliver Kelley, Dale Scott & Company, Inc. and U.S. Bank Trust Company, National Association will receive compensation from the District contingent upon the sale and delivery of the Bonds. Kutak Rock LLP will receive compensation from the Underwriter contingent upon the sale and delivery of the Bonds.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding the District herein. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Closing Date

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about April 12, 2023.

THE BONDS

Authority for Issuance

The Bonds are general obligations of the District. The Bonds are being issued by the District under the provisions of Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the Government Code of the State of California (the "Government Code") (commencing with Section 53506), applicable provisions of the Education Code of the State (the "Education Code") and pursuant to a resolution of the Board of Education ("Board") of the District adopted on February 28, 2023 (the "Resolution").

Purpose of Issue

The net proceeds of the Bonds will be used to finance certain capital improvements for the District as specified in the District bond proposition submitted at the Election, which includes, among other things, replacing aging roofs, upgrading STEAM (science, technology, engineering, arts, math) classrooms, increasing computer access, and replacing portables with permanent classrooms (the "Projects"). See "THE PROJECTS" herein.

Description of the Bonds

The Bonds will be dated their date of delivery and will be issued only as fully registered bonds in denominations of $5,000 principal amount or integral multiples thereof.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds.

Book-Entry Only System

The Bonds will be issued under a book-entry system, evidencing ownership of the Bonds in denominations of $5,000 principal amount or integral multiples thereof, with no physical distribution of Bonds made to the public. DTC will act as depository for the Bonds, which will be immobilized in their custody. The Bonds will be registered in the name of Cede & Co., as nominee for DTC.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest or premium, if any, on the Bonds are payable by wire transfer or New York Clearing House or by wire transfer of same day funds by U.S. Bank Trust Company, National Association, as Paying Agent, to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC participants for subsequent disbursement to the Beneficial Owners. See APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" herein.

Payment of the Bonds

Interest on the Bonds is payable commencing August 1, 2023, and semiannually thereafter on February 1 and August 1 of each year (each, an "Interest Payment Date"). Principal of the Bonds is payable annually on August 1, commencing August 1, 2024, as shown on the inside front cover hereto until maturity or the earlier redemption thereof. The Bonds shall be issued in fully registered form, without coupons, in denominations of $5,000 or any integral multiple thereof.

Interest on each Bond shall accrue from its dated date at the interest rates applicable thereto as set forth on the inside cover page hereof. Interest shall be computed using a year of 360 days comprised of twelve 30-day months and shall be payable on each Interest Payment Date to the Owner thereof as of the close of business on the fifteenth calendar day of the month next preceding an Interest Payment Date (the "Record Date"). Interest will be payable from the Interest Payment Date next preceding the date of registration thereof, unless it is registered prior to the close of business on July 15, 2023, in which event interest shall be payable from its dated date; provided, however, that if at the time of registration of any Bond interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment. Payments of interest will be made on each Interest Payment Date by check or draft of the Paying Agent sent by first-class mail, postage prepaid, to the Owner thereof on the Record Date, or by wire transfer to any Owner of $1,000,000 or more of such Bonds, to the account specified by such Owner in a written request delivered to the Paying Agent on or prior to the Record Date for such Interest Payment Date; provided, however, that payments of defaulted interest shall be payable to the person in whose name such Bond is registered at the close of business on a special record date fixed therefor by the Paying Agent which shall not be more than 15 days and not less than ten days prior to the date of the proposed payment of defaulted interest.

Redemption*

Optional Redemption. The Bonds maturing on or before August 1, 2033 are not subject to redemption prior to their stated maturity dates. The Bonds maturing on or after August 1, 2034 are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on August 1, 2033, or on any date thereafter, at a price equal to 100% of the principal amount thereof, without premium, together with accrued interest thereon to the redemption date.

Mandatory Redemption. The Bonds maturing on August 1, 20__ are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 20__, at a redemption price equal to the principal amount thereof as of the date set for such redemption, without premium. The principal amount to be so redeemed and the dates therefore and the final payment date is as indicated in the following table:

Mandatory Sinking Fund Payment Date (August 1)	Principal Amount to be Redeemed

(1) Maturity.

In the event that a portion of the Bonds maturing on August 1, 20__ is optionally redeemed prior to maturity, the remaining mandatory sinking fund payments shown above shall be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000 principal amount of such Bonds optionally redeemed.

* Preliminary; subject to change.

Selection of Bonds for Redemption

If less than all of the Bonds shall be called for redemption, the particular Bonds or portions thereof to be redeemed shall be called in such order as shall be directed by the District and, in lieu of such direction, on a proportional basis. Within a maturity, the Paying Agent shall select the Bonds for redemption as directed by the District, and, in lieu of such direction by lot; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of five thousand dollars ($5,000) or some integral multiple thereof and that, in selecting Bonds for redemption, the Paying Agent shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by five thousand dollars ($5,000).

Notice of Redemption

When redemption is authorized, the Paying Agent, upon advance written instruction from the District, shall give notice of the redemption of the Bonds at least 20 but not more than 60 days prior to the redemption date to the respective Owners of Bonds designated for redemption by first class mail, postage prepaid. Such redemption notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount, as appropriate, of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such redemption notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with the interest accrued to the redemption date in the case of Bonds, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Right to Rescind Notice of Redemption

The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of and interest and any premium due on the Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Effect of Notice of Redemption

Notice having been given as required in the Resolution, and the moneys for redemption (including the interest to the applicable date of redemption) having been set aside for payment of the redemption price, the Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given, then from and after such redemption date, interest on the Bonds to be redeemed shall cease to accrue and become payable.

Transfer and Exchange

If the Bonds are no longer in book-entry-only form, any Bond may be exchanged for Bonds of like tenor, series, maturity and principal amount upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of such Bond at the principal office of the Paying Agent together with an assignment executed by the Owner or a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Defeasance

If any or all outstanding Bonds shall be paid and discharged in any one or more of the following ways: (a) by well and truly paying or causing to be paid the principal of and interest on all Bonds outstanding, as and when the same become due and payable; (b) by depositing with the Paying Agent, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Interest and Sinking Fund plus the interest to accrue thereon without the need for further investment, is fully sufficient to pay all Bonds outstanding on their redemption date or at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; or (c) by depositing with an institution to act as escrow agent selected by the District and which meets the requirements of serving as Paying Agent pursuant to the Resolution, in trust, lawful money or noncallable direct obligations issued by the United States Treasury (including State and Local Government Series Obligations) or obligations which are unconditionally guaranteed by the United States of America and described under Section 149(b) of the Code and Regulations which, in the opinion of nationally recognized bond counsel, will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient, in the opinion of a verification agent satisfactory to the District, to pay and discharge all Bonds outstanding at maturity or redemption thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; then all obligations of the District and the Paying Agent under the Resolution with respect to such outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the Owners of the Bonds all sums due thereon, and the obligation of the District to pay to the Paying Agent amounts owing to the Paying Agent under the Resolution.

Continuing Disclosure Agreement

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the District will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") in the form of APPENDIX D hereto, on or prior to the delivery of the Bonds in which the District will undertake, for the benefit of the Beneficial Owners of the Bonds, to provide certain information as set forth therein. See "CONTINUING DISCLOSURE" herein and APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto.

SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be applied as follows:

Sources of Funds	
Principal Amount of Bonds	
[Net] Original Issue Premium	
Total Sources	
Uses of Funds	
Deposit to Building Fund	
Deposit to Interest and Sinking Fund	
Costs of Issuance(1)	
Total Uses	

(1) Includes Underwriter's discount, Bond and Disclosure Counsel fees, Municipal Advisory fees, bond insurance premium, paying agent fees, rating agency fees and other costs of issuance.

District Investments; Application of Proceeds

The San Diego County Treasurer-Tax Collector (the "Treasurer") manages, in accordance with 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 pooled investment fund (the "Pooled Investment Fund").

The composition and value of investments under management in the Pooled Investment Fund vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally. For a further discussion of the Pooled Investment Fund, see the caption "SAN DIEGO COUNTY POOLED INVESTMENT FUND" herein.

The net proceeds from the sale of the Bonds (other than premium) shall be paid to the County to the credit of the Lemon Grove School District Building Fund (the "Building Fund") established pursuant to the Resolution and shall be disbursed for the payment of the costs of acquiring and constructing the Projects (as described below). Any premium or accrued interest received by the District from the sale of the Bonds will be deposited in the Interest and Sinking Fund. Earnings on the investment of moneys in either the Building Fund or the Interest and Sinking Fund will be retained in the respective fund and used only for the purposes to which the respective fund may lawfully be applied. Moneys in the Interest and Sinking Fund may only be applied to make payments of principal of and interest, and premium, if any, on bonds of the District. All funds held in the Building Fund and the Interest and Sinking Fund will be invested by the County Treasurer. See "SAN DIEGO COUNTY POOLED INVESTMENT FUND" herein.

DEBT SERVICE SCHEDULES

The following table summarizes the annual principal and interest payments on the Bonds, assuming no optional redemption.

DEBT SERVICE ON THE BONDS

Bond Year Ending August 1	Principal	Interest	Total Debt Service
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
Total			

The following table summarizes the aggregate annual debt service on all outstanding general obligation bonds of the District, including its (i) general obligation bonds issued under the 1998 Authorization (defined herein), (ii) general obligation bonds issued under the 2008 Authorization (defined herein), (iii) general obligation bonds issued under the 2014 Authorization (defined herein), and (iv) the Bonds, rounded to the nearest dollar. See, "LEMON GROVE SCHOOL DISTRICT – District Debt Structure" herein for additional information concerning the bonds issued under the 1998 Authorization, the 2008 Authorization and the 2014 Authorization.

DEBT SERVICE ON ALL OUTSTANDING GENERAL OBLIGATION BONDS

Bond Year Ending August 1	1998 Authorization Bonds	2008 Authorization Bonds	2014 Authorization Bonds	The Bonds	Aggregate Total Debt Service
2023	$1,646,305	$ 794,627	$ 893,050		
2024	1,734,848	805,185	924,100		
2025	1,830,000	765,134	958,000		
2026	1,940,000	787,071	554,550		
2027	2,045,000	834,156	327,400		
2028	--	1,066,198	325,800		
2029	--	1,367,835	324,000		
2030	--	1,451,035	322,000		
2031	--	1,532,435	324,800		
2032	--	1,614,035	322,200		
2033	--	1,707,835	319,400		
2034	--	1,771,835	316,400		
2035	--	1,876,835	318,200		
2036	--	1,991,835	314,600		
2037	--	2,111,835	315,800		
2038	--	2,236,835	316,600		
2039	--	2,371,835	312,000		
2040	--	2,511,835	317,200		
2041	--	2,664,635	316,800		
2042	--	2,823,735	321,000		
2043	--	2,996,060	324,600		
2044	--	3,174,780	327,600		
2045	--	3,363,370	--		
2046	--	3,564,525	--		
2047	--	3,777,516	--		
2048	--	4,007,458	--		
2049	--	4,246,667	--		
2050	--	4,500,000	--		
2051	--	--	--		
2052	--	--	--		
Total	$9,196,153	$62,717,137	$9,096,100		

BOND ISURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds 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.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at https://www.spglobal.com/en/. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2022 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $490.7 million, $207.3 million and $283.4 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

SECURITY FOR THE BONDS

General

The Bonds are general obligations of the District, and the Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* taxes upon all property within the District subject to taxation by the County, without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for payment of both principal of and interest on the Bonds. The District received authorization to issue $27,000,000 aggregate principal amount of general obligation bonds pursuant to an election of the qualified electors within the District on November 8, 2022. The Bonds are the first series of general obligation bonds issued under the Authorization. Subsequent to the issuance of the Bonds, $12,000,000* aggregate principal amount of general obligation bonds will remain for issuance under the Authorization.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts receive property taxes for payment of voter-approved bonds, as well as for general operating purposes.

Local property taxation is the responsibility of various county officers. School districts whose boundaries extend into more than one county are treated, for property tax purposes, as separate jurisdictions in each county in which they are located. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer and tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer and tax collector, as *ex officio* treasurer of each school district located in the county, holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due.

Restrictions on use of *Ad Valorem* Taxes and Statutory Lien on Debt Service

Under State of California (the "State") law, school districts may levy *ad valorem* taxes (in addition to their share of the 1% county tax to pay operating expenses) only to pay principal of and interest on general obligation bonds that, like the Bonds, are approved at an election to finance specified projects or are bonds issued to refund such general obligation bonds. Moreover, State law provides that the *ad valorem* taxes may be levied to pay the principal of and interest on bonds and for no other purpose. Consequently, under State law, the District is not authorized to divert revenue from *ad valorem* taxes levied to pay the Bonds to a purpose other than payment of the Bonds. Such *ad valorem* taxes are held by the County separate and apart from other funds of the County and the District. See "SOURCES AND USES OF FUNDS – District Investments; Application of Proceeds" hereinabove.

Pursuant to Section 53515 of the State Government Code, effective for any bonds issued on or after January 1, 2016, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. The lien automatically attaches, without further action or authorization by the Board, and is valid and binding from the time the

* Preliminary; subject to change.

Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the lien, and such lien will be enforceable against the District, its successor, transferees and creditors, and all other parties asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Pledge of Tax Revenues

Under the Resolution, the District has pledged, as security for the Bonds and the interest thereon, the proceeds from the levy of the *ad valorem* tax which the County levies and receives and all interest earnings thereon (the "Pledged Moneys"). The Pledged Moneys shall be held by the County and transferred to the Paying Agent to be used to pay the principal of, premium, if any, and interest on the Bonds when and as the same shall become due and payable.

The Bonds are the general obligations of the District, payable solely from Pledged Moneys and do not constitute an obligation of the County except as provided in the Resolution. No part of any fund or account of the County is pledged or obligated to the payment of the Bonds or the interest thereon. Other than the Pledged Moneys, no funds or accounts of the District are pledged to payment of the Bonds.

THE PROJECTS

The District will apply the net proceeds of the Bonds to finance the acquisition, construction, furnishing and equipping of District facilities in accordance with the bond proposition approved at the Election which includes the ballot measure and a project list. The "Smaller Classes, Safer Schools, and Financial Accountability Act," a Constitutional amendment known as Proposition 39, controls the method by which the District will expend Bond proceeds on its capital improvements. Prior to the Election, the District prepared and submitted to its Board for approval a master list of capital improvement projects to be built, acquired, constructed or installed with the proceeds of the Bonds, which was then submitted to the voters at the Election (the "Project List"). The District will prioritize and may not undertake to complete all components of the Project List.

TAX BASE FOR REPAYMENT OF THE BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the District. The Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the District. The District's General Fund is not a source for the repayment of the Bonds.

Ad Valorem Property Taxation

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

Property taxes on the unsecured roll as of July 31 become delinquent, if unpaid, on August 31 and are subject to a 10% delinquency penalty. Unsecured property taxes remaining unpaid on October 31 are also subject to an additional penalty of one and one half percent per month on the first day of each month thereafter. The additional penalties shall continue to attach until the time of payment or until the time a court judgment is entered for the amount of unpaid taxes and penalties, whichever occurs first.

The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the respective County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

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.

The State Constitution currently requires a credit of $7,000 of the taxable 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. Current law also provides, upon application, a basis exemption of $100,000 increased by inflation for veterans with specified disabilities or for unmarried spouses of deceased veterans. The exemption may be raised to $150,000 if the applicant meets the income limit of $40,000.

In addition, certain classes of property such as cemeteries, free public libraries and museums, public schools, 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.

The following table presents the historical assessed valuation in the District since fiscal year 2010-11. The District's total assessed valuation is $3,874,708,351 for fiscal year 2022-23.

LEMON GROVE SCHOOL DISTRICT
Summary of Assessed Valuations
Fiscal Years 2010-11 Through 2022-23

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual % Change
2010-11	$2,129,716,189	$185,698	$65,913,652	$2,195,815,539	--
2011-12	2,163,108,818	185,698	66,994,107	2,230,288,623	1.57%
2012-13	2,121,733,748	185,698	72,394,841	2,194,214,287	(1.62)
2013-14	2,188,952,414	185,698	71,966,173	2,261,104,285	3.05
2014-15	2,297,445,339	185,698	71,690,055	2,369,321,092	4.79
2015-16	2,431,160,381	185,698	70,846,605	2,502,192,684	5.61
2016-17	2,563,471,242	185,698	71,570,138	2,635,227,078	5.33
2017-18	2,751,278,956	185,698	72,343,789	2,823,808,549	7.16
2018-19	2,939,471,745	310,770	73,780,034	3,013,562,549	6.72
2019-20	3,088,578,074	310,770	79,442,297	3,168,331,141	5.14
2020-21	3,253,333,257	310,770	83,229,250	3,336,873,277	5.32
2021-22	3,441,517,793	310,770	79,904,822	3,521,733,385	5.54
2022-23	3,755,173,459	310,770	119,224,122	3,874,708,351	10.02

Source*: California Municipal Statistics, Inc.*

Economic and other factors beyond the District's control, such as general market decline in property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood, fire, or toxic contamination, could cause a reduction in the assessed value of taxable property within the District. Any such reduction would result in a corresponding increase in the annual tax rate levied by the County to pay the debt service with respect to the Bonds. See "SECURITY FOR THE BONDS."

Natural Disasters Impacting Assessed Valuations

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, 2021-22, and continuing during fiscal year 2022-23, much of the State has 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. On June 14, 2022, additional emergency water conservation regulations took effect limiting watering of ornamental grasses in certain locations.

According to the U.S. Drought Monitor, as of March 7, 2023, 26.84% of the State is experiencing no drought, 30.1% of the State is experiencing Abnormally Dry conditions, 24.6% of the State is experiencing Moderate Drought, and 19.0% of the State is experiencing Severe Drought. The County is currently experiencing Abnormally Dry conditions. 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. During the summer of 2020, California experienced large-scale wildfires in several portions of the State. 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.

Portions of the District are located in a high risk-level earthquake zone. The City of Lemon Grove (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.

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 District properties) and, in turn, could substantially reduce assessed valuations of such property.

Change in Economic Conditions. The outbreak of COVID-19 and the corresponding measures to prevent its spread caused widespread unemployment and economic slow-down in the United States, the State and the County. While the Biden Administration recently announced that the United States would end its COVID-19 emergency declarations on May 11, 2023, a recurrence of the COVID-19 pandemic, including various variants, or future outbreaks could lead to an economic recession or depression and a general market decline in real estate values. Such a decline may cause a reduction of assessed values in the District. See "DISTRICT FINANCIAL INFORMATION – COVID-19 Outbreak and its Economic Impact" for more information regarding the impact of COVID-19.

The District cannot make any representation regarding the effects that the drought, change in economic conditions, caused by pandemic or otherwise, fire conditions, earthquakes, or other natural disasters has had, or may have on the value of taxable property within the District, or to what extent such conditions could cause disruptions to agricultural production, destroy property, reduce land values and adversely impact other economic activity within the boundaries of the District.

Reassessments and Appeals of Assessed Valuations

Pursuant to California Proposition 8 of November 1978 ("Proposition 8"), property owners may apply for a reduction of their property tax assessment by filing a written application, in a form prescribed by the State Board of Equalization ("SBE"), with the appropriate county board of equalization or assessment appeals board. County assessors may independently reduce assessed values as well based upon the factors described in the paragraph above or reductions in the fair market value of the taxable property. In most cases, an appeal is filed because the applicant believes that present market conditions (such as lower residential home sale prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Article XIIIA of the California Constitution."

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

County assessors, at their discretion, may also, from time to time, review certain property types purchased between specific time periods (e.g., all single family homes and condominiums purchased shortly prior to widespread declines in the fair market value of residential real estate within the county, as occurred between 2009 and 2011) and may proactively, temporarily reduce the assessed value of qualifying properties to Proposition 8 assessed values without owner appeal therefor.

A property that has been reassessed under Proposition 8, whether pursuant to owner appeal or due to county assessor review, is subsequently reviewed annually to determine its lien date value. Assuming no change in ownership or new construction, and if and as market conditions improve, the assessed value of a property with a Proposition 8 assessed value in place may increase as of each property tax lien date by more than the standard annual inflationary factor growth rate allowed under Article XIIIA (currently, a 2% annual maximum) until such assessed value again equals the Article XIIIA base year value for such property as adjusted for inflation and years of ownership, at which point such property is again taxed pursuant to Article XIIIA and base year values may not be increased by more than the standard Article XIIIA annual inflationary factor growth rate. A change in ownership while a property is subject to a Proposition 8 reassessment assessed valuation will cause such assessed valuation to become fixed as a new Article XIIIA base year value for such property. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Article XIIIA of the California Constitution" herein.

Assembly Bill 102. On June 27, 2017, the Governor of the State (the "Governor") signed into law Assembly Bill 102 ("AB 102"). AB 102 restructured the functions of the SBE and created two new separate agencies: (i) the California Department of Tax and Fee Administration, and (ii) the Office of Tax Appeals. Under AB 102, the California Department of Tax and Fee Administration took over programs previously in the SBE Property Tax Department, such as the Tax Area Services Section, which is responsible for maintaining all property tax-rate area maps and for maintaining special revenue district boundaries. Under AB 102, the SBE continues to perform the duties assigned by the State Constitution related to property taxes; however, effective January 1, 2018, the SBE only hears appeals related to the programs that it constitutionally administers, and the Office of Tax Appeals hears appeals on all other taxes and fee matters, such as sales and use tax and other special taxes and fees. AB 102 obligates the Office of Tax Appeals to adopt regulations as necessary to carry out its duties, powers and responsibilities. No assurances can be given as to the effect of such regulations on the appeals process or on the assessed valuation of property within the District.

No assurance can be given that property tax appeals and reassessments in the future will not significantly reduce the assessed valuation of property within the District.

[Remainder of page intentionally left blank]

Assessed Valuation by Jurisdiction

The table below sets forth the assessed valuation within the District for fiscal year 2022-23 by political jurisdiction.

LEMON GROVE SCHOOL DISTRICT
2022-23 Assessed Valuation by Jurisdiction

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of La Mesa	$ 543,382,253	14.02%	$ 9,099,153,972	5.97%
City of Lemon Grove	2,877,093,640	74.25	2,877,093,640	100.00
City of San Diego	449,725,779	11.61	311,888,513,763	0.14
Unincorporated San Diego County	4,506,679	0.12	92,005,581,924	0.00
Total District	$3,874,708,351	100.00%		
San Diego County	$3,874,708,351	100.00%	$656,916,230,988	0.59%

Source: *California Municipal Statistics, Inc*.

