LEMON GROVE SCHOOL DISTRICT

PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)

GENERAL OBLIGATION BONDS

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

JUNE 30, 2017

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
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INTRODUCTION AND CITIZENS' OVERSIGHT COMMITTEE MEMBER LISTING

On November 4, 2008 the Lemon Grove School District was successful in obtaining authorization from District voters to issue up to $28,000,000 in General Obligation Bonds pursuant to a 55% vote in a Bond election under Proposition W. The General Obligation Bonds are considered Proposition 39 bonds. On November 4, 2014 the Lemon Grove School District was successful in obtaining re-authorization from District voters to issue up to $10,000,000 in General Obligation Reauthorization Bonds pursuant to a 55% vote in a bond election under Measure R. The General Obligation Reauthorization Bonds are considered Proposition 39 bonds. The issuance of the new bonds will not increase the total authorized debt as approved on November 4, 2008. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures. Specifically, the District must conduct an annual, independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual independent financial audit of the proceeds from the sale of bonds until all proceeds have been expended.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Independent Citizens' Oversight Committee, and authorization for injunctive relief against improper expenditure of bond revenues.

The Lemon Grove School District Proposition W and Measure R Independent Citizens' Oversight Committee as of June 30, 2017 was comprised of the following members:

Name	Position	Representative
Jon Pettis	Chair	Parent, At-Large Community
Gerard Selby	Vice Chair	Parent, At-Large Community
William Baber	Member	Taxpayers' Organization
Cary Demaree	Member	Parent, PTA, At-Large Community
Norberto Gonyea	Member	Parent, At-Large Community
Ilse Hanning	Member	Seniors, At-Large Community
Pastor Eric Miller	Member	Business Community, Senior, At-Large Community
Toni Shaw	Member	At-Large Community

P. Robert Wilkinson, CPA
Brian K. Hadley, CPA

WILKINSON HADLEY KING & CO. LLP
CPAs AND ADVISORS

Aubrey W. King, CPA
Kevin A. Sproul, CPA

INDEPENDENT AUDITOR'S REPORT

Governing Board Members and
Citizens' Oversight Committee
Lemon Grove School District
Lemon Grove, California

Report on Financial Statements

We have audited the accompanying financial statements of Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) of Lemon Grove School District, which comprise the balance sheet as of June 30, 2017, and the related statements of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

El Cajon Office
218 W. Douglas Avenue El Cajon, CA 92020
Tel. (619) 447-6700 Fax (619) 447-6707

Emeryville Office
1900 Powell Street, Suite 600 Emeryville, CA 94608
Tel. (619) 510-588-8729 Fax (619) 447-6707

Emphasis of Matter

As discussed in Note B, the financial statements present Building Fund (21-39) which is specific to Proposition W and Building Fund (21-33) which is specific to Measure R, and is not intended to present fairly the financial position and results of operations of Lemon Grove School District in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) of Lemon Grove School District as of June 30, 2017, and the result of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as required by the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 March 16, 2018 on our consideration of Lemon Grove School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Lemon Grove School District's internal control over financial reporting and compliance.

Report on Other Legal Regulatory Requirements

In accordance with the requirement of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated March 16, 2018 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Proposition W and Measure R Building Fund. That report is an integral part of our audit of the District's Proposition W and Measure R Building Fund for the fiscal year ended June 30, 2017 and should be considered in assessing the results of our financial audit.

Wilkinson Hadley King & Co., LLP

El Cajon, California
March 16, 2018

LEMON GROVE SCHOOL DISTICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

This section of Lemon Grove School District's Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) annual financial and performance report presents our discussion and analysis of the Proposition W and Measure R bond program during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's Proposition W and Measure R bond financial statements and performance audit, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The fund balance for the Proposition W and Measure R Bonds
- Building Fund ending fund balance amounted to roughly $9,570,129 as of June 30, 2017.
- Revenues and other financing sources were $4,201,633 during the year ended June 30, 2017, while total expenditures and outgo were $1,022,921.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the Proposition W and Measure R Bond Building Fund financial statements, and the performance audit required by state law.

The District accounts for Proposition W and Measure R bond activity in the District's Building Fund. The Building Fund is a governmental fund type accounted for on a modified accrual basis of accounting that does not include fixed assets nor long-term liabilities.

FINANCIAL ANALYSIS OF THE PROPOSITION W AND MEASURE R BOND BUILDING FUND

Balance Sheet: The District's Proposition W and Measure R Bond Building Fund balance as of June 30, 2017 was $9,570,129 (see Table A-1). The $9,576,195 in cash and cash equivalents represent cash held in an investment pool for purposes associated only with the bond authorization approved by the voters. It has been determined that Proposition W and Measure R funds cannot be used for Routine Restricted Maintenance expenditures in the General Fund.