[Remainder of page intentionally left blank]

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 2022-23.

LEMON GROVE SCHOOL DISTRICT
2022-23 Assessed Valuation and Parcels by Land Use

Non-Residential:	2022-23 Assessed Valuation [1]	% of Total	No. of Parcels	% of Total
Commercial	$473,872,646	12.62%	326	3.41%
Vacant Commercial	17,428,152	0.46	51	0.53
Industrial	73,339,049	1.95	87	0.91
Vacant Industrial	3,230,371	0.09	10	0.10
Government/Social/Institutional	9,679,541	0.26	63	0.66
Subtotal Non-Residential	$577,549,759	15.38%	537	5.62%
Residential:				
Single Family Residence	$2,356,148,095	62.74%	6,995	73.22%
Condominium/Townhouse	159,404,789	4.24	683	7.15
Mobile Home	7,642,773	0.20	17	0.18
Mobile Home Park	3,888,750	0.10	2	0.02
2-4 Residential Units	369,894,010	9.85	953	9.97
5+ Residential Units/Apartments	258,288,857	6.88	85	0.89
Miscellaneous Residential	401,811	0.01	62	0.65
Vacant Residential	21,954,615	0.58	220	2.30
Subtotal Residential	$3,177,623,700	84.62%	9,017	94.38%
Total	$3,755,173,459	100.00%	9,554	100.00%

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

[Remainder of page intentionally left blank]

Assessed Valuation of Single Family Homes

The following table sets forth ranges of assessed valuations of single family homes in the District for fiscal year 2022-23, including the median and average assessed value per single family parcel.

LEMON GROVE SCHOOL DISTRICT
Per Parcel 2022-23 Assessed Valuation of Single Family Homes

	No. of Parcels	2022-23 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	6,995	$2,356,148,095	$336,833	$315,468

2022-23 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	79	1.129%	1.129%	$ 2,907,471	0.123%	0.123%
$50,000 - $99,999	748	10.693	11.823	53,032,340	2.251	2.374
$100,000 - $149,999	363	5.189	17.012	45,465,394	1.930	4.304
$150,000 - $199,999	626	8.949	25.961	111,005,943	4.711	9.015
$200,000 - $249,999	820	11.723	37.684	184,422,763	7.827	16.842
$250,000 - $299,999	684	9.778	47.462	187,656,113	7.965	24.807
$300,000 - $349,999	544	7.777	55.239	176,653,651	7.498	32.305
$350,000 - $399,999	501	7.162	62.402	188,357,835	7.994	40.299
$400,000 - $449,999	547	7.820	70.222	232,617,182	9.873	50.172
$450,000 - $499,999	655	9.364	79.585	310,863,348	13.194	63.365
$500,000 - $549,999	495	7.076	86.662	258,610,099	10.976	74.341
$550,000 - $599,999	360	5.147	91.808	206,411,435	8.761	83.102
$600,000 - $649,999	253	3.617	95.425	157,443,751	6.682	89.784
$650,000 - $699,999	129	1.844	97.269	86,177,563	3.658	93.442
$700,000 - $749,999	83	1.187	98.456	59,892,646	2.542	95.984
$750,000 - $799,999	43	0.615	99.071	33,079,340	1.404	97.388
$800,000 - $849,999	26	0.372	99.442	21,302,557	0.904	98.292
$850,000 - $899,999	10	0.143	99.585	8,770,124	0.372	98.664
$900,000 - $949,999	5	0.071	99.657	4,611,932	0.196	98.860
$950,000 - $999,999	4	0.057	99.714	3,957,439	0.168	99.028
$1,000,000 and greater	20	0.286	100.000	22,909,169	0.972	100.000
	6,995	100.000%		$2,356,148,095	100.000%	

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

According to Redfin, as of March 20, 2023, the median sales price of a single family home in the City of Lemon Grove is $672,000.

[Remainder of page intentionally left blank]

Largest Taxpayers

The table below sets forth the largest local secured taxpayers within the District in fiscal year 2022-23.

LEMON GROVE SCHOOL DISTRICT
2022-23 Largest Local Secured Taxpayers

	Property Owner	Primary Land Use	2022-23 Assessed Valuation	% of Total [1]
1.	Ultimate Capital LLC	Shopping Center	$ 41,245,015	1.10%
2.	Strong Tower LP	Apartments	21,675,000	0.58
3.	Starboard Lemon Grove DST	Shopping Center	20,997,998	0.56
4.	HD Development of Maryland Inc.	Shopping Center	20,700,196	0.55
5.	Miller Family Real Estate LLC	Auto Sales/Service	20,424,388	0.54
6.	Sams Real Estate Business Trust	Shopping Center	19,778,496	0.53
7.	Wal-Mart Real Estate Business Trust	Shopping Center	19,695,034	0.52
8.	Target Corporation	Shopping Center	19,507,733	0.52
9.	Celsius Lemon Grove LLC	Apartments	18,863,679	0.50
10.	8413 Broadway LLC	Apartments	17,508,408	0.47
11.	Retail Portfolio 30-1 LLC	Apartments	17,155,737	0.46
12.	College Grove 6410 LLC	Apartments	15,617,264	0.42
13.	ACI Real Estate Company LLC	Supermarket	15,085,231	0.40
14.	Terrace Gardens LLC	Apartments	14,495,587	0.39
15.	Lemon Grove Holdings LLC	Shopping Center	12,564,691	0.33
16.	William O. Kobusch Revocable Trust	Auto Sales/Service	12,253,529	0.33
17.	Lemon Grove Investor 1 LLC	Apartments	12,195,000	0.32
18.	Real Asymmetry King LLC	Apartments	11,920,740	0.32
19.	San Diego Grove LP	Commercial	10,364,643	0.28
20.	Food 4 Less of California Inc.	Supermarket	10,212,185	0.27
			$352,260,554	9.38%

[1] 2022-23 local secured assessed valuation: $3,755,173,459.
Source: *California Municipal Statistics, Inc.*

The top 20 taxpayers on the secured roll for fiscal year 2022-23 account for 9.38% of the secured assessed value in the District which is $352,260,554. According to California Municipal Statistics, Inc., the largest secured taxpayer in the District for fiscal year 2022-23 is Ultimate Capital LLC, accounting for 1.10% of the total secured assessed value in the District. No other secured taxpayer accounts for more than 0.58% 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.

[Remainder of page intentionally left blank]

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 2018-19 through 2022-23:

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

	2018-19	2019-20	2020-21	2021-22	2022-23
General Tax Rate	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000
Lemon Grove SD	**.08179**	**.08239**	**.08166**	**.07617**	**.07518**
Grossmont HSD	.06482	.06704	.06326	.06448	.06180
Grossmont CCD	.04225	.04038	.03797	.04115	.03936
Grossmont Healthcare District	.02352	.02490	.02490	.02459	.02459
Metropolitan Water District	.00350	.00350	.00350	.00350	.00350
Total	1.21588	1.21821	1.21129	1.20989	1.20443

(1) 2022-23 assessed valuation of TRA 15-012 is $1,067,351,666 which is 27.55% 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 with respect to the Bonds 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.

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

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 and the Underwriter have 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 prepared on January 19, 2023, for debt outstanding as of February 1, 2023:

LEMON GROVE SCHOOL DISTRICT
Direct and Overlapping Bonded Indebtedness

2022-23 Assessed Valuation: $3,874,708,351

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/1/23
Metropolitan Water District	0.107%	$ 21,587
Grossmont-Cuyamaca Community College District	6.053	22,004,796
Grossmont Union High School District	6.216	39,607,191
Lemon Grove School District	**100.000**	**22,761,044**[1]
City of La Mesa	5.972	1,007,178
Grossmont Healthcare District	5.704	13,518,028
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$98,919,824
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
San Diego County General Fund Obligations	0.590%	$ 1,355,112
San Diego County Pension Obligation Bonds	0.590	1,640,141
San Diego County Superintendent of Schools Certificates of Participation	0.590	40,917
Grossmont-Cuyamaca Union High School District General Fund Obligations	6.216	1,974,512
Lemon School District Certificates of Participation	**100.000**	**7,345,000**
City of La Mesa General Fund Obligations	5.972	102,121
City of San Diego General Fund Obligations	0.144	778,384
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$13,236,187
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$19,039,238
COMBINED TOTAL DEBT		$131,195,249[2]

Ratios to 2022-23 Assessed Valuation:
Direct Debt ($22,761,044)... 0.59%
Total Direct and Overlapping Tax and Assessment Debt...... 2.55%
Combined Direct Debt ($30,106,044)................................ 0.78%
Combined Total Debt 3.39%

Ratios to Redevelopment Incremental Valuation ($726,497,014):
Total Overlapping Tax Increment Debt................................ 2.62%

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

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the operations of the District and the District's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal and interest on the Bonds is payable from the General Fund of the District. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County on all taxable property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

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 part of the 2013-14 State Budget (defined below), as amended by Senate Bill 91 ("SB 91") and other legislation since initial implementation, comprise the statutory framework of the LCFF. The LCFF 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 per unit of ADA under the LCFF is more than the average revenue limit under the prior funding system. 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 a cost-of-living-adjustment ("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" and "– Proposed 2023-24 State Budget" for information regarding the proposed COLA for fiscal year 2023-24. 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 otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. 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 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.

Enrollment and ADA

The following table sets forth the historical enrollment and ADA for fiscal years 2014-15 through 2021-22.

LEMON GROVE SCHOOL DISTRICT
Historical Enrollment and ADA
Fiscal Years 2014-15 through 2021-22

Fiscal Year	Enrollment	ADA
2014-15	3,922	3,724
2015-16	3,831	3,651
2016-17	3,797	3,612
2017-18	3,730	3,540
2018-19	3,589	3,395
2019-20	3,421	3,243
2020-21	3,160	3,243
2021-22	3,251	2,837

Source*: The District.*

Declining Enrollment. Over the prior five fiscal years, the District has experienced a decline in enrollment of approximately 479 students. The District projects that enrollment will continue to decline by another approximately 180 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.

The following table sets forth the total enrollment, the percentage of EL/LI enrollment ("Unduplicated Count") as a percentage of total enrollment, ADA by grade span, and total ADA for fiscal year 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	Total Enrollment	Unduplicated Count (as a % of Total Enrollment)	TK-3	4-6	7-8	Total ADA
2021-22	3,251	74.84%	1,259.07	993.35	585.09	2,837.51
2022-23[1]	3,171	73.61	1,314.08	959.47	602.03	2,875.58
2023-24[2]	3,109	73.01	1,344.03	981.34	615.74	2,941.11
2024-25[2]	3,071	72.64	1,327.61	969.35	608.21	2,905.17

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

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 2021-22, ADA for funding purposes was based on ADA for fiscal year 2019-20. The fiscal year 2022-23 budget for the State permits schools districts to use the greater of the current year or prior year ADA or an average of the three prior years' ADA to calculate LCFF funding. See "DISTRICT FINANCIAL INFORMATION – State Budget Measures."

The sum of a school district's adjusted Base, Supplemental and Concentration Grants will be multiplied by such district's second principal apportionment 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 economic recovery target 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 "community-funded" districts (formerly, "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. Community-funded 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 community-funded 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 community funded.

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 districts can use supplemental or concentration funding on a school-wide or district-wide basis.

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

Support and Intervention. The LCFF 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. The District has not previously been subject to any of the above-described support and intervention procedures.

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 following table presents each revenue source as a percentage of total revenues for fiscal years 2018-19 through 2022-23.

LEMON GROVE SCHOOL DISTRICT
Percentage of Revenue by Source
Fiscal Years 2018-19 through 2022-23

Revenue Source	2018-19	2019-20	2020-21	2021-22	2022-23[1]
LCFF Sources	75.8%	78.0%	69.0%	65.4%	59.1%
Federal Revenues	4.8	4.8	11.5	12.6	13.1
Other State Revenues	11.1	9.5	12.4	12.7	22.0
Other Local Revenues	8.3	7.7	7.1	9.3	5.8

(1) Budgeted, per the District's Second Interim Budget report.
Source*: The District.*

Developer Fees

Pursuant to Education Code Section 17620, the District receives developer fees per square foot 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 \$0.048 per square foot for commercial/industrial development. For fiscal years 2018-19, 2019-20, 2020-21, and 2021-22, the

District received $114,899, $56,160, $148,914, and $252,586 in developer fees, respectively. The District has budgeted receipt of $255,207 in developer fees for fiscal year 2022-23, per its Second Interim Budget Report. Developer fees are not pledged the repayment of the Bonds, which are secured solely by *ad valorem* taxes.

COVID-19 Outbreak and its Economic Impact

In late 2019, an outbreak of COVID-19, a respiratory virus, initially occurred in China and subsequently spread globally. The global outbreak, together with measures undertaken to limit the spread of COVID-19 imposed by local and federal governments, 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 increases in inflation as these restrictions and closures have been lifted.

Federal Response. On March 13, 2020, in response to the COVID-19 outbreak, then President Trump declared a national emergency, making available more than $50 billion in federal resources to combat the spread of COVID-19. 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. On January 31, 2023, the Biden Administration announced that the United States would end its COVID-19 emergency declarations on May 11, 2023.

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. On March 19, 2020, Governor Newsom issued an Executive Order requiring mandatory shelter-in-place for all non-essential services. In September, 2020, the Governor replaced the Executive Order with the "Blueprint for a Safer Economy" ("Blueprint") which provided regulations for economic and social activity on a county by county basis related to certain metrics of disease transmission. The Blueprint system was terminated on June 15, 2021 and Governor Newsom ended the State of Emergency relating to COVID-19 on February 28, 2023.

As a result of the various regulations imposed in order to slow the spread of COVID-19, economic activity within the State, the County and the community around and within the District 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) and 2022-23 State Budget (defined below) indicated increases in State revenues during the COVID-19 pandemic, although current projections for the 2023-24 State budget forecast revenues decreasing from recent years. See "See " – State Budget Measures – Proposed 2023-24 State Budget" for additional information regarding projected State revenues in fiscal year 2023-24.

Impact of COVID-19 on California School Districts

To assist school districts respond to the spread of COVID-19, on March 13, 2020, Governor Newsom issued Executive Order N-26-20, providing that school districts that initiate a school closure 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. The Executive Order 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, the California legislature, in 2020, adopted legislation to appropriate $500,000,000 from the State General Fund for any purpose related to the Governor's declared State of Emergency. Among other things, the legislation 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 and, further, 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.

The District, in tandem with other school districts in the State, closed its school campuses for the remainder 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 the second half of the 2020-21, when the County moved into a lower risk assessment tier under the Blueprint. The District began the 2021-22 school year offering full time in-person learning, for which the State provided grants to incentivize and assist school districts with re-opening and learning loss mitigation.

During the COVID-19 pandemic, the District received approximately $13.3 million in aggregate relief, including funding from the CARES Act, CRRSA and the American Rescue Package. The District has used such funding for, among other things, 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.

The District cannot predict the extent or duration of another COVID-19 outbreak or what impact it may have on the District's General Fund revenues. However, the Bonds are general obligations of the District payable solely from ad valorem property taxes and are not payable from the General Fund of the District. See "SECURITY FOR THE BONDS" herein.

Budget Procedures

State Budgeting Requirements. The District is required by provisions of the Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 1200 are summarized below.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. In 2014, Assembly Bill 2585 was enacted, which repealed provisions authorizing schools districts to use a dual budget adoption cycle. Instead, all school districts must be on a single budget cycle. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

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, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than August 20, the county superintendent must notify the State Superintendent of all school districts whose budget has been disapproved.

For districts whose budgets have been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. 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.

In the past five fiscal years, the District's adopted budget has never been disapproved by the County Superintendent.

Interim Financial Reports. Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and the 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 current fiscal year or the 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 the two subsequent fiscal years.

The District has filed positive certifications for each of the reporting periods in the last five fiscal years.

General Fund Budget. The District's General Fund adopted budgets for fiscal years 2018-19 through 2022-23, audited actuals for the fiscal years 2018-19 through 2021-22 and Second Interim Budget Report for fiscal year 2022-23 are set forth on the following page.

LEMON GROVE SCHOOL DISTRICT
GENERAL FUND BUDGETING

	Adopted Budget 2018-19[1]	Audited Actuals 2018-19[2,3]	Adopted Budget 2019-20[1]	Audited Actuals 2019-20[2,3]	Adopted Budget 2020-21[1]	Audited Actuals 2020-21[2,3]	Adopted Budget 2021-22[1]	Audited Actuals 2021-22[2,3]	Adopted Budget 2022-23[1]	Second Interim Budget Report 2022-23
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	$39,784,051
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	8,797,273
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	14,828,285
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	3,890,879
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	67,300,588
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	23,309,720
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	9,724,286
Employee Benefits	10,934,255	12,858,642	11,863,992	12,148,608	11,930,203	12,693,919	14,576,357[4]	15,090,200[4]	15,184,632[4]	15,692,093
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	11,419,674
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	7,090,906
Capital Outlay	--	454,343	799,365	939,474	330,000	458,590	2,240,544	1,678,386	359,000	994,601
Other Outgo	200,000	111,068	14,000	96,780	68,914	136,354	6,914	57,022	189,700	189,700
Other Outgo Transfer. of Indirect Costs	(169,550)	(232,354)	(198,812)	(225,424)	(209,426)	(203,397)	(313,771)	(317,882)	(324,108)	(248,085)
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	68,172,895
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)	(872,307)
OTHER FINANCING SOURCES (USES)										
Transfers in	--	--	--	--	--	5,500	--	--	--	910,500
Transfers out	(253,000)	(2,151,448)	(253,000)	(813,193)	(253,000)	(5,634,201[5])	(253,000)	(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)	657,500
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)	(214,807)
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	11,853,098	10,455,106	10,455,106
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	$ 8,795,550	$ 9,908,514	10,240,299

[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] 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 33 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.
[4] Increased employee benefits over prior fiscal years is due to statutory increases in retirement contributions.
[5] Includes a transfer of $4,095,000 to the Special Reserve for Capital Outlay Projects.
Source*:* The District.

Comparative Financial Statements

The District's General Fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2022 and prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, 8025 Lincoln Street, Lemon Grove, California 91945. See APPENDIX B hereto for the 2021-22 Audited Financial Statements of the District.

The following table reflects the District's audited General Fund revenues, expenditures and fund balances from fiscal year 2018-19 to fiscal year 2021-22.

[Remainder of page intentionally left blank]

LEMON GROVE SCHOOL DISTRICT
GENERAL FUND
Statement of Revenues, Expenditures and Change in Fund Balances
for Fiscal Years 2018-19 through 2021-22

	2018-19 Audit	2019-20 Audit	2020-21 Audit	2021-22 Audit
REVENUES				
LCFF Sources	$36,371,868	$35,824,397	$34,042,524	$36,376,600
Federal Revenues	2,287,502	2,174,756	5,599,120	6,601,475
Other State Revenues	5,304,062	4,345,688	5,394,001	7,207,971
Other Local Revenues	3,969,753	3,521,079	4,157,682	3,115,385
TOTAL REVENUES	47,933,185	45,865,920	49,193,327	53,301,431
EXPENDITURES				
Instruction	30,007,752	29,184,432	30,610,810	33,786,213
Instruction-Related Services				
Instructional supervision and admin	1,271,777	1,528,322	1,334,193	1,490,311
Instructional library, media & tech	188,606	185,052	194,311	1,045,841
School site administration	2,251,818	2,316,028	2,600,682	3,124,777
Pupil Services				
Home-to-school transportation	655,079	404,990	322,942	437,033
Food services	--	14,112	702	6,884
All other pupil services	1,971,859	1,935,393	1,778,340	2,225,250
General Administration				
Centralized data processing	801,005	805,236	677,815	650,011
All other general administration	2,874,937	3,109,503	4,742,456	4,953,503
Plant Services	3,286,411	3,311,510	3,501,621	3,729,603
Facilities Acquisition and Maintenance	336,751	804,963	705,529	804,890
Ancillary Services	1,041,162	1,027,080	1,009,884	1,299,126
Transfers to other agencies	111,068	96,780	136,354	113,799
Debt Service – Principal	--	--	41,321	--
Debt Service – Interest	--	--	--	--
TOTAL EXPENDITURES	44,798,225	44,723,401	47,656,960	53,667,241
Excess (Deficiency) of Revenues Over Expenditures	3,134,960	1,142,519	1,536,367	(365,810)
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)	(365,810)
Fund Balance at Beginning of Year	16,065,847	17,599,359	23,212,107[1]	21,072,185
Fund Balance at End of Year	$17,599,359	$18,428,685	$21,072,185	$20,706,375

[1] Beginning Fund Balance for fiscal year 2020-21 has been restated, due to the clarifications provided by GASB Statement No. 84, to reflect the PARS Trust account balance as reported within the General Fund.
Source*: The District.*

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

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.

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 projected 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 estimated $265.4 billion in resources and $242.9 billion in expenditures. The 2022-23 State Budget projected $37.2 billion in reserves, including $23.3 billion in the Budget Stabilization Account (the "BSA") for fiscal emergencies, $900 million in the Safety Net Reserve, $9.5 billion in the Public School Stabilization Account (the "PSSSA"), and an estimated $3.5 billion in the State's operating reserve. The BSA is 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 reflected $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 was projected to be applicable in fiscal year 2022-23. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Proposition 2" herein for more information regarding school district reserves.

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

The 2022-23 State Budget also addressed environmental matters facing California. The 2022-23 State Budget included $1.2 billion to advance wildfire prevention and forest resilience investments and funded an additional 1,265 new positions to expand the State's wildfire response capacity. $1.2 billion was 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 allocated $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 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 included 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 estimated 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, the result was Proposition 98 per pupil spending of $16,993 in 2022-23, a $3,017 increase over the fiscal year 2021-22 per pupil spending levels. Additionally, in the same period, per pupil spending from all sources increased to $22,893 under the 2022-23 State Budget.

The 2022-23 State Budget included an LCFF COLA of 6.56%. Additionally, the 2022-23 State Budget included $4.32 billion ongoing Proposition 98 funds to increase LCFF base funding by an additional 6.28%. The 2022-23 State Budget also included $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 provided that school districts might 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 enabled 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 included $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 included 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 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 fiscal year 2021-22, $2.1 billion in fiscal year 2023-24 and $875 million in fiscal year 2024-25 for new construction and modernization projects, and $100 million in fiscal year 2021-22 and $550 million in fiscal year 2023-24 for the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program.

Proposed 2023-24 State Budget. Governor Newsom announced his proposed budget for the State for fiscal year 2023-24 (the "Proposed 2023-24 State Budget") on January 10, 2023, citing a downturn in current State revenues of approximately $29.5 billion from the 2022-23 State Budget resulting in a $22.5 billion budget deficit in fiscal year 2023-24. The Proposed 2023-24 State Budget projects revenues and transfers in fiscal year 2023-24 of $231 billion and expenditures of $223 billion. A balanced budget is accomplished through funding delays, reductions and shifts from general funds to other funding sources. However, certain reductions in the areas of climate and transportation, housing, parks and workforce training are set to be restored if sufficient revenues are available in subsequent fiscal years. The Proposed 2023-24 State Budget reflects \$35.6 billion in total budgetary reserves including \$22.4 billion in the BSA, \$8.5 billion in the PSSSA, \$900 million in the Safety Net Reserve, and \$3.8 billion in the State's operating reserve.

The Proposed 2023-24 State Budget provides total K-12 education funding of \$128.5 billion (\$78.7 general fund and \$49.8 billion from other funds). K-12 per pupil funding totals \$17,519 from Proposition 98 sources, its highest level ever, and \$23,723 per pupil when accounting for all funding sources. The projected decrease in State revenues under the Proposed 2023-24 State Budget also lowers the Proposition 98 guarantee to \$110.4 billion in fiscal year 2021-22, \$106.9 billion in fiscal year 2022-23 and \$108.8 billion in fiscal year 2023-24. The deposit to the PSSSA is also lowered under the Proposed 2023-24 State Budget to \$365 million in fiscal year 2023-24. However, the cap of 10% on school district reserves remains in effect because the \$8.1 billion balance in the PSSSA in fiscal year 2022-23 is greater than 3% of the total K-12 Proposition 98 guarantee.

LCFF funding under the Proposed 2023-24 State Budget receives a COLA of 8.13%. The Proposed 2023-24 State Budget also includes \$300 million ongoing Proposition 98 funds to establish an equity multiplier as an add-on to the LCFF to augment resources for the highest-need schools in the State.

The Proposed 2023-24 State Budget includes \$690 million to implement the second year of transitional kindergarten expansion and \$165 million to support an additional certificated or classified staff person in TK classrooms; however, it delays the 2022-23 State Budget's \$550 million investment in the Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program planned for fiscal year 2023-24 until 2024-25.

Significant provisions of the Proposed 2023-24 State Budget pertaining to K-12 education are as follows:

- Proposition 28—\$941 million (equivalent to 1% of the Proposition 98 guarantee) to fund the Arts and Music in Schools-Funding Guarantee approved by voters in November, 2022 to increase art instruction and/or arts programs.

- State Preschool Program—\$64.5 million Proposition 98 funds and \$51.8 million general funds to continue the multi-year plan to ramp-up inclusivity in the State Preschool Program.

- Commercial Dishwasher Grants—\$15 million one-time Proposition 98 funds to support school kitchen infrastructure related investments to specifically support a local educational agency's acquisition and installation of a commercial dishwasher.

- Student Friendly Services—\$3.9 million ongoing Proposition 98 funds to support the California College Guidance Initiative.

- K-12 High Speed Network—\$3.8 million ongoing Proposition 98 funds to support the K-12 High Speed Network program.

- Reversing Opioid Overdoses—An increase of \$3.5 million ongoing Proposition 98 general funds for all middle and high school sites to maintain at least two doses of naloxone hydrochloride or another medication to reverse an opioid overdose on campus for emergency aid.

- Data Support—An increase of $2.5 million non-Proposition 98 general funds and 15 positions for the California Department of Education to meet state and federal data and accountability reporting requirements, support data exchanges with other agencies, and to quickly respond to emergent needs for data both internally and externally.

- Fiscal Crisis and Management Assistance Team (FCMAT)—An increase of $750,000 ongoing Proposition 98 general funds to support the professional development of local educational agencies' Chief Budget Officers through mentorship programming by FCMAT.

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 "DISTRICT FINANCIAL INFORMATION – 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 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 "DISTRICT FINANCIAL INFORMATION – COVID-19 Outbreak and its Economic Impact" and "– 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 lingering fiscal impacts of the COVID-19 pandemic described above.

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, including the Bonds. See "TAX BASE FOR REPAYMENT OF THE BONDS – Assessed Valuations" herein.

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. The tax for payment of principal of and interest on the Bonds falls within the exception described in (c) of the immediately preceding sentence. 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 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, which represents 0.008% of the District's total assessed valuation in fiscal year 2022-23, 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 of 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 one percent *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.

The Authorization was passed by voters within the District with the required minimum 55% vote pursuant to Proposition 39.

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 "–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 at the end of 2016.

Proposition 51

The Kindergarten through Community College Public Education Facilities Bond Act of 2016 ("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 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 PSSSA which serves as a reserve account for school funding in years when the State budget is smaller. See "DISTRICT FINANCIAL INFORMATION - State Budget Measures – 2022-23 State Budget" and " -Proposed 2023-24 State Budget" herein for information regarding the deposit of funds to the PSSSA in fiscal years 2020-21, 2021-22 and 2022-23.

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 fiscal year 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 "– 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% of General Fund expenditures and other financing uses. On June 30, 2022, the District had total available reserves of $1,617,520, or 3.0% of its General Fund expenditures and other financing uses. 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.

Proposition 28. On November 8, 2022, voters approved The Arts and Music in Schools- Funding Guarantee and Accountability Act which provides additional funding for arts and music education in all K–12 public schools (including charter schools) by annually allocating from the State general fund an amount equal to 1% of total State and local revenues received by public schools in the preceding fiscal year under Proposition 98. Amounts provided under Proposition 28 are in addition to and not considered a part of the Proposition 98 guarantee. Funds appropriated under Proposition 28 are to be allocated 70% based on a school district's share of Statewide enrollment and 30% based on such school district's share of Statewide enrollment of economically disadvantaged students and must be distributed to school sites following such allocation. School districts must expend funds received pursuant to Proposition 28 within three years or such funds revert to CDE for reallocation under Proposition 28.

As a condition to receipt of funds under Proposition 28, school districts must certify that funds are to be used for arts education and that funds received in the prior fiscal year were, in fact, used for those purposes. Additionally, no more than 1% of Proposition 28 funds may be used for administrative purposes in implementing Proposition 28 programs. Schools with 500 or more students must certify that at least 80% of the funding is to be used to employ teachers and that the remainder will be spent on training, supplies, and education partnerships. Amounts appropriated under Proposition 28 in a given year may be reduced if the State legislature suspends the Proposition 98 guarantee but only in an amount equal to the percent reduction of the Proposition 98 guarantee. See "DISTRICT FINANCIAL INFORMATION – State Budget Measures – Proposed 2023-24 State Budget" for information regarding Proposition 28 in the Proposed 2023-24 State Budget.

Future Initiatives. Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 26, 98, 111 and 28 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.

LEMON GROVE SCHOOL 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, as well as portions of the Cities of La Mesa, Spring Valley and San Diego. The District provides education services in eight school sites, including six elementary schools and two middle schools. The District's average daily attendance ("ADA") for fiscal year 2022-23 is budgeted to be 2,876 students, per its Second Interim Budget Report, and the District has a 2022-23 total assessed valuation of $3,874,708,351.

Board of Education

The District is governed by the Board. The Board consists of five members who are elected 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
Greg Shibley	President	2026
Dr. Javier Ayala	Vice President	2026
Dorinda Miller	Clerk	2026
Yajaira Preciado	Member	2024
Cheryl Robertson	Member	2024

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: Superintendent. 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
Mariana Vinson	Deputy 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 and 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 either the District or the Underwriter.

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 and employer contributions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. For fiscal year 2022-23, the District is currently required by such statutes to contribute 19.10% 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 10.328% of teacher payroll for fiscal year 2022-23. 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 necessary.

Pursuant to AB 1469, school districts' employer contribution rates increased over a seven-year phase-in period beginning in fiscal year 2014-15 through fiscal year 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 fiscal year 2021-22 and each fiscal year thereafter, STRS adjust the school district's 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 district's 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 2021-22 from 17.9% to 16.02%.

The District contributed $3,160,586 for fiscal year 2018-19, $3,545,923 for fiscal year 2019-20, $3,763,277 for fiscal year 2020-21, and $3,787,068 for fiscal year 2021-22. Such contributions were equal to 100% of the required contributions for the respective years. The District has budgeted a contribution to STRS of $6,853,307 for fiscal year 2022-23, per its Second Interim Budget Report. 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 Law. 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 an additional 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% of earnings for fiscal year 2022-23. On July 20, 2022, PERS reported a preliminary negative 6.1% net return on investments for fiscal year 2021-22, which is PERS' first negative return on investments since fiscal year 2008-09. The negative 6.1% net return on investments is less than the assumed annual rate of return on investments of 6.80%.

The most recent PERS actuarial valuation report for the Schools Pool, dated as of June 30, 2021, estimates school districts' future employer contribution rates as follows:

Fiscal Year	Prior Projected Employer Contribution Rates	New Projected Employer Contribution Rates (PERS Actuarial Report)
2023-24	25.20%	27.00%
2024-25	24.60	28.10
2025-26	23.70	28.80
2027-28	22.60	29.20
2028-29	22.60	30.70

The projected rates reflect the preliminary investment loss for fiscal year 2021-22 described above. Projected rates also reflect the anticipated decrease in normal cost due to new hires entering lower cost benefit tiers. The PERS Board is expected to set the actual fiscal year 2023-24 employer contribution rate at its April 2023 meeting.

The District contributed to PERS $1,053,368 for fiscal year 2018-19, $1,256,368 for fiscal year 2019-20, $1,317,628 for fiscal year 2020-21, and $1,585,775 for fiscal year 2021-22, which amounts equaled 100% of required contributions to PERS. The District has budgeted a contribution to PERS of $1,829,019 for fiscal year 2022-23, per its Second Interim Budget Report.

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 makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (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 STRS and PERS, as of June 30, 2022, are as shown in the following table.

Pension Plan	Proportionate Share of Net Pension Liability
STRS	$16,849,553
PERS	8,982,462
Total	$25,832,015

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, 2022 attached hereto as APPENDIX B.

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 or future 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 factors outside of its control including, but not limited to, any declines in the value of investments in response to financial market conditions and the impact of retirees living longer than actuarial assumptions.

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* which the District implemented in fiscal year 2014-15.

Employees who are eligible to receive retiree employment benefits other than pensions ("Health & Welfare Benefits" or "OPEBs") 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 participates 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.

The District's net OPEB liability at June 30, 2022 was $2,213,333, and the District has budgeted $953,996 for OPEB expense in fiscal year 2022-23, per its Second Interim Budget Report.

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 $500,000 to the PARS Trust during fiscal year ended June 30, 2022. This amount does not reflect the contributions for the direct payment of current retiree benefits. At the measurement date of June 30, 2021 (the most recent valuation available), the cash and investments accumulated in the OPEB trust fund totaled $5,113,280.

The following table shows the changes in the District's net Health and Welfare Benefits as of June 30, 2022.

LEMON GROVE SCHOOL DISTRICT
Health & Welfare Benefit Liability

Total OPEB Liability	
Service Cost	$ 354,447
Interest on total OPEB liability	343,026
Differences between expected and actual experience	32,677
Changes of assumptions	113,875
Benefit Payments	(478,306)
Net Change in Total OPEB liability	365,719
Total OPEB Liability – Beginning	6,960,894
Total OPEB Liability – Ending	$7,326,613

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.

Cyber Security

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.

Charter Schools

The State Legislature enacted the Charter Schools Act of 1992 (State Education Code Sections 47600-47663) to permit teachers, parents, students, and community members to establish schools that would be free from most state and district regulations. Revised in 1998, the State's charter school law states that local boards are the primary charter-approving agency and that county boards of education can approve a denied charter. State education standards apply, and charter schools are required to use the same student assessment instruments. Charter schools are exempt from state and local education rules and regulations, except as specified in the legislation.

The District has certain fiscal oversight and other responsibilities with respect to any independent and District-operated charter schools established within its boundaries. However, any independent charter schools would receive funding directly from the State, and such funding would not be reported in the District's audited financial statements. Any District-operated charter schools would receive funding through the District, and such funding would be reflected in the District's audited financial statements. Currently, there are no independent or District-operated charter schools established within the District's boundaries.

The District can make no representations regarding how many District students will transfer to charter schools in the future or back to the District from such charter schools, and the corresponding financial impact on the District.

District Debt Structure

Long-Term Debt. A schedule of the District's changes in long-term debt for the year ended June 30, 2022 is shown below:

LEMON GROVE SCHOOL DISTRICT
Long-Term Debt
Fiscal year ended June 30, 2022

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022	Balance Due In One Year
General Obligation Bonds	$25,555,954	$ --	$4,333,512	$21,222,442	$1,069,400
Unamortized premium	1,433,086	--	217,719	1,215,367	135,199
Accreted Interest	14,196,014	1,875,753	1,095,126	14,976,641	--
Subtotal GO Bonds	41,185,054	1,875,753	5,646,357	37,414,450	1,204,599
Direct Placement GO Bonds	--	3,056,000	--	3,056,000	448,000
Total GO Bonds	41,185,054	4,931,753	5,646,357	40,470,450	1,652,599
Financed Purchases	371,890	--	82,644	289,246	82,644
Early Retirement Incentive	1,769,972	--	707,989	1,061,983	353,994
Compensated Absences	216,930	10,030	--	226,960	--
Net OPEB liability	2,441,437	--	228,104	2,213,333	--
Net pension liability	48,638,807	--	22,806,792	25,832,015	--
Total	$94,624,090	$4,941,783	$29,471,886	$70,093,987	$2,089,237

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 D, all under the 2014 Authorization. No further general obligation bonds remain for issuance under the 2014 Authorization, other than refunding bonds.

Pursuant to the Authorization, the District received authorization to issue $27,000,000 principal amount of general obligation bonds. The Bonds are the first series of bonds to be issued under the Authorization. Subsequent to the issuance of the Bonds, $12,000,000[*] principal amount of general obligations bonds will remain for issuance under the Authorization.

[*] Preliminary; subject to change.

Certificates of Participation. On August 11, 2022, the District issued its 2022 Certificates of Participation (the "2022 Certificates") in the principal amount of $7,345,000 to finance certain of the Projects, including renovations to the District's Palm Middle School campus. The annual lease payments with respect to the 2022 Certificates are as follows:

Year Ending June 30	Annual Lease Payments
2023	$ 194,019.47
2024	873,376.06
2025	911,219.86
2026	911,612.23
2027	910,554.45
2028	908,079.83
2029	908,561.68
2030	906,676.03
2031	907,155.71
2032	905,000.48
2033	900,411.60
Total	$9,236,667.40

Source*: The District.*

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
2023	$ 82,644
2024	82,644
2025	82,644
2026	82,644
Total	$289,246

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 is intended to be financed over five years. The outstanding principal balance remaining as of June 30, 2022 is as follows:

Year Ending June 30	Payment
2023	$ --
2024	353,994
2025	353,994
2026	353,994
Total	$1,061,983

Source*: The District.*

Short-Term Debt. As of June 30, 2022, the District did not have any short-term debt outstanding. The District does not expect to issue any tax and revenue anticipation notes in fiscal year 2022-23.

SAN DIEGO COUNTY POOLED INVESTMENT FUND

The following information concerning the San Diego County Pooled Investment Fund has been provided by the County 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.

The County Board of Supervisors approved the current County Investment Policy Statement (the "Investment Policy") effective March 1, 2022. See APPENDIX E – "SAN DIEGO COUNTY INVESTMENT POLICY STATEMENT." The Investment Policy applies to all funds managed by the Treasurer as delegated by the County Board of Supervisors. The objective of the Investment Policy is to obtain the highest feasible return consistent with a high degree of safety of principal and the level of liquidity necessary to meet the needs of the County and the agencies participating in the Pooled Investment Fund. In that regard, safety and liquidity sufficient to meet cash flow needs are of primary concern. Under the Investment Policy, return is secondary and subordinate to safety and liquidity in making investment decisions.

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 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.

SAN DIEGO COUNTY
POOLED INVESTMENT FUND
REPORT FOR THE MONTH ENDED JANUARY 31, 2023

Fund Name	Par Value	Book Value	Market Value	% of Portfolio
ABS	$ 844,273,482	$ 842,945,812	$ 827,840,494	5.75%
Agency	3,320,188,000	33,188,74,987	3,108,956,020	21.65
Bank Deposit	11,885,359	118,85,359	11,885,359	0.08
Commercial Paper	2,379,000,000	23,524,50,691	2,352,450,691	16.33
Corporate	435,682,000	436,900,151	416,211,097	2.91
LAIF	2,097	2,097	2,097	0.00
Local Gov Investment Pool	595,000,000	595,000,000	595,000,000	4.13
Money Market Fund Fl	67,500,000	67,500,000	67,500,000	0.47
Municipal Bonds	533,850,000	533,470,057	510,045,376	3.56
Negotiable CD	4,220,000,000	4,220,000,000	4,216,486,926	29.64
Supranationals	887,008,000	888,795,787	839,285,186	5.85
US Treasury	1,495,000,000	1,484,320,280	1,386,472,285	9.64
Total	$14,789,388,938	$14,752,145,221	$14,332,135,530	100.00%

Neither the District nor the Underwriter has 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 Treasurer, after a review by the Committee and approval by the County Board of Supervisors may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pooled Investment Fund will not vary significantly from the values described therein.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners of the Bonds 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 2022-23 fiscal year, and to provide notices of the occurrence of certain enumerated events. The District will enter into a Continuing Disclosure Agreement ("Continuing Disclosure Agreement") for the benefit of the owners of the Bonds. 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 D – "FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

Within the last five years, the District failed to file timely notices of (i) a lease purchase agreement and (ii) the refunding of its 2008C Bonds. The District has since filed a notice of failure to file with respect to each such event. 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 Bonds and its outstanding continuing disclosure obligations.

LEGAL MATTERS

The legal opinion of Dannis Woliver Kelley, Long Beach, California, Bond Counsel to the District ("Bond Counsel"), attesting to the validity of the Bonds, will be supplied to the Underwriter of the Bonds without charge, a form of which is attached hereto as APPENDIX A. Dannis Woliver Kelley is also acting as Disclosure Counsel to the District. Kutak Rock LLP, Irvine, California, is acting as counsel to the Underwriter ("Underwriter's Counsel"). Bond Counsel and Disclosure Counsel and Underwriter's Counsel will receive compensation contingent upon the sale and delivery of the Bonds.

Limitation on Remedies; Amounts Held in the County Treasury Pool

The opinion of Bond Counsel, the proposed form of which is attached hereto as APPENDIX A, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights. The rights of the Owners of the Bonds are subject to certain limitations. Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by the District, are limited by applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles that 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, 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 serving a significant and legitimate public purpose, and the limitations on remedies against school and community college districts in the State. Bankruptcy proceedings, if initiated, could subject the beneficial owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Under Chapter 9 of the Federal Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies, no involuntary petitions for bankruptcy relief are permitted. While current State law precludes school districts from voluntarily seeking bankruptcy relief under Chapter 9 of the Bankruptcy Code without the concurrence of the State, such concurrence could be granted or State law could be amended.

The Resolution and the Act require the County to annually levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of, premium, if any, and interest on the Bonds. The County, on behalf of the District, is thus expected to be in possession of the annual *ad valorem* taxes and certain funds to repay the Bonds and may invest these funds in the County's Investment Pool, as described in APPENDIX E – "SAN DIEGO COUNTY INVESTMENT POLICY STATEMENT" attached hereto. In the event the District or the County were to go into bankruptcy, a federal bankruptcy court might hold that the Owners of the Bonds are unsecured creditors with respect to any funds received by the District or the County prior to the bankruptcy, where such amounts are deposited into the County Treasury Pool, and such amounts may not be available for payment of the principal of and interest on the Bonds unless the Owners of the Bonds can "trace" those funds. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the District's Interest and Sinking Fund where such amounts are invested in the County Investment Pool. Under any such circumstances, there could be delays or reductions in payments on the Bonds.

California Senate Bill 222

Government Code Section 53515, added by SB 222, applicable to general obligations bonds issued after its effective date, removes the extra step between (a) the issuance of general obligation bonds by cities, counties, cities and counties, school districts, community college districts, authorities and special districts; and (b) the imposition of a lien on the future *ad valorem* property taxes that are the source of repayment of the general obligation bonds. By clarifying that the lien created with each general obligation bond issuance is a "statutory" lien (consistent with bankruptcy statutory law and case precedent), SB 222, while it does not prevent default, should reduce the ultimate bankruptcy risk of non-recovery on local general obligation bonds, and thus potentially improve ratings, interest rates and bond cost of issuance.

TAX MATTERS

The delivery of the Bonds is subject to delivery of the opinion of Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), of the owners thereof pursuant to section 103 of the Code, (2) will not be included in computing alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals, and (3) will be taken into account in determining adjusted financial statement income for the alternative minimum tax imposed on certain corporations. The delivery of the Bonds is also subject to the delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California, that interest on the Bonds is exempt from personal income taxes of the State of California. The form of Bond

Counsel's anticipated opinion respecting the Bonds is included in APPENDIX A. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District made in a certificate (the "Tax Certificate") of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Resolution by the District subsequent to the issuance of the Bonds. The Tax Certificate contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants could cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service ("IRS" or the "Service") or the State of California with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service or the State of California. The Service has an ongoing program of auditing the tax status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures, the Service is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the respective Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Accounting Treatment of Discount and Premium on Certain of the Bonds

The initial public offering price of certain of the Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. The tax rules requiring inclusion in income annually by the holder of a debt instrument having original issue discount of the daily portion of original issue discount for each day during a taxable year in which such holder held such debt instrument is inapplicable to the Bonds. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, and will be added to the holder's basis in the Discount Bond, for federal income tax purposes, on the same terms and conditions as those for other interest on the bonds described above under "TAX MATTERS." Such interest is considered to be accrued in accordance with the constant-yield-to-maturity method over the life of a Discount Bond taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial Owner prior to maturity, the amount realized by such Owner in excess of the basis of such Discount Bond in the hands of such Owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain Bonds (the "Premium Bonds"), may be greater than the amount payable on such bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning Premium Bonds.