Table A-1

	2017	2016
Assets		
Cash and cash equivalents	$ 9,576,195	$ 6,395,312
Accounts receivable	19,200	9,193
Total Assets	9,595,395	6,404,505
Liabilities		
Accounts payable	21,705	11,814
Due to other funds	3,561	1,274
Total Liabilities	25,266	13,088
Fund Balance		
Restricted for capital projects	9,077,739	5,960,667
Assigned for capital projects	492,390	430,750
Total Fund Balance	9,570,129	6,391,417
Total Liabilities and Fund Balance	$ 9,595,395	$ 6,404,505

Fund Balance (or Changes in Fund Balance): The interest income reported represents funds earned on the cash held by the county treasurer. The total expenditures of $1,022,921(See Table A-2) represents only Proposition W and Measure R authorized expenditures.

Table A-2

	2017	2016
Revenues		
Interest income	$ 61,641	$ 39,357
Total Revenues	61,641	39,357
Expenditures		
Classified salaries	21,058	32,134
Taxes and employee benefits	11,706	10,234
Non-Capitalized Equipment	190,492	2,689
Services and other operating expenditures	2,719	1,671
Capital outlay:		
Equipment	-	35,469
Land improvements	-	158,020
Building improvements	796,946	1,896,132
Total Expenditures	1,022,921	2,136,349
Excess deficiency of revenue over (under) expenditures	(961,280)	(2,096,992)
Other Financing Sources (Uses)		
Proceeds from bond issuance	4,000,000	-
Other sources	139,992	-
Total Other Financing Sources (Uses)	4,139,992	-
Net Change in Fund Balance	3,178,712	(2,096,992)
Fund Balance, Beginning of Year	6,391,417	8,488,409
Change in Fund Balance	$ 9,570,129	$ 6,391,417

Long-Term Debt Comparison: At the end of the year, the Proposition W and Measure R Building Fund of Lemon Grove School District had $31,620,839 in long-term debt outstanding. This is an increase from the prior year of $4,524,887.

	2017	2016
General Obligation Bonds Payable	$ 31,567,567	$ 27,053,474
Net Pension Liability - Bond Share	40,589	31,382
Net OPEB Obligation - Bond Share	11,221	10,938
Compensated Absences - Bond Share	1,462	158
Total Long Term Debt	$ 31,620,839	$ 27,095,952

PROPOSITION W AND MEASURE R BOND BUILDING FUND BUDGETARY HIGHLIGHTS

Over the course of the year as conditions change, the budget of the Proposition W and Measure R program is reviewed by staff. When changes occur that are outside of the Board approved allocations, staff will prepare an item for Board approval. The item is reviewed first by the District's Proposition W and Measure R Citizens' Oversight Committee and forwarded to the Board with their recommendation. Staff will address the entire program and recommend budget revision for the entire program. When staff recommends a budget revision they will demonstrate how new allocations are accommodated within that limitation. The original budget of the program had contingencies for construction changes and a program reserve for unexpected changes. With revisions to the program budget, these amounts will be adjusted. Each year, on a single year basis, staff prepares an annual budget. This amount is used to track expenditures in any single year. The budget reported is then utilized to compare against actual expenditures. It is not uncommon that expenditures may occur more quickly than expected and an annual budget revision is not completed. In this case one might have a discrepancy in the fiscal year annual budget, while the overall program budget is within its limits.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the existing circumstances that could affect its financial health in the future:

- Possible increases in building costs during construction

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's Proposition W and Measure R bond finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Services Department, Lemon Grove School District, 8025 Lincoln Street, Lemon Grove, CA 91945.

FINANCIAL STATEMENTS

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
Balance Sheet
June 30, 2017

ASSETS		
Current Assets		
Cash and cash equivalents	$	9,576,195
Accounts receivable		19,200
Total Current Assets		9,595,395
TOTAL ASSETS	$	9,595,395
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts payable	$	21,705
Due to other funds		3,561
Total Current Liabilities		25,266
Total Liabilities		25,266
Fund Balance		
Restricted for capital projects		9,077,739
Assigned for capital projects		492,390
Total Fund Balance		9,570,129
TOTAL LIABILITIES AND FUND BALANCE	$	9,595,395