Form of Bond Counsel Opinion. The form of the proposed opinion of Bond Counsel relating to the Bonds is attached to this Official Statement as Appendix A.

LEGALITY FOR INVESTMENT

Under provisions of the State Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of the investing bank, are prudent for the investment of funds of depositors. Under provisions of the State Government Code, the Bonds are eligible to secure deposits of public moneys in California.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned its municipal bond rating of "AA" to the Bonds based upon the expectation that the Insurer will deliver the Policy at closing. S&P has also assigned its underlying rating of "AA-" to the Bonds, without regards to the Policy. Such ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained as follows: S&P at Municipal Finance Department, 55 Water Street, New York, New York 10041, tel. (212) 208-8000. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

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

Loop Capital Markets LLC (the "Underwriter") has agreed to purchase the Bonds pursuant to the terms of a bond purchase agreement by and between the District and the Underwriter ("Purchase Agreement") at the purchase price of $____________ (reflecting the principal amount of the Bonds plus an original issue premium in the amount of $__________ less an Underwriter's discount of $__________), at the rates and yields shown on the inside cover hereof.

The Purchase Agreement provides that the Underwriter will purchase all of the Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel. The Underwriter may offer and sell the Bonds 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.

NO LITIGATION

No litigation is pending concerning the validity of the Bonds, and the District's certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue the Bonds.

OTHER INFORMATION

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Resolution are available upon request from the Lemon Grove School District, 8025 Lincoln Street, Lemon Grove, California 91945.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. 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 Bonds.

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

LEMON GROVE SCHOOL DISTRICT

By: ____
Superintendent

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

FORM OF BOND COUNSEL OPINION

_____________, 2023

Board of Education
Lemon Grove School District
8025 Lincoln Street
Lemon Grove, California 91945

Re: $___________ Lemon Grove School District (San Diego County, California) General Obligation Bonds, 2022 Election, 2023 Series A

Members of the Board:

We have acted as bond counsel for the Lemon Grove School District (San Diego County, California) (the "District"), in connection with the issuance by the District of $___________ aggregate principal amount of the District's General Obligation Bonds, 2022 Election, 2023 Series A (the "Bonds"). The Bonds are issued pursuant to the Government Code of the State of California (commencing at Section 53506), as amended, applicable provisions of the Education Code of the State and that certain resolution adopted by the Board of Education of the District on February 28, 2023 (the "Resolution"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolution.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District for the authorization and issuance of the Bonds, including the Resolution. Our services as such bond counsel were limited to an examination of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of public officials and officers of the District and San Diego County (the "County") as we have considered necessary for the purposes of this opinion.

Certain agreements, requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any effect on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. We call attention to the fact that the rights and obligations under the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors, rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security for the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion herein with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding general obligations of the District.

2. The Bonds are payable as to both principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount, except for certain personal property that is taxable at limited rates.

3. The Resolution has been duly adopted and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

4. Interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

5. Interest on the Bonds is exempt from personal income taxes of the State of California.

Bondholders should note that interest on the Bonds is not a preference item for purposes of the alternative minimum tax imposed on individuals but is taken into account in determining the annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. Ownership of tax-exempt obligations such as the Bonds 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 Bonds 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 Bonds.

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.

Dannis Woliver Kelley

APPENDIX B

LEMON GROVE SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2022

[THIS PAGE INTENTIONALLY LEFT BLANK]

LEMON GROVE SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2022

LEMON GROVE SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2022

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

OTHER INDEPENDENT AUDITORS' REPORTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL SECTION

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Independent Auditors' Report

Governing Board
Lemon Grove School District
Lemon Grove, California

Report on the Audit of the Financial Statements

Opinions

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, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lemon Grove School District, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lemon Grove School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lemon Grove School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user of the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards,* we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lemon Grove School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lemon Grove School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2022 on our consideration of the 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 the 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
December 7, 2022

LEMON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

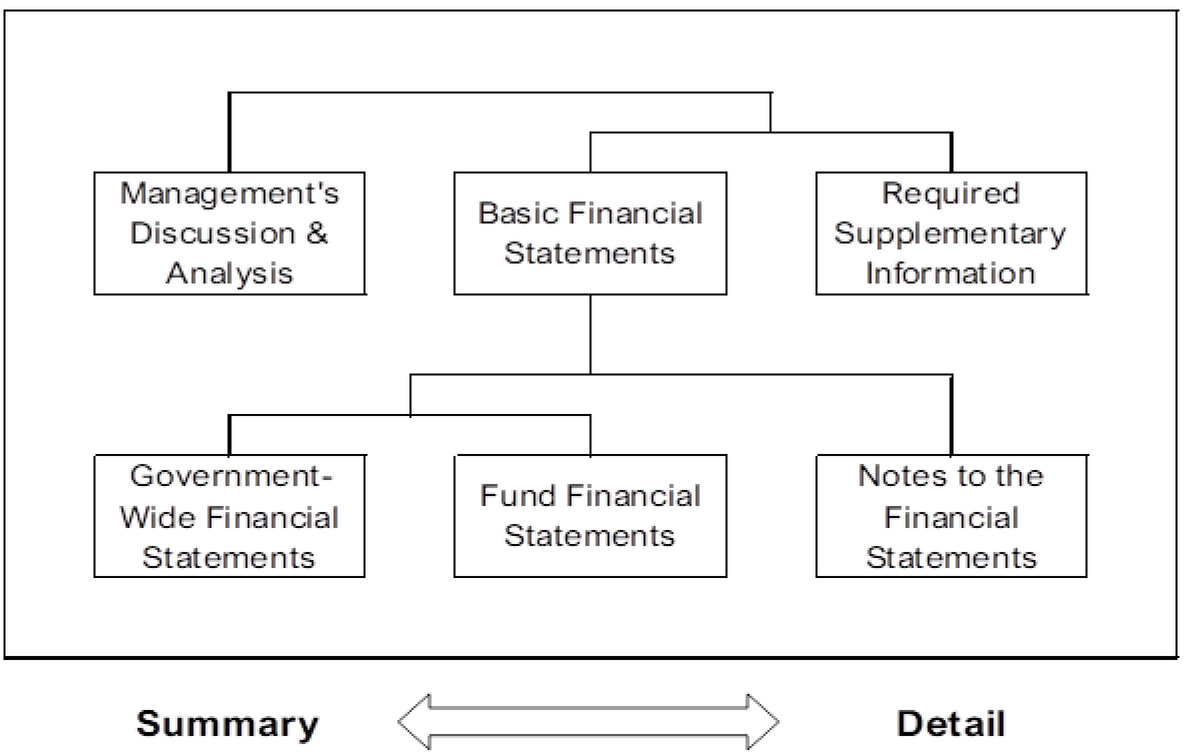
Our discussion and analysis of Lemon Grove School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2022. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's combined net position was $(3,149,154) at June 30, 2022. This was an increase of $5,018,807 from the prior year. This includes a net position of $(3,150,383) related to governmental activities and $1,229 related to business-type activities.
- Overall combined revenues were $57,853,409 which exceeded overall combined expenses of $52,834,602.

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 $(3,149,154) at June 30, 2022, as reflected in the table below. Of this amount, $(37,654,203) 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		
	2022	2021	Net Change	2022	2021	Net Change
ASSETS						
Current and other assets	$ 43,990,209	$ 53,341,316	$ (9,351,107)	$ 1,229	$ 9,515	$ (8,286)
Capital assets	40,565,767	41,425,291	(859,524)	-	-	-
Total Assets	84,555,976	94,766,607	(10,210,631)	1,229	9,515	(8,286)
DEFERRED OUTFLOWS OF RESOURCES	10,648,827	12,583,122	(1,934,295)	-	-	-
LIABILITIES						
Current liabilities	7,412,527	17,409,582	(9,997,055)	-	1,313	(1,313)
Long-term liabilities	68,004,750	91,717,070	(23,712,320)	-	-	-
Total Liabilities	75,417,277	109,126,652	(33,709,375)	-	1,313	(1,313)
DEFERRED INFLOWS OF RESOURCES	22,937,909	6,399,240	16,538,669	-	-	-
NET POSITION						
Net investment in capital assets	17,881,782	17,885,040	(3,258)	-	-	-
Restricted	16,623,267	21,314,596	(4,691,329)	-	-	-
Unrestricted	(37,655,432)	(47,375,799)	9,720,367	1,229	8,202	(6,973)
Total Net Position	$ (3,150,383)	$ (8,176,163)	$ 5,025,780	$ 1,229	$ 8,202	$ (6,973)

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		
	2022	2021	Net Change	2022	2021	Net Change
REVENUES						
Program revenues						
Charges for services	$ 1,628,291	$ 1,296,037	$ 332,254	$ 32,833	$ 829	$ 32,004
Operating grants and contributions	15,599,173	15,946,211	(347,038)	-	-	-
General revenues						
Property taxes	11,689,662	11,135,787	553,875	-	-	-
Unrestricted federal and state aid	28,636,976	26,923,607	1,713,369	-	-	-
Other	266,467	1,611,751	(1,345,284)	7	118	(111)
Total Revenues	57,820,569	56,913,393	907,176	32,840	947	31,893
EXPENSES						
Instruction	28,614,069	32,656,802	(4,042,733)	-	-	-
Instruction-related services	4,964,949	4,448,545	516,404	-	-	-
Pupil services	4,869,217	4,692,861	176,356	-	-	-
General administration	4,369,863	5,291,360	(921,497)	-	-	-
Plant services	3,846,326	4,199,745	(353,419)	-	-	-
Ancillary and community services	1,264,301	1,113,665	150,636	-	-	-
Debt service	2,373,177	2,100,602	272,575	-	-	-
Other outgo	113,799	136,354	(22,555)	-	-	-
Depreciation	2,379,088	2,139,783	239,305	-	-	-
Enterprise activities	-	-	-	39,813	1,313	38,500
Total Expenses	52,794,789	56,779,717	(3,984,928)	39,813	1,313	38,500
Change in net position	5,025,780	133,676	4,892,104	(6,973)	(366)	(6,607)
Net Position - Beginning	(8,176,163)	(8,309,839)	133,676	8,202	8,568	(366)
Net Position - Ending	$ (3,150,383)	$ (8,176,163)	$ 5,025,780	$ 1,229	$ 8,202	$ (6,973)

The cost of all our governmental activities this year was $52,794,789 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only $11,689,662 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	
	2022	2021
Instruction	$ 20,326,723	$ 22,669,651
Instruction-related services	2,939,412	3,578,240
Pupil services	1,544,483	862,829
General administration	3,389,409	4,827,504
Plant services	3,357,145	2,643,804
Ancillary and community services	(822,531)	630,305
Debt service	2,373,177	2,100,602
Transfers to other agencies	80,419	84,751
Depreciation	2,379,088	2,139,783
Total	$ 35,567,325	$ 39,537,469

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 $39,144,251 which is less than this last year's ending fund balance of $39,399,391. The District's General Fund had $365,810 less in operating revenues than expenditures for the year ended June 30, 2022. The Special Reserve Fund for Capital Outlay Projects had $453,514 more in operating revenues than expenditures for the year ended June 30, 2022.

CURRENT YEAR BUDGET 2021-2022

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 2021-2022 the District had invested $40,565,767 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2022	2021	Net Change
CAPITAL ASSETS			
Land	$ 333,932	$ 333,932	$ -
Construction in progress	322,272	980,316	(658,044)
Land improvements	8,876,695	8,820,290	56,405
Buildings & improvements	53,910,050	52,215,966	1,694,084
Furniture & equipment	8,999,297	8,572,178	427,119
Less: Accumulated depreciation	(31,876,479)	(29,497,391)	(2,379,088)
Total	$ 40,565,767	$ 41,425,291	$ (859,524)

Long-Term Liabilities

At year-end, the District had $68,004,750 in long-term liabilities. This was a decrease of 25.85% 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		
	2022	2021	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	$ 40,470,450	$ 41,185,054	$ (714,604)
Financed purchases	289,246	371,890	(82,644)
Early retirement incentive	1,061,983	1,769,972	(707,989)
Compensated absences	226,960	216,930	10,030
Net OPEB liability	2,213,333	2,441,437	(228,104)
Net pension liability	25,832,015	48,638,807	(22,806,792)
Less: current portion of long-term liabilities	(2,089,237)	(2,907,020)	817,783
Total	$ 68,004,750	$ 91,717,070	$ (23,712,320)

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 September 2022 quarterly report, the UCLA Anderson Forecast stated the U.S. economy was likely to muddle along with below-trend growth and continued high inflation over the next twelve months. No recession is forecast at this time; however, the possibility still exists that persistent inflation and aggressive interest rate policy will lead to a hard landing of the economy, potentially triggering a recession. In California, defense spending and technology demands will likely keep the economy growing.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

Fiscal policy for the funding of public education changes annually based on fluctuations in State revenues. The May 2022 Budget Revision includes total funding of $128.3 billion ($78.4 billion General Fund and $49.9 billion other funds) for all K-12 education programs, additionally, the revised spending plan further accelerates the implementation of the "California for All Kids" plan, which is a whole-child support framework designed to target inequities in educational outcomes among students from different demographic backgrounds and empower parents and families with more options and services. The Proposition 98 Guarantee continues to be in Test 1 for 2021-22 and 2022-23. To accommodate enrollment increases related to the expansion of transitional kindergarten, the Governor's Budget proposed re-benching the Test 1 percentage to increase the percentage of General Fund revenues due to the Guarantee, from 38.03 percent to approximately 38.4 percent. The May Revision updates the increased Test 1 percentage from approximately 38.4 percent to approximately 38.3 percent. At May Revision, the 2022-23 cost-of-living adjustment (COLA) is updated to 6.56 percent, the largest COLA in the history of LCFF.

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, 2022. The amount of the liability is material to the financial position of the District. The CalSTRS projected employer contribution rate for 2022-23 is 19.10 percent. The CalPERS projected employer contribution rate for 2022-23 is 25.37 percent. 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 2022-23 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, 2022

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 37,425,453	$ 383	$ 37,425,836
Accounts receivable	6,372,150	1	6,372,151
Internal balances	(845)	845	-
Inventory	168,715	-	168,715
Prepaid expenses	24,736	-	24,736
Capital assets, not depreciated	656,204	-	656,204
Capital assets, net of accumulated depreciation	39,909,563	-	39,909,563
Total Assets	84,555,976	1,229	84,557,205
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	9,471,384	-	9,471,384
Deferred outflows related to OPEB	1,177,443	-	1,177,443
Total Deferred Outflows of Resources	10,648,827	-	10,648,827
LIABILITIES			
Accrued liabilities	5,005,128	-	5,005,128
Unearned revenue	318,162	-	318,162
Long-term liabilities, current portion	2,089,237	-	2,089,237
Long-term liabilities, non-current portion	68,004,750	-	68,004,750
Total Liabilities	75,417,277	-	75,417,277
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	19,360,132	-	19,360,132
Deferred inflows related to OPEB	3,577,777	-	3,577,777
Total Deferred Inflows of Resources	22,937,909	-	22,937,909
NET POSITION			
Net investment in capital assets	17,881,782	-	17,881,782
Restricted:			
Capital projects	1,748,531	-	1,748,531
Debt service	2,852,885	-	2,852,885
Educational programs	4,360,240	-	4,360,240
Food service	2,381,431	-	2,381,431
Associated student body	16,460	-	16,460
PRSP Section 115 trust	5,263,720	-	5,263,720
Unrestricted	(37,655,432)	1,229	(37,654,203)
Total Net Position	$ (3,150,383)	$ 1,229	$ (3,149,154)

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

LEMON GROVE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	$ 28,614,069	$ 426,888	$ 7,860,458	$ (20,326,723)		
Instruction-related services						
Instructional supervision and administration	1,440,285	89,893	369,614	(980,778)		
Instructional library, media, and technology	1,030,219	-	856,562	(173,657)		
School site administration	2,494,445	8,134	701,334	(1,784,977)		
Pupil services						
Home-to-school transportation	425,025	-	17,771	(407,254)		
Food services	2,546,905	40,887	2,778,528	272,510		
All other pupil services	1,897,287	95,240	392,308	(1,409,739)		
General administration						
Centralized data processing	615,089	-	3,913	(611,176)		
All other general administration	3,754,774	71,801	904,740	(2,778,233)		
Plant services	3,846,326	61,008	428,173	(3,357,145)		
Ancillary services	1,264,301	834,440	1,252,392	822,531		
Interest on long-term debt	2,373,177	-	-	(2,373,177)		
Other outgo	113,799	-	33,380	(80,419)		
Depreciation (unallocated)	2,379,088	-	-	(2,379,088)		
Total Governmental Activities	$ 52,794,789	$ 1,628,291	$ 15,599,173	(35,567,325)		
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	39,813	32,833	-		$ (6,980)	
Total Business-Type Activities	39,813	32,833	-		(6,980)	
Total School District	$ 52,834,602	$ 1,661,124	$ 15,599,173			$ (35,574,305)
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes				8,425,147	-	8,425,147
Property taxes, levied for debt service				3,211,874	-	3,211,874
Property taxes, levied for other specific purposes				52,641	-	52,641
Federal and state aid not restricted for specific purposes				28,636,976	-	28,636,976
Interest and investment earnings				(857,470)	7	(857,463)
Interagency revenues				742,624	-	742,624
Miscellaneous				381,313	-	381,313
Subtotal, General Revenue				40,593,105	7	40,593,112
CHANGE IN NET POSITION				5,025,780	(6,973)	5,018,807
Net Position - Beginning				(8,176,163)	8,202	(8,167,961)
Net Position - Ending				$ (3,150,383)	$ 1,229	$ (3,149,154)

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

LEMON GROVE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2022

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 19,069,123	$ 7,152,328	$ 10,907,976	$ 37,129,427
Accounts receivable	4,905,960	19,118	1,446,535	6,371,613
Due from other funds	411,998	140,200	162,717	714,915
Stores inventory	147,130	-	21,585	168,715
Prepaid expenditures	24,736	-	-	24,736
Total Assets	$ 24,558,947	$ 7,311,646	$ 12,538,813	$ 44,409,406
LIABILITIES				
Accrued liabilities	$ 3,394,158	$ 29,800	$ 807,275	$ 4,231,233
Due to other funds	303,762	-	411,998	715,760
Unearned revenue	154,652	-	163,510	318,162
Total Liabilities	3,852,572	29,800	1,382,783	5,265,155
FUND BALANCES				
Nonspendable	211,866	-	21,785	233,651
Restricted	9,272,626	-	11,134,245	20,406,871
Committed	1,078,345	-	-	1,078,345
Assigned	8,526,018	7,281,846	-	15,807,864
Unassigned	1,617,520	-	-	1,617,520
Total Fund Balances	20,706,375	7,281,846	11,156,030	39,144,251
Total Liabilities and Fund Balances	$ 24,558,947	$ 7,311,646	$ 12,538,813	$ 44,409,406

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, 2022

Total Fund Balance - Governmental Funds		$ 39,144,251
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	$ 72,442,246	
Accumulated depreciation	(31,876,479)	40,565,767
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:		(684,534)
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	$ 40,470,450	
Financed purchases	289,246	
Early retirement incentive	1,061,983	
Compensated absences	226,960	
Net OPEB liability	2,213,333	
Net pension liability	25,832,015	(70,093,987)
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	$ 9,471,384	
Deferred inflows of resources related to pensions	(19,360,132)	(9,888,748)
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	$ 1,177,443	
Deferred inflows of resources related to OPEB	(3,577,777)	(2,400,334)

(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:		207,202
Total Net Position - Governmental Activities	$	(3,150,383)

LEMON GROVE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	$ 36,376,600	$ -	$ -	$ 36,376,600
Federal sources	6,601,475	-	3,380,097	9,981,572
Other state sources	7,207,971	-	1,102,022	8,309,993
Other local sources	3,115,385	453,514	3,442,439	7,011,338
Total Revenues	53,301,431	453,514	7,924,558	61,679,503
EXPENDITURES				
Current				
Instruction	33,786,213	-	928,165	34,714,378
Instruction-related services				
Instructional supervision and administration	1,490,311	-	228,902	1,719,213
Instructional library, media, and technology	1,045,841	-	-	1,045,841
School site administration	3,124,777	-	-	3,124,777
Pupil services				
Home-to-school transportation	437,033	-	-	437,033
Food services	6,884	-	2,667,899	2,674,783
All other pupil services	2,225,250	-	69,140	2,294,390
General administration				
Centralized data processing	650,011	-	-	650,011
All other general administration	4,953,503	-	291,320	5,244,823
Plant services	3,729,603	-	389,260	4,118,863
Facilities acquisition and construction	804,890	-	566,873	1,371,763
Ancillary services	1,299,126	-	10,231	1,309,357
Transfers to other agencies	113,799	-	-	113,799
Debt service				
Principal	-	-	1,428,512	1,428,512
Interest and other	-	-	1,788,907	1,788,907
Total Expenditures	53,667,241	-	8,369,209	62,036,450
Excess (Deficiency) of Revenues Over Expenditures	(365,810)	453,514	(444,651)	(356,947)
Other Financing Sources (Uses)				
Other sources	-	-	3,056,000	3,056,000
Other uses	-	-	(2,954,193)	(2,954,193)
Net Financing Sources (Uses)	-	-	101,807	101,807
NET CHANGE IN FUND BALANCE	(365,810)	453,514	(342,844)	(255,140)
Fund Balance - Beginning	21,072,185	6,828,332	11,498,874	39,399,391
Fund Balance - Ending	$ 20,706,375	$ 7,281,846	$ 11,156,030	$ 39,144,251

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, 2022

Net Change in Fund Balances - Governmental Funds			$ (255,140)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	$ 1,519,564	
Depreciation expense:	(2,379,088)	(859,524)

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: 4,416,156

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: (3,056,000)

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: 27,831

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. (780,627)

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: (10,030)

(continued on the following page)

LEMON GROVE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2022

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:		623,725
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:		3,938,207
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:		707,989
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:		217,719
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:		55,474
Change in Net Position of Governmental Activities	$	5,025,780

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

LEMON GROVE SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2022

	Business-Type Activities	Governmental Activities
	Enterprise Fund	**Self-Insurance Fund**
ASSETS		
Current assets		
Cash and investments	$ 383	$ 296,026
Accounts receivable	1	537
Due from other funds	845	-
Total current assets	1,229	296,563
Total Assets	1,229	296,563
LIABILITIES		
Current liabilities		
Accrued liabilities	-	89,361
Total current liabilities	-	89,361
Total Liabilities	-	89,361
NET POSITION		
Restricted	1,229	207,202
Total Net Position	$ 1,229	$ 207,202

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, 2022

	Business-Type Activities Enterprise Fund	Governmental Activities Self-Insurance Fund
OPERATING REVENUES		
Charges for services	$ 32,833	$ 398,889
Total operating revenues	32,833	398,889
OPERATING EXPENSES		
Salaries and benefits	39,231	-
Supplies and materials	582	-
Professional services	-	336,596
Total operating expenses	39,813	336,596
Operating income/(loss)	(6,980)	62,293
NON-OPERATING REVENUES/(EXPENSES)		
Interest income	7	(6,819)
Total non-operating revenues/(expenses)	7	(6,819)
CHANGE IN NET POSITION	(6,973)	55,474
Net Position - Beginning	8,202	151,728
Net Position - Ending	$ 1,229	$ 207,202

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, 2022

	Business-Type Activities Enterprise Fund	Governmental Activities Self-Insurance Fund
Cash flows from operating activities		
Cash received from user charges	$ 32,833	$ 398,889
Cash received (paid) from assessments made to (from) other funds	(2)	33,867
Cash payments for payroll, insurance, and operating costs	(41,126)	(305,590)
Net cash provided by (used for) operating activities	(8,295)	127,166
Cash flows from investing activities		
Interest received	7	(6,819)
Net cash provided by (used for) investing activities	7	(6,819)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,288)	120,347
CASH AND CASH EQUIVALENTS		
Beginning of year	8,671	175,679
End of year	$ 383	$ 296,026
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income/(loss)	$ (6,980)	$ 62,293
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	843	33,867
(Increase) decrease in due from other funds	(845)	-
Increase (decrease) in accrued liabilities	(1,313)	42,066
Increase (decrease) in due to other funds	-	(11,060)
Net cash provided by (used for) operating activities	$ (8,295)	$ 127,166

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 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 childcare activities 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, 2021
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 – June 30, 2021

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.

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)

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.

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, lease receivables (net of related deferred inflows), 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.

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 (continued)

Unassigned (continued)

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.

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. 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 implemented this Statement as of June 30, 2022.

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 fully implemented this Statement as of June 30, 2022.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. This statement defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The statement is effective for periods beginning after June 15, 2022. The District has not yet determined the impact on the financial statements.

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 implemented this Statement as of June 30, 2022.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

GASB Statement No. 99 – In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The statement addresses various practice issues, including: (a) clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives, (b) disclosures related to nonmonetary transactions; clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements, (c) terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and (d) terminology used in Statement 53 to refer to resource flows statements. A portion of this statement was effective upon issuance, while the remaining portions of this statement were effective for periods beginning after June 15, 2022 and for periods beginning after June 15, 2023. 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. 100 – In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement is effective for periods beginning after June 15, 2023. The District has not yet determined the impact on the financial statements.

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for periods beginning after December 15, 2023. 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	$ 32,525,300	$ 303,526	$ 32,828,826	$ 393
Fair value adjustment	(716,253)	(7,500)	(723,753)	(10)
Cash on hand and in banks	16,460	-	16,460	-
Cash in revolving fund	40,200	-	40,200	-
Cash with fiscal agent	5,263,720	-	5,263,720	-
Total	$ 37,129,427	$ 296,026	$ 37,425,453	$ 383

NOTE 2 – CASH AND INVESTMENTS (continued)

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).

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

NOTE 2 – CASH AND INVESTMENTS (continued)

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 $32,105,456 which is equal to the adjusted book value as of June 30, 2022. The average weighted maturity for this pool is 551 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, 2022, the pooled investments in the County Treasury were rated at least A.

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, 2022, 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.

NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value (continued)

The District's fair value measurements at June 30, 2022 were as follows:

	Uncategorized
Investment in county treasury	$ 32,105,456
PARS PRSP trust account	5,263,720
Total	$ 37,369,176

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2022 consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Self-Insurance Fund	Governmental Activities	Business-Type Activities
Federal Government						
Categorical aid	$ 3,954,937	$ -	$ 686,618	$ -	$ 4,641,555	$ -
State Government						
Categorical aid	214,483	-	729,804	-	944,287	-
Lottery	192,449	-	-	-	192,449	-
Local Government						
Other local sources	544,091	19,118	30,113	537	593,859	1
Total	$ 4,905,960	$ 19,118	$ 1,446,535	$ 537	$ 6,372,150	$ 1

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	Balance July 01, 2021	Additions	Deletions	Balance June 30, 2022
Governmental Activities				
Capital assets not being depreciated				
Land	$ 333,932	$ -	$ -	$ 333,932
Construction in progress	980,316	322,272	980,316	322,272
Total capital assets not being depreciated	1,314,248	322,272	980,316	656,204
Capital assets being depreciated				
Land improvements	8,820,290	56,405	-	8,876,695
Buildings & improvements	52,215,966	1,694,084	-	53,910,050
Furniture & equipment	8,572,178	427,119	-	8,999,297
Total capital assets being depreciated	69,608,434	2,177,608	-	71,786,042
Less accumulated depreciation				
Land improvements	2,999,642	463,686	-	3,463,328
Buildings & improvements	20,722,088	1,247,467	-	21,969,555
Furniture & equipment	5,775,661	667,935	-	6,443,596
Total accumulated depreciation	29,497,391	2,379,088	-	31,876,479
Governmental Activities Capital Assets, net	$ 41,425,291	$ 120,792	$ 980,316	$ 40,565,767

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2022 were as follows:

	Due From Other Funds				
Due To Other Funds	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Enterprise Fund	Total
General Fund	$ -	$ 140,200	$ 162,717	$ 845	$ 303,762
Non-Major Governmental Funds	411,998	-	-	-	411,998
Total	$ 411,998	$ 140,200	$ 162,717	$ 845	$ 715,760

Due from the General Fund to the Cafeteria Fund for reimbursement of payroll and program expenditures.	$ 24,697
Due from the General Fund to the Building Fund for payroll expenditures.	4,962
Due from the General Fund to the Capital Facilities Fund for RRMA expenditures.	133,058
Due from the General Fund to the Special Reserve Fund for Capital Outlay Projects for capital improvement reserves.	140,200
Due from the General Fund to the Enterprise Fund to correct suspense account activity.	845
Due from the Child Development Fund to the General Fund for indirect costs.	71,668
Due from the Cafeteria Fund to the General Fund for indirect costs and CDPH testing grant revenue.	331,333
Due from the Capital Facilities Fund to the General Fund for administrative expenses.	8,997
Total	$ 715,760

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2022 consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Self-Insurance Fund	District-Wide	Governmental Activities
Payroll	$ 259,498	$ -	$ 19,449	$ -	$ -	$ 278,947
Construction	-	-	277,533	-	-	277,533
Vendors payable	2,889,842	29,800	510,293	89,361	-	3,519,296
Due to grantor government	244,818	-	-	-	-	244,818
Unmatured interest	-	-	-	-	684,534	684,534
Total	$ 3,394,158	$ 29,800	$ 807,275	$ 89,361	$ 684,534	$ 5,005,128

NOTE 7 – UNEARNED REVENUE

Unearned revenue balances at June 30, 2022 consisted of the following:

	General Fund	Non-Major Governmental Funds	Governmental Activities
Federal sources	$ 147,694	$ -	$ 147,694
State categorical sources	6,958	163,510	170,468
Total	$ 154,652	$ 163,510	$ 318,162

NOTE 8 – LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2022 consisted of the following:

	Balance July 01, 2021	Additions	Deductions	Balance June 30, 2022	Balance Due In One Year
Governmental Activities					
General obligation bonds	$ 25,555,954	$ -	$ 4,333,512	$ 21,222,442	$ 1,069,400
Unamortized premium	1,433,086	-	217,719	1,215,367	135,199
Accreted interest	14,196,014	1,875,753	1,095,126	14,976,641	-
Subtotal general obligation bonds	41,185,054	1,875,753	5,646,357	37,414,450	1,204,599
Direct placement general obligation bonds	-	3,056,000	-	3,056,000	448,000
Total general obligation bonds	41,185,054	4,931,753	5,646,357	40,470,450	1,652,599
Financed purchases	371,890	-	82,644	289,246	82,644
Early retirement incentive	1,769,972	-	707,989	1,061,983	353,994
Compensated absences	216,930	10,030	-	226,960	-
Net OPEB liability	2,441,437	-	228,104	2,213,333	-
Net pension liability	48,638,807	-	22,806,792	25,832,015	-
Total	$ 94,624,090	$ 4,941,783	$ 29,471,886	$ 70,093,987	$ 2,089,237

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

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2022 amounted to $226,960 which was an increase of $10,030 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.

NOTE 8 – LONG-TERM LIABILITIES (continued)

B. General Obligation Bonds (continued)

2022 General Obligation Refunding Bonds

On April 19, 2022, the District issued $3,056,000 of Series 2022 direct placement general obligation refunding bonds. The net proceeds received for the Series 2022 refunding bonds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the Election of 2008, Series C general obligation bonds 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 $136,897 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $119,914.

The outstanding general obligation bonded debt of the District as of June 30, 2022, excluding accreted interest, is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2021	Additions	Deductions	Bonds Outstanding June 30, 2022
General obligation bonds:								
1998 Election, Series A	3/4/1999	2/1/2024	3.10 - 4.50%	$ 7,248,025	$ 594,210	$ -	$ 175,492	$ 418,718
1998 Election, Series B	11/30/2000	11/1/2025	3.90 - 6.72%	2,560,587	791,401	-	105,452	685,949
1998 Election, Series C	10/18/2002	8/1/2027	2.50 - 5.62%	2,191,178	1,405,863	-	102,568	1,303,295
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	3,240,000	-	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	2,830,000	-	540,000	2,290,000
2019 Refunding Bonds	7/11/2019	8/1/2033	4.00%	4,120,000	3,885,000	-	170,000	3,715,000
Subtotal general obligation bonds:					25,555,954	-	4,333,512	21,222,442
Direct placement general obligation bonds:								
2022 Refunding Bonds	4/19/2022	8/1/2028	2.34%	3,056,000	-	3,056,000	-	3,056,000
Subtotal direct placement general obligation bonds:					-	3,056,000	-	3,056,000
Total					$ 25,555,954	$ 3,056,000	$ 4,333,512	$ 24,278,442

The annual requirements to amortize all general obligations bonds payable outstanding at June 30, 2022, including accreted interest, is as follows:

	General Obligation Bonds			Direct Placement General Obligation Bonds		
Year Ended June 30,	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2023	$ 1,069,400	$ 1,606,715	$ 2,676,115	$ 448,000	$ 47,597	$ 495,597
2024	1,111,434	1,670,522	2,781,956	489,000	55,306	544,306
2025	1,175,089	1,722,458	2,897,547	515,000	43,559	558,559
2026	1,393,261	1,781,239	3,174,500	336,000	33,603	369,603
2027	1,067,029	1,798,921	2,865,950	381,000	25,214	406,214
2028 - 2032	3,452,436	5,323,054	8,775,490	887,000	21,376	908,376
2033 - 2037	2,358,793	4,897,075	7,255,868	-	-	-
2038 - 2042	3,227,127	4,545,375	7,772,502	-	-	-
2043 - 2047	4,917,362	1,796,145	6,713,507	-	-	-
2048 - 2051	1,450,511	-	1,450,511	-	-	-
Accretion	14,976,641	(14,976,641)	-	-	-	-
Total	$ 36,199,083	$ 10,164,863	$ 46,363,946	$ 3,056,000	$ 226,655	$ 3,282,655

NOTE 8 – LONG-TERM LIABILITIES (continued)

C. Financed Purchases

During the year ended June 30, 2022, the District entered into a financing agreement for an ionization disinfection system. Monthly payments are due over a period of five years and do not bear any interest. Future payments under this agreement are as follows:

Year Ended June 30,	Payment
2023	$ 82,644
2024	82,644
2025	82,644
2026	41,314
Total	$ 289,246

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, 2022 is as follows:

Year Ended June 30,	Payment
2023	$ -
2024	353,994
2025	353,994
2026	353,995
Total	$ 1,061,983

E. Other Postemployment Benefits

The District's beginning net OPEB liability was $2,441,437 and decreased by $228,104 during the year ended June 30, 2022. The ending net OPEB liability at June 30, 2022 was $2,213,333. See Note 10 for additional information regarding the net OPEB liability.

F. Net Pension Liability

The District's restated beginning net pension liability was $48,638,807 and decreased by $22,806,792 during the year ended June 30, 2022. The ending net pension liability at June 30, 2022 was $25,832,015. 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, 2022:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	$ 40,000	$ -	$ 200	$ 40,200
Stores inventory	147,130	-	21,585	168,715
Prepaid expenditures	24,736	-	-	24,736
Total non-spendable	211,866	-	21,785	233,651
Restricted				
Educational programs	4,008,906	-	351,334	4,360,240
Food service	-	-	2,381,431	2,381,431
Associated student body	-	-	16,460	16,460
Capital projects	-	-	4,847,601	4,847,601
Debt service	-	-	3,537,419	3,537,419
PRSP Section 115 trust	5,263,720	-	-	5,263,720
Total restricted	9,272,626	-	11,134,245	20,406,871
Committed				
Other commitments	1,078,345	-	-	1,078,345
Total committed	1,078,345	-	-	1,078,345
Assigned				
Other assignments	3,538,470	7,281,846	-	10,820,316
Special reserve	3,076,061	-	-	3,076,061
Deferred maintenance	1,911,487	-	-	1,911,487
Total assigned	8,526,018	7,281,846	-	15,807,864
Unassigned	1,617,520	-	-	1,617,520
Total	$ 20,706,375	$ 7,281,846	$ 11,156,030	$ 39,144,251

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 $500,000 to the PARS OPEB trust during the year ended June 30, 2022. This amount does not reflect the contributions for the direct payment of current retiree benefits to VEBA.

At the measurement date of June 30, 2021, the cash and investments accumulated in the OPEB Trust Fund totaled $5,113,280.

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	54
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	341
Total number of participants**	395

*Information not provided
**As of the June 30, 2021 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, 2022, were as follows:

Total OPEB liability	$	7,326,613
Plan fiduciary net position		(5,113,280)
District's net OPEB liability	$	2,213,333
Plan fiduciary net position as a percentage of total OPEB liability		69.79%

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%	4.250%
All Equities	15%	7.545%
Short-Term Government Fixed	5%	3.000%

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, 2022, the annual money-weighted rate of return on investments, net of investment expense, was 6.72 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, 2022 was determined by an actuarial valuation as of June 30, 2021 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Economic assumptions:

Inflation	2.50%
Payroll increases	2.75%
Investment return/discount rate	4.75%
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, 2021 valuation were based on a review of plan experience during the period July 1, 2019 to June 30, 2021.

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 21 years.

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

I. Changes in Net OPEB Liability

		June 30, 2022
Total OPEB Liability		
Service cost	$	354,447
Interest on total OPEB liability		343,026
Difference between expected and actual experience		32,677
Changes of assumptions		113,875
Benefits payments		(478,306)
Net change in total OPEB liability		365,719
Total OPEB liability - beginning		6,960,894
Total OPEB liability - ending (a)	$	7,326,613
Plan fiduciary net position		
Contributions - employer	$	728,306
Net investment income		369,917
Benefit payments		(478,306)
Administrative expenses		(26,094)
Net change in plan fiduciary net position		593,823
Plan fiduciary net position - beginning		4,519,457
Plan fiduciary net position - ending (b)	$	5,113,280
District's net OPEB liability - ending (a) - (b)	$	2,213,333
Plan fiduciary net position as a percentage of the total OPEB liability		69.79%
Covered-employee payroll	$	21,000,142
District's net OPEB liability (asset) as a percentage of covered-employee payroll		10.54%

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 (3.75%)	Valuation Discount Rate (4.75%)	1% Increase (5.75%)
Net OPEB liability	$ 2,684,131	$ 2,213,333	$ 1,767,563

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 Healthcare Cost Trend Rate (4.00%)	1% Increase (5.00%)
Net OPEB liability	$ 1,554,150	$ 2,213,333	$ 2,970,892

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

For the fiscal year ended June 30, 2022, the Lemon Grove School District recognized OPEB expense of $33,111. At June 30, 2022, 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	$ 13,894	$ 138,452
Differences between expected and actual experience	169,627	985,986
Changes in assumptions	493,329	2,453,339
District contributions subsequent to the measurement date	500,593	-
Total	$ 1,177,443	$ 3,577,777

The $500,593 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, 2023. 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
2023	$ 170,638	$ 608,988
2024	170,638	608,569
2025	170,634	594,891
2026	28,238	594,888
2027	28,238	567,221
Thereafter	108,464	603,220
Total	$ 676,850	$ 3,577,777

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	$ 16,849,553	$ 7,274,553	$ 15,890,951	$ 385,638
PERS Pension	8,982,462	2,196,831	3,469,181	958,970
Total	$ 25,832,015	$ 9,471,384	$ 19,360,132	$ 1,344,608

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 2022, 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 2022 was 16.92% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were $3,787,068 for the year ended June 30, 2022.

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 $2,381,189 to CalSTRS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2022, 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	$	16,849,553
State's proportionate share of the net pension liability associated with the District		8,478,219
Total	$	25,327,772

The net pension liability was measured as of June 30, 2021, 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, 2020 and rolling forward the total pension liability to June 30, 2021. 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, 2021, the District's proportion was 0.037 percent, which was an increase of 0.001 from its proportion measured as of June 30, 2020.

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, 2022, the District recognized pension expense of $475,666. In addition, the District recognized pension expense and revenue of $(1,477,745) for support provided by the State. At June 30, 2022, 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	$ -	$ 13,328,431
Differences between expected and actual experience	42,209	1,793,144
Changes in assumptions	2,387,402	-
Changes in proportion and differences between District contributions and proportionate share of contributions	1,057,874	769,376
District contributions subsequent to the measurement date	3,787,068	-
Total	$ 7,274,553	$ 15,890,951

The $3,787,068 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, 2023. 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
2023	$ 1,442,301	$ 4,190,855
2024	1,296,222	3,668,215
2025	222,383	3,623,627
2026	228,739	4,001,344
2027	166,471	228,077
2028	131,369	178,833
Total	$ 3,487,485	$ 15,890,951

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, 2020, and rolling forward the total pension liability to June 30, 2021 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, 2020 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, 2021, 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	$ 34,299,660	$ 16,849,553	$ 2,366,298

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 2022 was 22.91% of annual payroll. Contributions to the plan from the District were $1,585,775 for the year ended June 30, 2022.

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

At June 30, 2022, the District reported a liability of $8,982,462 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020 and rolling forward the total pension liability to June 30, 2021. 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, 2021, the District's proportion was 0.044 percent, which was unchanged from its proportion measured as of June 30, 2020.

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, 2022, the District recognized pension expense of $958,970. At June 30, 2022, 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	$ -	$ 3,447,202
Differences between expected and actual experience	268,150	21,175
Changes in proportion and differences between District contributions and proportionate share of contributions	342,906	804
District contributions subsequent to the measurement date	1,585,775	-
Total	$ 2,196,831	$ 3,469,181

The $1,585,775 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, 2023. 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
2023	$ 372,137	$ 873,278
2024	220,713	801,233
2025	18,206	835,936
2026	-	958,734
Total	$ 611,056	$ 3,469,181

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, 2020, and rolling forward the total pension liability to June 30, 2021 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, 2020, 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+ 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	$ 15,145,692	$ 8,982,462	$ 3,865,659

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, 2022.

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, 2022.

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, 2022, total deferred outflows related to pensions was $9,471,384 and total deferred inflows related to pensions was $19,360,132.

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, 2022, total deferred outflows related to other postemployment benefits was $1,177,443 and total deferred inflows related to other postemployment benefits was $3,577,777.

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 – SUBSEQUENT EVENTS

On July 26, 2022, the District issued $7,345,000 of 2022 Certificates of Participation to finance construction, improvement, and modernization projects within the District. The certificates will bear interest rates ranging from 3.554% to 4.639% and will mature from October 1, 2023 through October 1, 2032.

REQUIRED SUPPLEMENTARY INFORMATION

LEMON GROVE SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2022

	Budgeted Amounts Original	Budgeted Amounts Final	Actual* (Budgetary Basis)	Variances - Final to Actual
REVENUES				
LCFF sources	$ 35,362,795	$ 35,916,785	$ 35,976,600	$ 59,815
Federal sources	9,233,905	6,916,141	6,601,475	(314,666)
Other state sources	5,884,446	6,972,984	7,207,971	234,987
Other local sources	3,196,945	5,090,591	3,356,952	(1,733,639)
Total Revenues	53,678,091	54,896,501	53,142,998	(1,753,503)
EXPENDITURES				
Certificated salaries	20,704,565	21,987,824	22,744,899	(757,075)
Classified salaries	7,528,775	8,634,572	7,527,787	1,106,785
Employee benefits	14,576,357	15,090,200	13,562,543	1,527,657
Books and supplies	7,288,722	5,195,357	4,233,297	962,060
Services and other operating expenditures	4,708,414	5,375,570	4,719,404	656,166
Capital outlay	2,240,544	1,678,386	1,047,835	630,551
Other outgo				
Excluding transfers of indirect costs	6,914	57,022	113,799	(56,777)
Transfers of indirect costs	(313,771)	(317,882)	(282,323)	(35,559)
Total Expenditures	56,740,520	57,701,049	53,667,241	4,033,808
Excess (Deficiency) of Revenues				
Over Expenditures	(3,062,429)	(2,804,548)	(524,243)	2,280,305
Other Financing Sources (Uses)				
Transfers out	253,000	(253,000)	(250,000)	3,000
Net Financing Sources (Uses)	253,000	(253,000)	(250,000)	3,000
NET CHANGE IN FUND BALANCE	(2,809,429)	(3,057,548)	(774,243)	2,283,305
Fund Balance - Beginning	11,853,098	11,853,098	11,229,350	(623,748)
Fund Balance - Ending	$ 9,043,669	$ 8,795,550	$ 10,455,107	$ 1,659,557

* 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.