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2017

REVENUES	
Revenue	
Interest income	$ 61,641
Total Revenues	61,641
EXPENDITURES	
Classified salaries	21,058
Taxes and employee benefits	11,706
Professional/Consulting services	190,492
Other operating expenditures	2,719
Capital outlay:	
Building improvements	796,946
Total Expenditures	1,022,921
Excess (Deficiency) of Revenues Over (Under) Expenditures	(961,280)
Other Financing Sources (Uses)	
Proceeds from bond issuance	4,000,000
Other Sources	139,992
Total Other Financing Sources(Uses)	4,139,992
NET CHANGE IN FUND BALANCE	3,178,712
FUND BALANCE, BEGINNING OF YEAR	6,391,417
FUND BALANCE, END OF YEAR	$ 9,570,129

The accompanying notes are an integral part of this statement.

A. Definition of the Fund

Building Fund (21-39) and Building Fund (21-33) were formed to account for renovation of schools in the Lemon Grove School District (District), through expenditures of general obligation bonds issued under Proposition W General Obligation Bonds Election of 2008 and Measure R General Obligation Bonds Election of 2014.

B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

Fund Structure

The accompanying financial statements are used to account for the transactions of the Building Fund specific to Proposition W and Measure R as defined in Note A and are not intended to present fairly the financial position and results of operations of Lemon Grove School District in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Building Funds (21-39) and (21-33) are maintained on the modified accrual basis of accounting. Its revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

The Board of Trustees adopts an operating budget no later than July 1 in accordance with state law. This budget is revised by the Board of Trustees during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash in County Treasury

In accordance with Education Code §41001, the District maintains a substantial amount of its cash in the San Diego County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code §53648 et.seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflow of resources are recorded in accordance with GASB Statement numbers 63 and 65. The District's Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) is reported using the modified accrual basis of accounting, thus deferred outflows and deferred inflows are only presented on the government-wide financial statements. Deferred Outflows and Deferred Inflows related to the District's Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) have been disclosed in the notes to the financial statements only (See Note K).

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs: Unobservable inputs for an asset or liability.

For the current fiscal year the District did not have any recurring or nonrecurring fair value measurements.

Change in Accounting Policies

The District has adopted accounting principles compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2017. Those newly implemented pronouncements are as follows:

GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflow of resources are recorded in accordance with GASB Statement numbers 63 and 65. At June 30, 2017 the District's Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) did not have any Deferred Inflows or Deferred Outflows of Resources.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50 Pension Disclosures.

The scope of this Statement includes OPEB plans - defined benefit and defined contribution – administered through trusts that meet the following criteria:

1. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

3. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The District prefunds for its OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 resulted in changes to note disclosures (See Note L).

GASB Statement No. 77 – Tax Abatement Disclosures

The objective of this Statement is to improve usefulness of information about tax abatement agreements entered into by governmental agencies. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

The Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provision for recapturing abated taxes, and the types of commitments made by tax abatement recipients.

2. The gross dollar amount of taxes being abated during the period.

3. Commitments made by a government, other than to abate taxes, as part of the abatement agreement.

The District has not entered into any tax abatement agreements. As a result, the adoption of GASB Statement No. 77 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 80 – Blending Requirements for Certain Component Units

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in Paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 82 - Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pension Plans, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the effects of the adoption of GASB Statement No. 82.

C. Cash and Investments

1. *Cash in County Treasury*

The District maintains significantly all of its cash in the San Diego County Treasury as part of the common investment pool. As of June 30, 2017, the portion of cash in county treasury attributed to Building Funds (21-39) and (21-33) was $9,576,195. The fair value of Building Funds (21-39) and (21-33)'s portion of this pool as of that date, as provided by the pool sponsor, was $9,576,195. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investments in the pool is reported in the accounting financial statements as amounts 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 the 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.

The San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background, in public finance. In addition, the County Treasury is audited annually by an independent auditor.

2. *Analysis of Specific Deposit and Investment Risks*

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. *Credit Risk*

Credit Risk is the risk that an issuer or their counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk.

b. *Custodial Credit Risk*

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. At year end, the District's Building Funds (21-39) and (21-33) were not exposed to custodial credit risk.

c. *Concentration of Credit Risk*

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District's Building Funds (21-39) and (21-33) were not exposed to concentration of credit risk.

d. *Interest Rate Risk*

This is the risk that changes in 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 pool.

e. *Foreign Currency Risk*

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District's Building Funds (21-39) and (21-33) were not exposed to foreign currency risk.

f. *Investment Accounting Policy*

The District is required by GASB statement No. 31 to disclose its policy for determining which investments, if any are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts using a cost-based measure; however, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value.