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, 2022

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Total OPEB Liability					
Service cost	$ 354,447	$ 382,996	$ 690,131	$ 670,030	$ 644,260
Interest on total OPEB liability	343,026	306,798	432,028	422,797	402,172
Changes of benefit terms	-	-	-	-	109,895
Difference between expected and actual experience	32,677	147,758	(1,491,426)	57,548	-
Changes of assumptions	113,875	(324,101)	(3,301,896)	906,826	-
Benefits payments	(478,306)	(745,165)	(747,348)	(691,902)	(641,110)
Net change in total OPEB liability	365,719	(231,714)	(4,418,511)	1,365,299	515,217
Total OPEB liability - beginning	6,960,894	7,192,608	11,611,119	10,245,820	9,730,603
Total OPEB liability - ending (a)	$ 7,326,613	$ 6,960,894	$ 7,192,608	$ 11,611,119	$ 10,245,820
Plan fiduciary net position					
Contributions - employer	$ 728,306	$ 745,165	$ 1,259,795	$ 1,441,902	$ 1,141,110
Net investment income	369,917	193,677	260,487	155,565	240,684
Benefit payments	(478,306)	(745,165)	(759,795)	(691,902)	(641,110)
Administrative expenses	(26,094)	(21,828)	(9,165)	(7,969)	-
Net change in plan fiduciary net position	593,823	171,849	751,322	897,596	740,684
Plan fiduciary net position - beginning	4,519,457	4,347,608	3,596,286	2,698,690	1,958,006
Plan fiduciary net position - ending (b)	$ 5,113,280	$ 4,519,457	$ 4,347,608	$ 3,596,286	$ 2,698,690
District's net OPEB liability - ending (a) - (b)	$ 2,213,333	$ 2,441,437	$ 2,845,000	$ 8,014,833	$ 7,547,130
Plan fiduciary net position as a percentage of the total OPEB liability	69.79%	64.93%	60.45%	30.97%	26.34%
Covered-employee payroll	$ 21,000,142	$ 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	10.54%	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, 2022

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Annual money-weighted rate of return, net of investment expense	6.72%	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, 2022

	June 30, 2022	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	0.037%	0.036%	0.036%	0.036%	0.037%	0.036%	0.038%	0.035%
District's proportionate share of the net pension liability	$ 16,849,553	$ 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	8,478,219	18,115,118	17,852,978	18,747,134	20,101,450	16,351,741	13,801,402	13,265,160
Total	$ 25,327,772	$ 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	$ 20,176,496	$ 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	83.5%	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	87.2%	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, 2022

	June 30, 2022	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%	0.044%	0.042%	0.043%	0.047%	0.047%	0.046%	0.047%
District's proportionate share of the net pension liability	$ 8,982,462	$ 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	$ 6,363,507	$ 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	141.2%	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	81.0%	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, 2022

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 3,787,068	$ 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*	(3,787,068)	(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	$ 22,579,017	$ 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	16.77%	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, 2022

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 1,585,775	$ 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*	(1,585,775)	(1,317,628)	(1,256,368)	(1,053,368)	(889,989)	(838,287)	(661,466)	(605,406)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 6,958,347	$ 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	22.79%	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 decreased from 5.00% to 4.75% since the prior measurement date.

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, 2022, 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			
Certificated salaries	$ 21,987,824	$ 22,744,899	$ 757,075
Other outgo			
Excluding transfers of indirect costs	$ 57,022	$ 113,799	$ 56,777

SUPPLEMENTARY INFORMATION

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

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	$ 742,109
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	76,319
Title III, English Learner Student Program	84.365	14346	84,753
Special Education Cluster **[1]**			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	707,158
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	2,610
ARP IDEA Part B, Sec 611, Local Assistance Entitlement	84.027	15638	129,230
ARP IDEA Part B, Sec. 611, Local Assistance Private School ISPs	84.027	10169	520
ARP IDEA Part B, Sec 619, Preschool Grants	84.173	15639	14,247
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	31,024
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	257
Subtotal Special Education Cluster			885,046
COVID-19 Emergency Acts Funding/Education Stabilization Fund Discretionary Grants: **[1]**			
Governor's Emergency Education Relief (GEER) Fund	84.425C	15517	222,235
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425	15536	634,068
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425	15547	1,130,737
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425	15559	861,979
Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	915,295
Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425	15618	349,048
Expanded Learning Opportunities (ELO) Grant GEER II	84.425	15619	80,110
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425	15620	227,539
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425	15621	392,237
Subtotal Education Stabilization Fund Discretionary Grants			4,813,248
Total U. S. Department of Education			6,601,475
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	586,805
National School Lunch Program	10.555	13391	1,682,001
Meal Supplements	10.555	*	8,241
USDA Commodities **[2]**	10.555	*	142,199
Supply Chain Assistance (SCA) Funds	10.555	15655	81,701
SNP COVID-19 Emergency Operational Costs Reimbursement (ECR)	10.555	15637	183,182
Subtotal Child Nutrition Cluster			2,684,129
NSLP Equipment Assistance Grants	10.579	14906	24,252
Pandemic EBT Local Administrative Grant	10.649	15644	3,063
Passed through California Department of Social Services:			
Child and Adult Care Food Program (CACFP)			
CACFP Claims - Centers and Family Day Care	10.558	13393	312,372
CACFP ECR	10.558	15577	44,016
Subtotal CACFP			356,388
Total U. S. Department of Agriculture			3,067,832
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Passed through California Department of Education:			
Head Start	93.600	10016	267,865
Total U. S. Department of Health & Human Services			267,865
Total Federal Expenditures			$ 9,937,172

[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 AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2022

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	1,256.10	1,270.88
Extended Year Special Education	1.19	4.40
Special Education - Nonpublic Schools	1.00	0.90
Extended Year Special Education - Nonpublic Schools	-	0.07
Total TK/K through Third	1,258.29	1,276.25
Fourth through Sixth		
Regular ADA	990.87	992.81
Extended Year Special Education	0.46	2.72
Special Education - Nonpublic Schools	1.91	1.91
Extended Year Special Education - Nonpublic Schools	0.11	0.15
Total Fourth through Sixth	993.35	997.59
Seventh through Eighth		
Regular ADA	581.32	583.11
Extended Year Special Education	0.59	0.80
Special Education - Nonpublic Schools	2.91	1.89
Extended Year Special Education - Nonpublic Schools	0.27	0.34
Total Seventh through Eighth	585.09	586.14
TOTAL SCHOOL DISTRICT	2,836.73	2,859.98

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2022

Grade Level	Minutes Requirement	2021-22 Actual Minutes	Number of Days	Status
Kindergarten	36,000	54,175	180	Complied
Grade 1	50,400	54,175	180	Complied
Grade 2	50,400	54,175	180	Complied
Grade 3	50,400	54,175	180	Complied
Grade 4	54,000	54,175	180	Complied
Grade 5	54,000	54,175	180	Complied
Grade 6	54,000	54,175	180	Complied
Grade 7	54,000	62,485	180	Complied
Grade 8	54,000	62,485	180	Complied

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

	2023 (Budget)	2022	2021	2020
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	$ 58,791,923	$ 53,142,998	$ 48,728,680	$ 45,605,904
Expenditures And Other Financing Uses	59,338,515	53,917,241	52,850,376	45,536,594
Net change in Fund Balance	$ (546,592)	$ (774,243)	$ (4,121,696)	$ 69,310
Ending Fund Balance	$ 9,908,515	$ 10,455,107	$ 11,853,097	$ 15,974,793
Available Reserves*	$ 1,780,156	$ 1,617,520	$ 1,585,144	$ 2,104,592
Available Reserves As A Percentage Of Outgo	3.00%	3.00%	3.00%	4.62%
Long-term Liabilities	$ 68,004,750	$ 70,093,987	$ 94,624,090	$ 85,547,417
Average Daily Attendance At P-2***	3,076	2,837	3,243	3,243

The General Fund ending fund balance has decreased by $5,519,686 over the past two years. The fiscal year 2022-23 budget projects a further decrease/increase of $546,592. 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 deficits in two of the past three years and anticipates incurring an operating deficit during the 2022-23 fiscal year. Total long-term obligations have decreased by $15,453,430 over the past two years.

Average daily attendance has decreased by 406 ADA over the past two years. However, an increase of 239 ADA is anticipated during the 2022-23 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.

***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, 2022

	General Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve for Post-Employment Benefits Fund
June 30, 2022, annual financial and budget report fund balance	$ 10,455,107	$ 2,267,320	$ 1,911,487	$ 3,076,061	$ 5,263,720
Adjustments and reclassifications:					
Increase (decrease) in total fund balances:					
CDPH grant revenue adjustment	-	(220,000)	-	-	-
SNP claims accruals	-	274,195	-	-	-
SCA funds accrual	-	81,701	-	-	-
Fund balance transfer (GASB 54)	10,251,268	-	(1,911,487)	(3,076,061)	(5,263,720)
Net adjustments and reclassifications	10,251,268	135,896	(1,911,487)	(3,076,061)	(5,263,720)
June 30, 2022, audited financial statement fund balance	$ 20,706,375	$ 2,403,216	$ -	$ -	$ -

See accompanying note to supplementary information.

LEMON GROVE SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2022

	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	$ 15,908	$ 58,672	$ 2,309,421	$ 3,362,626	$ 1,623,732	$ 75	$ 123	$ 3,537,419	$ 10,907,976
Accounts receivable	553	695,077	739,082	8,138	3,685	-	-	-	1,446,535
Due from other funds	-	-	24,697	4,962	133,058	-	-	-	162,717
Stores inventory	-	-	21,585	-	-	-	-	-	21,585
Total Assets	$ 16,461	$ 753,749	$ 3,094,785	$ 3,375,726	$ 1,760,475	$ 75	$ 123	$ 3,537,419	$ 12,538,813
LIABILITIES									
Accrued liabilities	$ 1	$ 167,237	$ 360,236	$ 276,656	$ 3,145	$ -	$ -	$ -	$ 807,275
Due to other funds	-	71,668	331,333	-	8,997	-	-	-	411,998
Unearned revenue	-	163,510	-	-	-	-	-	-	163,510
Total Liabilities	1	402,415	691,569	276,656	12,142	-	-	-	1,382,783
FUND BALANCES									
Non-spendable	-	-	21,785	-	-	-	-	-	21,785
Restricted	16,460	351,334	2,381,431	3,099,070	1,748,333	75	123	3,537,419	11,134,245
Total Fund Balances	16,460	351,334	2,403,216	3,099,070	1,748,333	75	123	3,537,419	11,156,030
Total Liabilities and Fund Balances	$ 16,461	$ 753,749	$ 3,094,785	$ 3,375,726	$ 1,760,475	$ 75	$ 123	$ 3,537,419	$ 12,538,813

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, 2022

	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	$ -	$ 312,265	$ 3,067,832	$ -	$ -	$ -	$ -	$ -	$ 3,380,097
Other state sources	-	923,315	153,160	-	-	-	-	25,547	1,102,022
Other local sources	13,916	52,350	(4,265)	(74,673)	252,586	(1)	(3)	3,202,529	3,442,439
Total Revenues	13,916	1,287,930	3,216,727	(74,673)	252,586	(1)	(3)	3,228,076	7,924,558
EXPENDITURES									
Current									
Instruction	-	928,165	-	-	-	-	-	-	928,165
Instruction-related services									
Instructional supervision and administration	-	228,902	-	-	-	-	-	-	228,902
Pupil services									
Food services	-	-	2,667,899	-	-	-	-	-	2,667,899
All other pupil services	-	69,140	-	-	-	-	-	-	69,140
General administration									
All other general administration	-	136,129	146,194	-	8,997	-	-	-	291,320
Plant services	-	149,118	160,079	80,063	-	-	-	-	389,260
Facilities acquisition and construction	-	-	-	566,873	-	-	-	-	566,873
Ancillary services	10,231	-	-	-	-	-	-	-	10,231
Debt service									
Principal	-	-	-	-	-	-	-	1,428,512	1,428,512
Interest and other	-	-	-	-	-	-	-	1,788,907	1,788,907
Total Expenditures	10,231	1,511,454	2,974,172	646,936	8,997	-	-	3,217,419	8,369,209
Excess (Deficiency) of Revenues Over Expenditures	3,685	(223,524)	242,555	(721,609)	243,589	(1)	(3)	10,657	(444,651)
Other Financing Sources (Uses)									
Other sources	-	-	-	-	-	-	-	3,056,000	3,056,000
Other uses	-	-	-	-	-	-	-	(2,954,193)	(2,954,193)
Net Financing Sources (Uses)	-	-	-	-	-	-	-	101,807	101,807
NET CHANGE IN FUND BALANCE	3,685	(223,524)	242,555	(721,609)	243,589	(1)	(3)	112,464	(342,844)
Fund Balance - Beginning	12,775	574,858	2,160,661	3,820,679	1,504,744	76	126	3,424,955	11,498,874
Fund Balance - Ending	$ 16,460	$ 351,334	$ 2,403,216	$ 3,099,070	$ 1,748,333	$ 75	$ 123	$ 3,537,419	$ 11,156,030

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
Cheryl Robertson	President	2024
Yajaira Preciado	Vice President	2024
Timothy Shaw	Member	2022
Greg Shibley	Member	2022
Dr. Javier Ayala	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

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, 2022 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2022.

	AL Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		$ 9,981,572
ARP California State Preschool Program One-time Stipend	93.575	(44,400)
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		$ 9,937,172

The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with 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.

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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, 2022, 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 December 7, 2022.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items (Finding #2022-001) that we consider to be significant deficiencies.

Report on 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.*

348 Olive Street
San Diego, CA
92103
O: 619-270-8222
F: 619-260-9085
christywhite.com

Lemon Grove School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Lemon Grove School District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Lemon Grove School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Lemon Grove School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Lemon Grove School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
December 7, 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

Opinion on Each Major Federal Program

We have audited Lemon Grove School District's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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 (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Lemon Grove School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of Lemon Grove School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of the laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Lemon Grove School District's federal programs.

348 Olive Street
San Diego, CA
92103

O: 619-270-8222
F: 619-260-9085
christywhite.com

Auditor's Responsibilities for the Audit for Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Lemon Grove School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user of the report on compliance about Lemon Grove School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards,* and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Lemon Grove School District's compliance with compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Lemon Grove School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Lemon Grove School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Report on Internal Control Over Compliance (continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
December 7, 2022

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Lemon Grove School District
Lemon Grove, California

Report on State Compliance

Opinion on State Compliance

We have audited Lemon Grove School District's compliance with the types of compliance requirements described in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by 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, 2022, as identified below.

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 the applicable state programs for the year ended June 30, 2022.

Basis for Opinion on State Compliance

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 *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810 as regulations (the K-12 Audit Guide). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

We are required to be independent of Lemon Grove School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on state compliance. Our audit does not provide a legal determination of Lemon Grove School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of the laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Lemon Grove School District's state programs.

348 Olive Street
San Diego, CA
92103
O: 619-270-8222
F: 619-260-9085
christywhite.com

Auditor's Responsibilities for the Audit of State Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the state compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Lemon Grove School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the K-12 Audit Guide will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user of the report on compliance about Lemon Grove School District's compliance with the requirements of the applicable state programs as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards,* and the K-12 Audit Guide, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Lemon Grove School District's compliance with compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Lemon Grove School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the K-12 Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of Lemon Grove School District's internal control over compliance. Accordingly, no such opinion is expressed.
- Select and test transactions and records to determine Lemon Grove School District's compliance with the state laws and regulations related to the following items:

PROGRAM NAME	PROCEDURES PERFORMED
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Not Applicable
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
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable

Auditor's Responsibilities for the Audit of State Compliance (continued)

PROGRAM NAME	PROCEDURES PERFORMED
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Not Applicable
In-Person Instruction Grant	Yes
Charter Schools	
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

The term "Not Applicable" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies or material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as Finding #2022-002. Our opinion on state compliance is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Lemon Grove School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Lemon Grove School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on 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 state 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 state 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 state 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 Auditor's Responsibilities for the Audit of State Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 K-12 Audit Guide. Accordingly, this report is not suitable for any other purpose.

Christy White, Inc.

San Diego, California
December 7, 2022

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LEMON GROVE SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
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
84.425, 84.425C, 84.425U	Education Stabilization Fund Discretionary Grants
84.027, 84.173, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None Reported
Any audit findings disclosed that are required to be reported in accordance with *2021-22 Guide for Annual Audits of California K-12 Local Education Agencies* ?	Yes
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

FINDING #2022-001: Internal Controls Over Cafeteria Financial Reporting (30000)

Criteria: Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should include a review of all entries used in the preparation of the District's financial statements. The District should ensure that all applicable accounting principles are adhered to when preparing the financial statements.

Condition: During our audit, we found a deficiency in internal control over cafeteria financial reporting. As summarized in the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements, we noted several transactions within the Cafeteria Fund that the District did not properly account for. This includes accruals for Supply Chain Assistance funds and the SNP cafeteria claims for April and June 2022. Funds for the CDPH Personnel Support Grant were incorrectly recorded in the Cafeteria Fund rather than the General Fund. Both issues resulted in a material audit adjustment to be posted to the financial statements. In addition, we noted several instances in which the state revenue portion of SNP claims was incorrectly recorded in the federal revenue object classification.

Effect: Audit adjustments were required due to material misstatements within the unaudited financial statements prepared by the District.

Cause: Administrative oversight.

Recommendation: The District should implement procedures to ensure that cafeteria claims revenue and the related accruals are properly recorded during the closing process. Additionally, review processes should be consistently performed to ensure all amounts are properly valued and classified within the correct resource and object classifications.

Repeat Finding: This is not a repeat finding.

Corrective Action Plan: The District will implement in its year-end closing procedures the reconciliation of Fund 13 revenue. The District's categorical accountant will reconcile federal reimbursement revenue to reimbursement claims submitted via CNIPS to ensure revenue is recorded correctly.

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, 2022.

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

FINDING #2022-002: PROPER EXPENDITURE OF EDUCATION PROTECTION ACCOUNT FUNDS (40000)

Criteria: Funds provided from the Education Protection Account (EPA) must be properly expended as required by Article XIII, Section 36, Subdivision (e), Paragraph (6) of the California Constitution. Specifically, EPA funds may not be used for salaries or benefits of administrators or any other administrative costs.

Condition: Based on our review of expenditures charged to the EPA resource for the year ended June 30, 2022, the District expended $10,030 for administrative purposes.

Effect: The District was not in compliance with the requirements for proper expenditure of EPA funds.

Cause: Administrative oversight.

Questioned Costs: $10,030, which totals the amount of EPA funds expended for administrative purposes.

Repeat Finding: No, this is not a repeat finding.

Recommendation: We recommend reviewing and utilizing CDE guidance regarding the proper uses of EPA funds in order to ensure compliance in future years.

Corrective Action Plan: The District will implement in its year-end closing procedures the review of EPA expenditures by function to ensure only allowable expenses per CDE guidance are charged to the program.

LEMON GROVE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022

There were no findings or questioned costs for the year ended June 30, 2021.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE COUNTY OF SAN DIEGO

The following information has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District or the Underwriter. The District comprises only a portion of San Diego County, California (the "County"), and the Bonds are only payable from ad valorem property taxes levied on property in the District. The following information concerning the County is included only for the purpose of supplying general information regarding the area served by the District. The Bonds are not a debt of the County.

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 influencing such data, 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 2018 through 2022

Area	2018	2019	2020	2021	2022[(1)]
Carlsbad	113,994	113,986	114,664	115,680	115,585
Chula Vista	268,588	271,362	273,384	276,922	276,785
Coronado	21,416	23,880	21,422	22,611	22,277
Del Mar	4,289	4,288	4,271	3,957	3,929
El Cajon	103,954	103,741	103,576	106,447	105,638
Encinitas	62,394	62,296	62,243	61,724	61,515
Escondido	151,068	151,311	151,803	151,389	150,679
Imperial Beach	27,599	27,869	27,978	26,448	26,243
La Mesa	60,057	59,833	59,621	60,608	60,472
Lemon Grove	**26,575**	**26,515**	**26,432**	**27,422**	**27,242**
National City	62,673	62,701	62,496	61,755	61,471
Oceanside	176,569	177,365	176,969	173,932	173,048
Poway	49,518	49,343	49,096	48,850	48,759
San Diego	1,416,956	1,421,675	1,421,462	1,371,832	1,374,790
San Marcos	95,032	96,865	97,281	92,958	93,585
Santee	56,450	57,308	57,430	59,146	59,015
Solana Beach	13,866	13,876	13,872	12,909	12,812
Vista	102,498	102,277	102,570	99,536	100,291
Balance Of County	507,622	506,828	504,709	514,377	513,170
Incorporated	2,813,496	2,826,491	2,826,570	2,774,126	2,774,136
County Total	3,321,118	3,333,319	3,331,279	3,288,503	3,287,306

(1) This column provisional population estimates for January 1, 2022.
Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties, and the State, 2011-2020, with 2010 Census Benchmark* and *E-4 Population Estimates for Cities, Counties, and the State, 2021-2022, with 2020 Census Benchmark*. Sacramento, California, May 2022.

[Remainder of page intentionally left blank]

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 2017 through 2021.

WAGE AND SALARY EMPLOYMENT
County of San Diego
Calendar Years 2017 through 2021

Industry Category	2017	2018	2019	2020	2021
Total, All Industries	1,460,900	1,491,400	1,512,800	1,394,900	1,447,300
Total Farm	8,700	9,300	9,700	9,200	8,800
Total Nonfarm	1,452,200	1,482,200	1,503,100	1,385,800	1,438,500
Total Private	1,206,000	1,234,100	1,254,500	1,148,700	1,201,200
Goods Producing	189,200	196,400	200,000	195,400	197,800
Mining and Logging	300	400	400	300	300
Construction	79,500	83,700	84,000	81,300	83,400
Construction of Buildings	18,200	19,300	19,100	18,600	19,700
Heavy & Civil Engineering Construction	7,000	7,500	7,700	8,000	7,600
Specialty Trade Contractors	54,300	56,900	57,200	54,700	56,100
Building Foundation & Exterior Contractors	10,400	11,100	10,500	10,400	10,200
Building Equipment Contractors	22,400	23,000	23,200	23,000	24,400
Building Finishing Contractors	15,000	16,300	16,600	14,900	15,100
Residual-Other Specialty Trade Contractors	6,500	6,600	6,900	6,400	6,400
Manufacturing	109,400	112,300	115,700	113,800	114,100
Durable Goods	81,500	83,700	86,300	85,400	83,800
Nondurable Goods	27,900	28,600	29,400	28,400	30,300
Service Providing	1,263,000	1,285,800	1,303,100	1,190,400	1,240,700
Private Service Providing	1,016,700	1,037,700	1,054,500	953,300	1,003,400
Trade, Transportation & Utilities	224,700	225,000	224,000	207,800	216,300
Wholesale Trade	43,800	43,800	44,000	41,300	41,700
Retail Trade	148,900	147,900	145,600	133,200	137,800
Transportation, Warehousing & Utilities	32,000	33,300	34,300	33,300	36,800
Utilities	5,200	4,900	4,600	4,700	5,000
Information	23,400	23,600	23,500	22,100	22,200
Financial Activities	74,600	76,000	76,500	74,800	75,500
Finance & Insurance	46,300	46,700	46,400	46,200	46,500
Real Estate & Rental & Leasing	28,400	29,300	30,200	28,600	28,900
Real Estate	22,500	23,200	23,900	23,800	23,900
Professional & Business Services	239,100	249,000	255,800	248,300	264,900

Source*:* State of California Employment Development Department, Labor Market Information Division, *Employment by Industry Data based on March 2021 Benchmark*. June 2022.

[Remainder of page intentionally left blank]

The following table summarizes the labor force, employment and unemployment figures for the County, the State and the United States from 2017 through 2021.

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT
County of San Diego, State of California, and United States
2017 through 2021

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate[(1)]
2017				
San Diego County	1,571,900	1,508,200	63,600	4.0%
California	19,185,400	18,258,100	927,300	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	19,289,500	18,468,100	821,400	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	19,409,400	18,612,600	796,800	4.1
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	9.5%
California	18,931,100	16,996,700	1,934,500	10.2
United States	160,742,000	147,795,000	12,947,000	8.1
2021				
San Diego County	1,563,200	1,489,100	74,100	6.5%
California	18,923,200	17,541,900	1,381,200	7.3
United States	161,204,000	152,581,000	8,623,000	5.3

(1) Unemployment rate is calculated using unrounded data.

Source: California State Employment Development Department, *Industry Employment – Official Estimates based on March 2021 Benchmark* and U.S. Department of Labor, *Current Population Survey (CPS).* January 2022.

[Remainder of page intentionally left blank]

Personal Income

The following tables show the personal income and per capita personal income for the County, the State and United States from 2017 through 2021.

PERSONAL INCOME
County of San Diego, State of California, and United States
2017-2021
(Dollars in Thousands)

Year	County	State	United States
2017	$189,127,670	$2,318,280,905	$16,839,839,000
2018	196,316,898	2,431,773,865	17,683,797,000
2019	206,231,115	2,567,425,620	18,586,994,000
2020	223,652,407	2,790,523,455	19,832,307,000
2021	238,691,713	3,006,183,929	21,294,815,000

Source: U.S. Bureau of Economic Analysis, *CAINC1 County and MSA personal income summary: personal income, population, per capita personal income* and *Table 2.1. Personal Income and Its Disposition* (accessed Thursday, January 19, 2023).

PER CAPITA PERSONAL INCOME[1]
County of San Diego, State of California, and United States
2017-2021

Year	County	State	United States
2017	$57,423	$58,804	$45,252
2018	59,428	61,508	47,473
2019	62,533	64,919	49,585
2020	67,830	70,647	53,038
2021	72,637	76,614	56,088

(1) Per capita personal income was computed using Census Bureau midyear population estimates. BEA produced intercensal annual county population statistics for 2010 to 2019 that are tied to the Census Bureau decennial counts for 2010 and 2020. BEA developed intercensal population statistics because this data was not published when Census released county population data for 2020 and 2021, which are based on the 2020 decennial counts. BEA used the Census Bureau Das Gupta method (see https://www2.census.gov/programs-surveys/popest/technical-documentation/methodology/intercensal/2000-2010-intercensal-estimates-methodology.pdf), modified to account for an extra leap year day, to produce the intercensal population figures that will be used until Census releases its official intercensal population data.

Source*: U.S. Bureau of Economic Analysis, CAINC1 County and MSA personal income summary: personal income, population, per capita personal incom*e and *Table 2.1. Personal Income and Its Disposition* (accessed Thursday, January 19, 2023).

[Remainder of page intentionally left blank]

Major Employers

The following table sets forth the ten largest employers in the County in 2022.

MAJOR EMPLOYERS
County of San Diego
2022

Employer	Number of Employees	Percentage of Total County Employment
U.C. San Diego	35,802	2.36%
Sharp Healthcare	19,468	1.28
County of San Diego	17,954	1.18
City of San Diego	11,820	0.78
General Atomics (and affiliated companies)	6,745	0.44
San Diego State University	6,454	0.43
Rady Children's Hospital San Diego	5,711	0.38
San Diego Community College District	5,400	0.36
Sempra Energy	5,063	0.33
YMCA of San Diego County	5,057	0.33
Total	119,474	7.87%

Source: *County of San Diego, Comprehensive Annual Financial Report for the year ended June 30, 2022, Table 14 Principal Employers.*

Commercial Activity

A summary of taxable sales within the County from 2017 through 2021, the most recent data available, is shown in the following table.

TAXABLE SALES
County of San Diego
2017-2021
(Dollars in Thousands)

Year	Retail and Food Permits	Retail and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
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	41,336,898.11	109,428	58,814,527.89
2021	55,683	49,891,084.24	98,392	71,714,654.86

Source*: California Department of Tax and Fee Administration, Taxable Sales - Counties by Type of Business (Taxable Table 3). January 2023.*

APPENDIX D

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 $__________ aggregate principal amount of the District's General Obligation Bonds, 2022 Election, 2023 Series A (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on February 28, 2023 (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 Bonds by the District and the purchase of such Bonds 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 Loop Capital Markets LLC (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 Bonds or any beneficial owner of the Bonds 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 Bonds have been assigned. The Final Official Statement relating to the Bonds is dated __________, 2023 ("Final Official Statement").

SECTION 4. Provision of Annual Reports.

(a) The District shall cause the Dissemination Agent, not later than nine (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, 2023, which would be due on March 31, 2024, 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, as shown on the most recent equalized assessment role;

(iii) 20 largest local secured taxpayers as shown on the most recent equalized assessment roll; and

(iv) Secured tax charges and delinquencies, only if the County terminates or discontinues the Teeter Plan within 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 the MSRB 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 Bonds 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 Bonds 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 Bonds;

(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 securities, 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 securities or other material events affecting the tax status of the securities;

(ii) Modifications of rights to security holders;

(iii) 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 Bonds pursuant to the Resolution.

SECTION 7. <u>Termination of Reporting Obligation</u>. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. <u>Dissemination Agent</u>. 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 Disclosure Agreement, and no implied duties, covenants or obligations shall be read into this Disclosure 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 Disclosure

Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure Agreement and the Bonds.

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 Disclosure 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 Bonds, 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. 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 Bonds, 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: _________, 2023

LEMON GROVE SCHOOL DISTRICT

By:____
Superintendent

ACCEPTANCE OF DUTIES AS DISSEMINATION AGENT:

DALE SCOTT & COMPANY, INC.

By:____________________________________
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Lemon Grove School District

Name of Issue: $_________ General Obligation Bonds, 2022 Election, 2023 Series A

Date of Issuance: _________, 2023

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Continuing Disclosure Agreement dated __________, 2023. The Issuer anticipates that the Annual Report will be filed by ___________________.

Dated: __________________________

[ISSUER/DISSEMINATION AGENT]

By:____

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

SAN DIEGO COUNTY INVESTMENT POLICY STATEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND
INVESTMENT POLICY (AMENDED)

March 1, 2022

The Investment Policy and practices of the County Treasurer are based on prudent money management principles and California State Law, specifically Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686. Section 53635 shall apply to a local agency that is a county or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body.

The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws, allowing for the dynamics of the money markets, will be the focus of this policy statement. All matters contained in this policy are to be read and applied pursuant to and consistent with state law. Where this Investment Policy specifies a percentage limitation, compliance will be measured as of the date of purchase. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing the Pooled Money Fund (the "Fund") the objectives of this office shall be as follows.

1. **The primary objective shall be to safeguard the principal of the funds under the County Treasurer's control.**

2. **The secondary objective shall be to meet the liquidity needs of the participants.**

3. **The third objective shall be to achieve an investment return on the funds under control of the County Treasurer within the parameters of prudent risk management.**

The Fund is an actively managed portfolio. By this, it is meant that the County Treasurer and staff will observe, review, and adjust to changing conditions that affect the Fund. This shall be viewed as a full-time responsibility by the County Treasurer and staff. The authority to execute investment transactions that will affect the Fund will be limited to:

County Treasurer-Tax Collector
Assistant Treasurer-Tax Collector
Chief Deputy Treasurer
Chief Investment Officer
Investment Officers

The County Treasurer and the above staff will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the Fund.

Government Code Sections 27000.3 and Section 53600.3 provide that the "prudent investor" standard is to be used by the County Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitations of this policy and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law. The County Treasurer and his/her staff shall act in accordance with written procedures and the Investment Policy, exercise due diligence, report in a timely fashion, and implement appropriate controls to mitigate adverse developments.

TABLE OF CONTENTS
SAN DIEGO COUNTY TREASURER INVESTMENT POLICY

2022 SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND INVESTMENT POLICY

The purpose of the County Treasurer's Investment Policy is to implement the legislated parameters of the investment authority of the Fund. As an elected official of the County of San Diego, the County Treasurer must manage public monies in a way that is consistent with its objectives, investment oversight, and sound investment practices and not solely to maximize returns. The basic concept of investment return is based on a risk/reward relationship: the higher the risk, the higher the expected return. Risk management must be an integral part of any investment policy. Risk management must include adequate internal controls so that Fund depositors and the public have confidence that public monies are secure. The policy stated below will concern itself with risk management.

1. **SECURITY OF PRINCIPAL POLICY** - The policy issues directed to protecting the principal entrusted to this office are:

   A. Limiting the Fund's exposure to each type of security.

   B. Limiting the Fund's exposure to each issuer of debt.

   C. Determining the minimum credit requirement for each type of security.

2. **LIQUIDITY POLICY** - The policy issues directed to provide the necessary liquidity to the participants are:

   A. Limiting the length of maturity for securities in the Fund.

   B. Limiting the Fund's exposure to Moderately Liquid and Illiquid securities.

3. **RETURN POLICY** - The policy issues directed to achieving a return are:

   A. Attaining a market rate of return, while taking into account the investment risk constraints and liquidity needs.

   B. Limiting a majority of the investments to low-risk securities in anticipation of earning a fair return relative to the risk being taken.

4. **MATURITY POLICY**

   A. The maximum maturity allowed by the California Government Code is 5 years, with shorter limitations specified for certain types of securities. The guidelines for maturities of investments and duration of the Fund, as established under this Policy, shall be:
   - At least 35% of the Fund maturing within 1 year
   - At least 15% of the Fund maturing within 90 days, and
   - A maximum effective duration of 2.0 years

B. The Fund will be considered in compliance with the maturity policy if it meets the maturity targets above. In the event that the Fund distribution does not comply with the table above, until such time as the Fund is within maturity targets, all securities purchased shall be of a maturity or duration that will lower the maturity and or duration of the Fund. In the event a compliance violation has occurred, a variance report shall be made to the Oversight Committee as part of the normal monthly reporting.

5. GENERAL STRATEGY

The County Treasurer will generally use a buy and hold investment strategy, where securities are purchased with the intent of holding them to maturity. The investment staff will update the Treasury Oversight Committee on its asset allocation and investment strategy at its regularly scheduled meetings. Securities may be sold prior to maturity when deemed prudent. Reasons for selling include, but are not limited to:

- Disposing of a security with declining credit quality
- A financially advantageous sale and replacement of a security that improves the quality, yield, or target duration of the portfolio
- Meeting the liquidity needs of the portfolio
- Portfolio rebalancing to bring the portfolio back into compliance

6. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CONSIDERATIONS

While Safety, Liquidity, and Yield remain the Fund's primary investment objectives, all else being equal and acting under statutory investment limitations, the County Treasurer affirms his/her commitment to the consideration of ESG criteria in evaluating securities. Investments in entities that promote environmental stewardship by considering climate change, carbon emissions, pollution, biodiversity, deforestation, and food and water waste are encouraged. The County Treasurer also advocates investments in entities that support labor fairness and equality while opposing discrimination related to sex, race, age, disability, sexual orientation, color, religion, veteran status, genetic information, and other protected classes. Additionally, the County shall not purchase any investments issued directly by a corporation, classified under the Standard Industrial Classification (SIC) codes listed in Appendix C, that engages in the exploration, production, drilling, or refining of coal, petroleum, or natural gas.

7. PROHIBITED SECURITIES

The California Government Code prohibits a local agency from investing in any of the following derivative notes:

- Inverse Floaters
- Range Notes
- Interest-only strips derived from a pool of mortgages
- Any security that could result in zero interest accrual, except for securities issued by, or backed by, the United States government that could result in zero-

or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates

8. **CREDIT RATING POLICY**

A. This Investment Policy sets forth minimum credit ratings for each type of security. These credit limits apply to the initial purchase of a security and do not automatically force the sale of a security if the credit ratings of the security fall below the policy limits.

B. Minimum credit ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one nationally recognized statistical rating organization (the "NRSRO").
b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

The monitoring of credit ratings consists of the following procedures:

1. When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, the Chief Investment Officer and staff will analyze and evaluate the credit to determine whether to hold or sell the security.

2. In the event a security in the Fund receives a credit rating downgrade which results in a rating below the minimum credit requirement, the Investment Group will report the rating change to the Oversight Committee in the monthly report. In the same manner, the Oversight Committee will be informed on the Investment Group's decision to hold or sell a downgraded security.

3. The Investment Group shall meet at least quarterly to review and update the approved list of securities and establish credit criteria for each category of security.

To ensure that the Fund maintains the highest overall credit rating with the contracted NRSRO, the asset allocation and portfolio holdings will be provided to the contracted NRSRO on a monthly basis.

9. **INTERNAL CONTROLS**

A. The Chief Deputy Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:

1. The cost of a control should not exceed the benefits likely to be derived; and

2. The valuation of costs and benefits requires estimates and judgments by management.

B. Accordingly, the Chief Deputy Treasurer shall establish and maintain internal controls that shall address the following points:

1. Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer. To achieve a segregation of duties, individuals who authorize investment transactions shall not also record or reconcile said transactions.

2. Clear Delegation of Authority to Subordinate Staff Members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

3. Delivery-Versus-Payment (DVP) - All investment transactions shall be conducted on a delivery-versus-payment basis.

4. Safekeeping and Custody - Securities purchased from any bank or dealer, including appropriate collateral (as defined by California Government Code), that are not insured by the FDIC, shall be placed with an independent third party for custodial safekeeping. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the County's portfolio shall be held in safekeeping in the County's name by a third-party custodian, acting as agent for the County under the terms of a custody agreement executed by the bank and the County. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the County from the custodian listing all securities held in safekeeping with current market data and other information. The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

5. Avoidance of Physical Delivered Bearer Securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.

6. Written Confirmation of Telephone Wire Transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written or electronic communications and approved by the appropriate person.

7. Development of a Wire Transfer Agreement with the Lead Bank or Third-Party

Custodian - This agreement should outline the various controls, security provisions, and responsibilities of each party making and receiving wire transfers.

8. A treasury operations manual, as overseen by the Chief Deputy Treasurer, will be

9. reviewed and updated by the treasury staff every two years or on an as needed basis.

10. **ANNUAL AUDIT** - The Treasury Oversight Committee shall cause an independent review to be conducted annually on a fiscal year basis by an external auditor to determine if the County Treasury is in compliance with the Investment Policy, other internal policies and procedures, and the California Government Code.

11. **PERMISSIBLE INVESTMENTS** - Government Codes 53601, 53601.1, 53601.2, 53601.8, 53635, 53635.8, 53637, 53638, 53651, 53652, and 53653 address permissible investments. These investment categories are addressed individually in sections 12-29 below.

12. **GOVERNMENT OBLIGATIONS** - The Fund invests in two categories of Government Obligations: U.S. Treasury and Agency obligations. Both are issued at the Federal level. U.S. Treasury obligations are bills, notes, and bonds issued by the Treasury and are direct obligations of the Federal Government. Agency obligations are notes and bonds of federal agencies and government sponsored enterprises, including:

    Federal Agricultural Mortgage Corporation (Farmer Mac)
    Federal National Mortgage Association (FNMA, or Fannie Mae)
    Federal Home Loan Bank (FHLB)
    Federal Farm Credit Bank (FFCB)
    Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac)
    Government National Mortgage Corporation (GNMA, or Ginnie Mae)
    Tennessee Valley Authority (TVA)

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category is unlimited.

C. Maximum Exposure Per Issuer - The maximum exposure to the Fund for an individual issuer shall be:

1. Treasury - Unlimited

2. Agency - No more than 35% of the Fund value shall be invested in any single issuer.

D. Minimum Credit Requirement - None

E. Liquidity Category - Liquid

13. **LOCAL AGENCY AND STATE OBLIGATIONS** -These include registered state warrants or treasury notes or bonds of the state of California and registered bonds of any of the other 49 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state and bonds, notes, warrants, or other evidences of indebtedness of a local agency within the state of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

D. Minimum Credit Requirement - Issuers must be at or above the following ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

E. Liquidity Category **-** Moderately Liquid

14. **BANKER'S ACCEPTANCES** - This is a draft or bill of exchange accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the Banker's Acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust receipts, and other documents evidencing ownership and insurance of the goods financed. Since their inception in 1914, there has been no known loss of principal to investors holding Banker's Acceptances.

A. Maximum Maturity - The maximum maturity of a security shall be 180 days from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

Minimum Credit Requirement – The rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

D. Liquidity Category – Liquid

15. **COMMERCIAL PAPER** - These are short-term, unsecured or secured, promissory notes issued by firms in the open market. Commercial paper (CP) is generally backed by a bank credit facility, guarantee/bond of indemnity, some other support agreement, or collateralized by other financial assets.

A. Maximum Maturity - The maximum maturity of a security shall be 270 days from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value, inclusive of any other non-CP investments with said issuer.

D. Minimum Credit Requirements - The Rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

E. Liquidity Category - Liquid

16. **MEDIUM-TERM NOTES ("MTN")** - These are corporate notes**,** deposit notes**,** and bank notes sold by an agent in the open market on a continually offered basis. Issuers include well-recognized banks and bank holding companies, thrifts, finance companies, insurance companies, and industrial corporations. These medium-term notes are generally unsecured debt obligations, although some issues come to market on a collateralized or secured basis.

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value, inclusive of any other non-MTN investments with said issuer.

D. Minimum Credit Requirements - Issuers must be at or above the following ratings**:**

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

E. Liquidity Category - Liquid

17. **NEGOTIABLE CERTIFICATES OF DEPOSIT** - These are issued by commercial banks and thrift institutions against funds deposited for specified periods of time, and they earn specified or variable rates of interest. Negotiable certificates of deposit ("NCD") differ from other certificates of deposit by their liquidity. NCD's are traded actively in secondary markets.

A. Maximum Maturity

1. The maximum maturity of an NCD security shall be 5 years from the settlement date.
2. The maximum maturity of any FDIC insured CDs, whether directly placed or placed through a private sector entity, shall be 13 months.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

D. Maximum Exposure per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value, inclusive of any other non-NCD investments with said issuer.

E. Minimum Credit Requirement – Issuers must be at or above the following ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.
b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

F. Liquidity Category - Liquid

18. **REPURCHASE AGREEMENTS** - A repurchase agreement (RP) consists of two simultaneous transactions. One is the purchase of securities by an investor (the Fund); the other is the commitment by the seller (i.e., a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed-upon future date.

A. Maximum Maturity - The maximum maturity of repurchase agreements shall be one year.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Broker/Dealer - The maximum exposure to a single broker/dealer shall be 10% of the Fund when the dollar-weighted average maturity is

D. greater than 5 days or 15% of the Fund when the dollar-weighted average maturity is 5 days or less.

E. Eligible Broker/Dealers - Broker/Dealers shall sign a PSA Master Repurchase Agreement or a Tri-Party Repurchase Agreement. The Agreement must specify a minimum margin percentage of 102% and also provide for daily mark-to-market of the collateral by the custodian bank.

F. Eligible Collateral - The securities eligible for repurchase agreement transactions shall be securities authorized in Section 53601 of the California Government Code. Collateral eligible for repurchase agreements maturing from 7 days to 1 year shall be Treasury and Agency obligations.

G. Delivery of Collateral - Broker/Dealers shall deliver the underlying securities to the County's safekeeping bank, a mutually agreed-upon third party custodian bank, or a counterparty bank's customer book-entry account. When a third-party custodian is used, it will be the custodian's responsibility to transfer funds and securities between the broker/dealer and the Fund in accordance with the terms of the repurchase agreement.

H. Liquidity Category - Liquid

19. **REVERSE REPURCHASE AGREEMENTS** - Reverse repurchase agreements (RRPs) are essentially the mirror image of RPs. In this instance, the Fund is the seller of securities, and the broker or bank is the investor.

Due to the nature of RRPs, the policy regarding this instrument is different from the above RP policy.

A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days unless the agreement includes a written guarantee of a minimum earning or spread for the entire period of the RRP.

B. Maximum Exposure of Fund - No more than 20% of the Fund shall be exposed to RRPs and/or securities lending at any one time.

C. Maximum Exposure Per Broker/Dealer – No more than 10% of the Fund shall be invested in RRPs with any one broker/dealer at any one time.

D. Purpose of RRPs - The uses of RRPs shall be to invest the proceeds from the agreement into permissible securities that are in the highest short-term rating category; to supplement the yield on securities owned; or to provide funds for the immediate payment of an obligation. The maturity of the RRP and the maturity of the security purchased shall be the same.