All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

g. *General Authorizations*

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

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 Funds	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

D. Accounts Receivable

As of June 30, 2017 accounts receivable consisted of:

Interest	$ 19,200
Total Accounts Receivable	$ 19,200

All receivables are expected to be collected within one year and as such no allowance for doubtful accounts has been established.

E. Accounts Payable

As of June 30, 2017 accounts payable consisted of:

Vendors payable	$ 21,705
Total Accounts Payable	$ 21,705

F. Interfund Transactions

Interfund receivable and payable balances at June 30, 2017 are as follows:

Due to other funds - General Fund	$ 3,561

The amount due to the General Fund is for reimbursement of the portion of other post-employment benefits (OPEB) designated to the Building Fund at year end. These expenses were attributed to the work necessary for the bond projects and in conjunction with the Bond Project List as listed in the full text of the ballot measure.

G. Compensated Absences Payable

Compensated absence at June 30, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Compensated Absenses - District Wide	$ 173,572	$ 44,268	$ -	$ 217,840
Compensated Absenses - Bond Share	$ 158	$ 1,304	$ -	$ 1,462

H. General Obligation Bonds

In May 2009, the District issued $5,000,000, 2008 Election, Series A General Obligation Bonds, approved by the registered voters of the District in November 2008, for the purpose of financing the renovation, construction, and improvement of school facilities. The bonds mature on August 7, 2033 and bears an interest rate of 3.75% to 6.20%. At June 30, 2017, $4,490,000 of the bonds were outstanding.

In October 2010, the District issued $7,999,480, 2008 Election, Series B General Obligation Bonds, approved by the registered voters of the District in November 2008, for the purpose of financing the renovation, construction, and improvement of school facilities. The bonds mature on August l, 2050 and bears an interest rate of 5.79% to 6.20%. At June 30, 2017, $7,999,480 of the bonds were outstanding.

In March 2011, the District issued $5,000,000, 2008 Election, Series C General Obligation Bonds, approved by the registered voters of the District in November 2008, for the purpose of financing the renovation, construction, and improvement of school facilities. The bonds mature on August 1, 2028 and bears an interest rate of 2.00% to 5.00%. At June 30, 2017, $4,290,000 of the bonds were outstanding.

In May 2015, the District issued $5,000,000, 2014 Election Series A (GO Reauthorization Bonds) General Obligation Bonds and $1,000,000 2014 Election Series B (GO Reauthorization Bonds) General Obligation Ed-Tech Bonds, approved by the registered voters of the District in November 2014 for the purpose of financing the renovation, construction and improvement of school facilities and increasing student computer/technology access. The bonds mature August 2044 (Series A) and August 2018 (Series B) and bear an interest rate of 2.00% to 4.00%. At June 30,2017, $5,635,000 of the bonds were outstanding.

In May 2017, the District issued $3,000,000, 2014 Election Series C (GO Reauthorization Bonds) General Obligation Bonds and $1,000,000, 2014 Election Series D (GO Reauthorization Bonds) General Obligation Ed-Tech Bonds, approved by the registered voters of the District in November 2014 for the purpose of financing the renovation, construction and improvement of school facilities and increasing student computer/technology access. The bond mature August 2026 (Series C) and August 2020 (Series D) and bear an interest rate of 3.00% to 5.00% (Series C) and 1.70% (Series D). At June 30, 2017, $4,000,000 of the bonds were outstanding.

The outstanding bond debt of Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) is as follows:

	Date of Issue	Interest Rate	Maturity Rate	Amount of Original Issue
2008 Election Series A	05/07/09	4.00-5.00%	08/01/33	$ 5,000,000
2008 Election Series B	09/23/10	6.10-9.71%	08/01/50	7,999,480
2008 Election Series C	03/15/11	2.00-5.00%	08/01/28	5,000,000
2014 Election Series A	05/20/15	2.00-3.00%	08/01/44	5,000,000
2014 Election Series B Ed-Tech	05/20/15	3.50-4.00%	08/01/18	1,000,000
2014 Election Series C	05/25/17	3.00-5.00%	08/01/26	3,000,000
2014 Elections Series D Ed-Tech	05/25/17	1.70%	08/01/20	1,000,000
Total General Obligation (GO) Bonds				$ 27,999,480