E. Eligible Securities - A RRP may only be entered into with a security authorized in California Government Code 53601 which has been owned and paid for 30 days prior to the settlement of the RRP.

F. Eligible Broker/Dealer - Broker/Dealers shall be primary broker/dealers of the Federal Reserve Bank of New York.

G. Liquidity Category - Liquid

20. **SECURITIES LENDING** - This is a program conducted by an agent authorized to execute securities lending under the guidelines listed under RRPs and as detailed in the "Services for Securities Lending Agreement." A securities lending transaction is when the Fund transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future. The loans must be secured continuously by cash collateral or securities and maintained at a value of at least equal to 102 % of the market value of the securities loaned. During the term of the loan, the Fund will continue to receive the equivalent of the interest paid by the issuer of the securities loaned. The Fund will have the right to call the loan and receive the securities loaned at any time with one day's notice.

A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days.

B. Maximum Exposure of Fund - No more than 20% of the Fund shall be exposed to securities lending and/or RRPs at any one time.

C. Maximum Exposure Per Counterparty - No more than 10% of the Fund shall be on loan with any single counterparty at any one time.

D. Proceeds shall be invested in securities authorized by California Government Code and this Investment Policy.

21. **COLLATERALIZED CERTIFICATES OF DEPOSIT** - This is the deposit of funds in state or national banks, state or federal savings and loan associations, federal credit unions, or FDIC-insured industrial loan companies in California per California Government Code Section 53652. The deposit of the funds will be made under the following conditions:

A. The deposit may not exceed the total of the paid-in capital and surplus of a depository.

B. The depository must maintain securities with a market value of at least 10% in excess of the total amount of the Fund's deposits. These securities will be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed-upon third party custodian bank.

C. The County Treasurer may waive the first $250,000 of collateral for each depository, so long as that amount is insured by an agency of the Federal Government. The documents listed below in D will not be required for deposits of $250,000 or less.

D. Each institution that receives Fund deposits must provide the County Treasurer with an up-to-date Contract, Annual Report, Affirmative Action Policy, Community Reinvestment Act Statement, and EEO-1 Form.

E. Maximum Maturity – The maximum maturity of a collateralized CD shall be 13 months.

F. Maximum Exposure of Fund – The maximum exposure to the Fund for this category shall be 5%.

G. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

H. Institutions at or above the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO may pledge mortgage-based collateral for County deposits.

I. Liquidity Category - Illiquid

22. **FDIC & NCUA INSURED DEPOSIT ACCOUNTS –** This is the deposit of funds in a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state per California Government Code Section 53635.8. The deposit of funds will be made under the following conditions:

A. The deposit of funds may be placed directly with a selected depository institution, not to exceed the issuance limit from the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

B. A selected depository may use a private sector entity to help place deposits with one or more commercial bank, savings bank, savings and loan association, or credit union located in the United States.

C. The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

D. Maximum Maturity - The maximum maturity of an FDIC or NCUA Insured Deposit Account shall be 13 months.

E. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 5%.

F. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

G. Minimum Credit Requirement - There is no minimum credit requirement for FDIC or

H. NCUA insured deposit accounts whether directly placed or placed through a private sector entity.

I. Liquidity Category - Illiquid

23. **COVERED CALL OPTION/PUT OPTION** - An option is the right to buy or sell a specific security within a specific time period at a specific price.

A. A covered call is when the County Treasurer sells the option to another party giving them the right to buy an existing security in the Fund at a specific price within a specific time period.

B. A put option is when the County Treasurer sells the option to another party giving them the right to sell to the County Treasurer a security at a specific price within a specific time period.

C. The seller of a covered call option/put option is paid at the time of the sale of the option. At the end of the option period, if the option is not exercised, the right to buy or sell the security is canceled.

D. The County Treasurer will act only as a seller of covered call and put options with the following exception: County Treasurer may buy an option to offset an existing open option position.

E. Securities subject to covered calls shall not be used for Reverse Repurchase Agreements.

F. Cash sufficient to pay for outstanding puts shall be invested in securities maturing on or before the expiration date of the options.

G. Maximum Maturity - The maximum maturity of a covered call option/put option shall be 90 days.

H. Maximum Exposure of Fund - No more than 10% of the Fund may have options written against it at any given time.

I. Counterparty Risk - Options shall only be written with primary broker/dealers of the Federal Reserve Bank of New York.

J. Liquidity Category - Liquid

24. **MONEY MARKET MUTUAL FUND** – These investments consist of shares of beneficial interest issued by management companies. Such shares represent ownership of a diversified portfolio of securities, which are redeemable at their net asset value. The Government Code allows for purchases of many types of mutual funds, but the Fund will limit use to money market mutual funds managed to maintain a stable NAV.

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 20%.

B. Maximum Exposure Per Fund - The maximum exposure to a single mutual fund shall be 10% of the Fund value.

C. Purchase Price - The purchase price of the mutual fund shall not include any commission.

D. Minimum Credit Requirement - Mutual fund ratings must be in the highest rating category by at least two NRSROs or retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience in managing money market mutual funds and with assets under management in excess of five hundred million dollars.

E. Liquidity Category **-** Liquid

25. **LOCAL GOVERNMENT INVESTMENT POOLS (LGIPs)** – These investments consist of shares of beneficial interest issued by a joint powers authority (JPA) organized pursuant to Government Code Section 6509.7 and authorized by Government Code Section 53601(p). The Fund shall only invest in LGIPs that comply with the California Government Code and all relevant sections of this Investment Policy and are managed to maintain a stable NAV.

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 5%.

B. Minimum Credit Requirement – LGIP ratings must be in the highest rating category by at least one NRSRO.

C. Liquidity Category – Liquid

26. **LOCAL AGENCY INVESTMENT FUND (LAIF)** – This fund was established by Government Code Section 16429.1 for use by local agencies in California and operates similarly to a LGIP. It is managed by the Treasurer of the State of California, who may invest money in the fund in securities prescribed in Government Code Section 16430 or elect to have the money of the fund invested through the State's Surplus Money Investment Fund.

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 5%.

B. Minimum Credit Requirement – LAIF is an unrated fund.

C. Liquidity Category – Liquid

27. **PASS-THROUGH SECURITIES** - These will be limited to equipment lease-backed certificates, consumer receivable pass-through certificates, or consumer receivable-backed bonds.

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure - The maximum exposure to the Fund for this category shall be 20%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

D. Minimum Credit Requirement - The security must be rated "AA" or higher by at least one NRSRO.

E. Liquidity Category - Liquid

28. **WHEN-ISSUED SECURITIES** - The Fund may invest in new issues of Government Obligations offered on a when-issued basis; that is, delivery and payment take place after the date of the commitment to purchase, normally within 15 days. Both price and interest rate are fixed at the time of commitment. This allows the Fund to lock in an interest rate that may not be available on the issue date. The Fund does not earn interest on the securities until settlement, and the market value of the securities may fluctuate between purchase and settlement. Such securities can be sold before settlement.

29. **SUPRANATIONALS** – The fund may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by multi-national organizations, including:

- Inter-American Development Bank (IADB)
- International Bank for Reconstruction and Development (IBRD)
- International Finance Corporation (IFC)

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

D. Minimum Credit Requirement - The issuer must be rated "AA" or higher by at least one NRSRO.

E. Liquidity Category - Liquid

30. **QUALIFIED BROKERS AND DEALERS** - In order to minimize risk in executing security transactions under this Investment Policy, all transactions will be made only through qualified dealers.

A. A qualified dealer must be a bank, savings and loan association, or an investment securities dealer. Commercial Paper and Certificate of Deposit issuers may be considered qualified dealers for direct issuance of their paper.

B. Any dealer entering into a new business relationship to conduct security transactions with the County Treasurer is required to make application to the County Treasurer.

C. The dealer must ensure that its staff is aware of the County Treasurer's Investment Policy and the California Government Code Sections 53601 and 53635.

D. Investment securities dealers for Reverse Repurchase Agreements must be primary dealers regularly reporting to the Federal Reserve Bank.

E. The dealer is required to have net capital in excess of $10 million with liquidity lines of $50 million or more.

F. The dealer is required to maintain an active secondary market for securities sold to the County and must be competitive in price for bids and offers.

G. The dealer will be monitored by the Chief Investment Officer and staff to ensure the services the County requires are delivered in a timely and efficient manner.

H. The primary account representative must be in the institutional or middle market fixed income division with 5 years or more experience covering large municipalities.

I. A qualified dealer must not have made any political contributions to the County Treasurer, any member of the Board of Supervisors, or any candidate for these offices within any consecutive 48-month period following January 1996. The exception is if the broker/dealer is entitled to vote for any of these offices, in which case the contributions shall not be in excess of $250 to each official per election.

J. Each dealer, at minimum every three years, or more frequently if requested, will be required to respond to the County's Request for Information (RFI) providing the County with up-to-date financial and investment experience information in order to continue in its role.

31. **DELEGATION OF INVESTMENT AUTHORITY TO THE COUNTY TREASURER** - The State of California gives the Board of Supervisors the ability to delegate investment authority to the County Treasurer for a one-year period in accordance with Section 53607 of the California Government Code. The delegation will require renewal each year.

32. **SAFEKEEPING AUTHORITY**

A. The State of California gives the Board of Supervisors the ability to delegate the deposit for safekeeping authority to the County Treasurer in accordance with Section 53608 of the California Government Code. Board Resolution 109 adopted September 29, 1959 delegated this authority to the County Treasurer.

B. In exercising this safekeeping function, the County Treasurer will require depositories to provide evidence that they are taking reasonable measures to prevent unauthorized access to the depository's electronic data files.

C. The County Treasurer's Continuity of Operations Plan (COOP) addresses contingency plans in the event that a disaster, natural or otherwise, disrupts normal operations. Contingency plans vary depending upon the severity and expected longevity of the disruption.

33. **EXTERNAL OVERSIGHT** - The County Treasurer shall retain an independent third-party investment advisor to provide oversight and compliance monitoring.

The County Treasurer will also retain an NRSRO to provide a rating for the Fund and will have in place an internal system to provide credit and compliance monitoring.

34. **COUNTY TREASURY OVERSIGHT COMMITTEE** - The Board of Supervisors has established a County Treasury Oversight Committee pursuant to Sections 27130-27137 of the California Government Code. The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the County Treasury Oversight Committee and shall be reviewed and approved at a public hearing by the Board of Supervisors.

35. **RULES GOVERNING THE ACCEPTANCE OF HONORARIA, GIFTS, AND GRATUITIES:**

A. The County Treasury Oversight Committee:

1. Gifts and Gratuity Limits: - Members may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the County Treasurer conducts business.

2. Honorarium Limits - Members may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the County Treasurer conducts business.

3. Employment - A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of the County Treasurer or a candidate for a legislative body of a local agency that has deposited funds in the County Treasury in the previous three years or during the period the employee is a member of the Oversight Committee. A member may not secure employment with bond underwriters, bond counsel, security brokers or dealers, or financial

services firms during the period that the person is a member of the Committee or for one year after leaving the Committee.

4. Contributions - A member may not directly or indirectly raise money for a candidate for County Treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

B. The County Treasurer and Designated Employees:

1. Gifts and Gratuity Limits - The County Treasurer and designated employees may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from a single source that does business with the County Treasurer's Office.

2. Honorarium Limits - The County Treasurer and designated employees may not accept any honorarium.

3. Form 700 "Statement of Economic Interests" - The County Treasurer and designated employees are required to file a Form 700 annually.

36. **REPORTING** - The County Treasurer shall prepare an investment report monthly to be posted on the County Treasurer Tax-Collector's website.

A. The report will be available to the following officials:

1. Board of Supervisors
2. Oversight Committee
3. Chief Administrative Officer
4. Auditor & Controller
5. Pool Participants

B. The report will include the following:

1. A summary of Fund statistics

2. The type of investment, issuer, maturity date, par value, and dollar amount invested for all securities, investments, and monies held by the Fund

3. A description of any of the Fund's investments or programs that are under management of contracted parties, including the securities lending program

4. Current market value and the source of the valuation as of the date of the report for all securities held by the Fund

5. Securities lending portfolio, if applicable

6. Pool purchases, sales, and maturities

7. Statement denoting the Fund's ability to meet expenditure requirements for the next six months

8. Statement of compliance with the Investment Policy

37. **COSTS AND EARNINGS APPORTIONMENT**

A. Prior to quarterly interest distribution, investment costs incurred by the County Treasurer will be deducted from the interest earnings of the pool and Dedicated Portfolios based on an equitable distribution formula. The costs, which are authorized by Government Code Section 27013, are made up of direct costs (salaries, banking services, computer services, and supplies) and indirect costs (department overhead and external overhead).

B. The Pool earnings distributed to each participant are proportionate to the average daily balance of the amounts on deposit by the participant. The County Auditor and Controller conducts the apportionment process based on the net earnings of the Fund each quarter.

C. In the event there is a negative balance in a participant's fund at any time, it shall reduce the average daily balance for the fund. If at quarter-end there is a negative average daily balance in a participant's fund, that fund will be charged the higher of the pool's earning rate for the quarter or a proxy TRANs cost.

D. The apportionment rate is set approximately ten business days after each calendar quarter end. Apportionments are not paid out by warrants; all earnings are credited to the participant's fund balance.

38. **TERMS AND CONDITIONS FOR DEPOSITING FUNDS BY VOLUNTARY PARTICIPANTS** - California Government Code Section 53684 allows local agencies, upon adoption of a resolution by the governing body of the agency, the option of depositing excess funds in the County Treasury for the purpose of investment by the County Treasurer.

A. The County, in its regional role to assist and aid other local agencies, adopted Board Resolution 11 on March 24, 1987, to allow agencies to deposit excess funds with the County Treasurer for investment. The limitation on acceptance of voluntary deposits and this Investment Policy are structured to help to ensure that, pursuant to Section 27133 of the California Government Code, the County Treasurer shall be able to find that all proposed deposits/withdrawals will not adversely affect the interests of the other depositors in the Fund.

B. The policy for the acceptance of local agency deposits is:

1. The local agency must sign an Investment Management Agreement.

2. The local agency may be asked to provide cash flows on a quarterly basis indicating projected withdrawals from the Fund.

C. Before any deposits for new accounts from Voluntary Participants can be accepted by the County Treasurer, the local agency must perform the following:

1. Provide a resolution adopted by the Board or governing body that authorizes the local agency to deposit excess funds in the County Treasury for the purpose of investment by the County Treasurer. The resolution must:

    a) be signed by an authorized official

    b) indicate the resolution number and date passed by the Board or governing body,

    c) indicate the persons authorized to initiate deposits to and instruct withdrawals from the Fund,

    d) bear the seal of the local agency, if the local agency has a seal.

2. Provide wire/ACH transfer instructions for cash withdrawals from the Fund. All withdrawals will be paid by electronic funds transfer.

3. Establish a trust account through the County Auditor and Controller's General Accounting Division.

39. CRITERIA FOR WITHDRAWAL OF MONIES FROM THE FUND BY VOLUNTARY PARTICIPANTS

A. Before a local agency withdraws monies from the Fund, it must submit a withdrawal request a minimum of 2 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored at the discretion of the County Treasurer's Office if the withdrawal does not cause the Fund to fall out of compliance with its maturity policy or jeopardize its ability to meet cash flow requirements.

B. When monies are requested for withdrawal, the County Treasurer's Office must find that the withdrawal will not adversely affect the interests of all other depositors in the Fund.

40. GRANDFATHERED AGENCIES

A. Grandfathered agencies that use the services of the County to keep their records and/or issue warrants/wires for the agency can continue to function in this manner and will be treated as a mandatory participant (assuming the agency continues to make deposits into the Fund).

B. These agencies can also opt to be treated as Voluntary Participants and elect to withdraw funds in the same fashion as the other Voluntary Participants. However, any agency so opting shall be subject to all restrictions placed upon the other Voluntary Participants.

GLOSSARY OF TERMS

BID - The price offered by a buyer of securities.

CREDIT RATING - The alphanumeric score which provides an assessment of the credit opinion of one of the Nationally Recognized Statistical Rating Organizations for a particular investment or issuing entity.

DEDICATED PORTFOLIO - Any assets, besides those held in the Fund, invested by the County Treasurer on behalf of any San Diego County agency.

DOLLAR-WEIGHTED AVERAGE MATURITY - The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION - A measure of the price volatility of a portfolio that reflects an estimate of the projected increase or decrease in the value of a portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every 1.0 percent increase in interest rates, the market value of a portfolio would decrease by 1.0 percent.

EARNINGS APPORTIONMENT - The quarterly interest distribution to the Pool Participants after the actual investment costs incurred by the County Treasurer are deducted from the interest earnings of the Fund.

EFFECTIVE DURATION OR OPTION-ADJUSTED DURATION - The approximate percentage price change of a bond for a 100 basis point parallel shift in the yield curve, allowing for the cash flow to change as a result of the change in yield.

GRANDFATHERED AGENCIES- Some fire districts and other agencies that use the County's banking and accounting services.

ILLIQUID – Investments for which 1) the secondary market is non-existent or thinly traded, 2) it is not possible to access funds prior to maturity, or 3) One cannot liquidate at the cost of principal.

ISSUER - The entity identified as the counterparty or obligator related to a security trade.

INVESTMENT GROUP - Group consisting of the County Treasurer, Chief Deputy Treasurer, Chief Investment Officer, and Investment Officers.

INVESTMENT MANAGEMENT AGREEMENT - An agreement between a voluntary participant and the San Diego County Treasurer-Tax Collector. The agreement addresses the terms and conditions of local agencies' deposits of funds for investment into the Fund.

LIQUID – Term for securities that can be converted to cash quickly.

MODERATELY LIQUID - Securities that can be converted to cash quickly with the potential for minimum loss of principal.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO) - A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

OFFER - The price at which a holder of a security would be willing to sell the security.

PORTFOLIO VALUE - The total book value of all the securities held in the Fund.

PRUDENT RISK - An investment system in which the investor will invest conservatively to receive a stable income with little risk.

SAFEKEEPING - A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SELECTED DEPOSITORY INSTITUTION - A nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in the state of California.

SHORT-TERM - The term used to describe a security when the maturity is one year or less.

VOLUNTARY PARTICIPANTS - Local agencies that are not required to deposit their funds with the County Treasurer.

WHEN-ISSUED SECURITIES - A security traded before it receives final trading authorization, with the investor receiving the certificate/security only after the final approval is granted.

Appendix A
Approved Broker/Dealers

Link to approved broker/dealers

APPENDIX B - POLICY GUIDELINES

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum % With One Issuer	Minimum Rating
US Treasury Obligations	5 years	No Limit	No Limit	No Limit
Agency Obligations	5 years	No Limit	35%	No Limit
Local Agency Obligations	5 years	30%	10%	A
Banker's Acceptances	180 days	40%	5%	A-1
Commercial Paper (1)	270 days	40%	10% (2)	A-1
Medium Term Notes	5 years	30%	10% (2)	A
Negotiable Certificate of Deposits	5 years	30%	10% (2)	A-1/A
Repurchase Agreements	1 year	40%	Note (3)	No Limit
Reverse Repurchase Agreements	92 days	20%	10%	No Limit
Collateralized Certificates of Deposit	13 months	5%	5%	No Limit
FDIC & NCUA Insured Deposit Accounts	13 months	5%	5%	No Limit
Money Market Funds	N/A	20%	10%	AAAm
Local Government Investment Pools (LGIPs)	N/A	5%	5%	AAAm
Local Agency Investment Fund (LAIF)	N/A	5%	N/A	N/A
Pass-Through Securities	5 years	20%	10%	AA
Supranationals	5 years	30%	10%	AA

(1) *Government Code Section 53635(a) (1-2) specifies percentage limitations for this security type for county investment pools.*

(2) *10% issuer limit includes CP, MTN, and NCD exposure combined, if applicable.*

(3) *Maximum exposure per issue – The maximum exposure to a single Repurchase Agreement (RP) issue shall be 10% of the portfolio value for RPs with maturities greater than 5 days and 15% of the portfolio for RPs maturing in 5 days or less. The maximum exposure to a single broker/dealer of RPs shall be 10% of the portfolio value for maturities greater than 5 days and 15% of the portfolio value for maturities of 5 days or less.*

APPENDIX C – STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES

CATEGORIES

GENERAL → *SPECIFIC*

3-DIGITS	4-DIGITS
131 - Crude Petroleum and Natural Gas	1311 - Crude Petroleum and Natural Gas
132 - Natural Gas Liquids	1321 - Natural Gas Liquids
138 - Oil and Gas Field Services	1381 - Drilling Oil and Gas Wells
	1382 - Oil and Gas Field Exploration Services
	1389 - Oil and Gas Field Services, Not Elsewhere Classified
122 - Bituminous Coal and Lignite Mining	1221 - Bituminous Coal and Lignite Surface Mining
	1222 - Bituminous Coal Underground Mining
123 - Anthracite Mining	1231 - Anthracite Mining
124 - Coal Mining Services	1241 - Coal Mining Services
291 - Petroleum Refining	2911 - Petroleum Refining
295 - Asphalt Paving and Roofing Materials	2951 - Asphalt Paving Mixtures and Blocks
	2952 - Asphalt Felts and Coatings
299 - Miscellaneous Products of Petroleum and Coal	2992 - Lubricating Oils and Greases
	2999 - Products of Petroleum and Coal, Not Elsewhere Classified
492 - Gas Production and Distribution	4922 - Natural Gas Transmission
	4923 - Natural Gas Transmission and Distribution
	4924 - Natural Gas Distribution
	4925 - Mixed, Manufactured, or Liquefied Petroleum Gas Production and/or Distribution

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct or Indirect Participants are on file with DTC.

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds 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 Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its respective Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds 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 (or the Paying Agent on behalf thereof) as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on 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 nor its nominee, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, 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 Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, transfer and exchange of the Bonds.

The principal of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in Dallas, Texas. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least $1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in Dallas, Texas, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________
Total Insurance Payment: $_________

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer 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, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
200 Liberty Street, 27th floor
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

CALIFORNIA

ENDORSEMENT TO

MUNICIPAL BOND INSURANCE POLICY

NO.

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

____

Authorized Officer