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2008 Election Series A	$ 4,525,000	$ -	$ 35,000	$ 4,490,000	$ 65,000
2008-A Bond Premium	212,150	-	12,479	199,671	12,479
2008 Election Series B	7,999,480	-	-	7,999,480	-
2008-B Bond Premium	336,864	-	9,908	326,956	9,908
2008-B Accreted Interest	3,134,254	718,005	-	3,852,259	-
2008 Election Series C	4,460,000	-	170,000	4,290,000	170,000
2008-C Bond Premium	134,091	-	10,314	123,777	10,314
2014 Election Series A	5,000,000	-	50,000	4,950,000	140,000
2014-A Bond Premium	214,147	-	7,931	206,216	7,931
2014 Election Series B Ed-Tech	1,000,000	-	315,000	685,000	335,000
2014-B Bond Premium	37,488	-	18,745	18,743	18,743
2014 Election Series C	-	3,000,000	-	3,000,000	-
2014-C Bond Premium	-	425,465	-	425,465	-
2014 Election Series D Ed-Tech	-	1,000,000	-	1,000,000	76,377
Total GO Bonds	$ 27,053,474	$ 5,143,470	$ 629,377	$ 31,567,567	$ 845,752

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2017 is as follows:

Year Ending June 30,	Principal	Interest	Accreted Interest	Total
2018	$ 786,377	$ 742,116	$ -	$ 1,528,493
2019	902,318	767,059	-	1,669,377
2020	823,623	741,333	-	1,564,956
2021	657,682	715,369	-	1,373,051
2022	955,000	682,191	-	1,637,191
2023-2027	6,180,000	2,625,129	-	8,805,129
2028-2032	4,160,686	4,236,541	184,314	8,581,541
2033-2037	2,353,793	4,869,900	3,281,207	10,504,900
2038-2042	3,227,127	4,413,924	5,702,873	13,343,924
2043-2047	4,917,363	1,453,778	10,182,162	16,553,303
2048-2052	1,450,511	-	15,081,131	16,531,642
Totals	$ 26,414,480	$ 21,247,340	$ 34,431,687	$ 82,093,507

Note: Amounts represented in the repayment schedule of accreted interest are reflective of 100% of amounts to be repaid. Amounts represented as accreted interest in the debt summary are reflective of amounts that have been accrued as of June 30, 2017. Accreted interest is the process of systematically increasing the carrying amount of capital appreciation bonds to their estimated value at the maturity date of the bond. The district inputs the effective interest rate, using the present value, the face value, and the period of the bond and multiplies the effective interest rate by the book value of the debt at the end of the period.

I. Debt Issue Premium

Debt issue premium arises when the market rate of interest is lower than the stated interest rate on the debt. Generally Accepted Accounting Principles (GAAP) require that the premium increase the face value of the debt and then amortize the premium over the life of the bond.

The District has issued bonds and certificates of participation at a premium. The premium for the 2014 Series C Bond is being amortized over the life of the debt using the effective interest method. The remaining premiums are being amortized over the life of the debt using the straight-line method.

Premiums issued on the debt resulted in an effective interest rate as follows:

	2008 Series A Bonds	2008 Series B Bonds	2008 Series C Bonds
Total Interest Payments on Bond	$ 4,865,097	$ 47,261,287	$ 2,642,039
Less Bond Premium	299,508	396,312	185,659
Net Interest Payments	$ 4,565,589	$ 46,864,975	$ 2,456,380
Par amount of Bonds	$ 5,000,000	$ 7,999,480	$ 5,000,000
Periods	39	39	18
Effective Interest Rate	3.652%	15.022%	2.729%

	2014 Series A Bonds	2014 Series B Ed-Tech Bonds	2014 Series C Bonds
Total Interest Payments on Bond	$ 3,748,488	$ 85,375	$ 760,341
Less Bond Premium	222,078	56,234	425,462
Net Interest Payments	$ 3,526,410	$ 29,141	$ 334,879
Par amount of Bonds	$ 5,000,000	$ 1,000,000	$ 3,000,000
Periods	28	3	9
Effective Interest Rate	2.518%	0.971%	1.240%

J. Construction Commitments

As of June 30, 2017 the Building Funds (21-39) and (21-33) did not have any commitments with respect to unfinished capital projects.

K. Pension Plans

The following information presented below is the District's government-wide pension plan amounts for CalPERS. As of June 30, 2017, the bond fund was 0.32% of the District's total Public Employees' Retirement System expenditures.

1. General Information About the Pension Plan

   a. Plan Descriptions

   Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on their website.

   b. Benefits Provided

   CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

   The Plan's provisions and benefits in effect at June 30, 2017 are summarized as follows:

	CalPERS	
Hire Date	Before Jan. 1, 2013	On or After Jan. 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly For Life
Retirement Age	50-62	52-67
Monthly Benefits as a % of Eligible Compensation	1.1 - 2.5%	1.0 - 2.5%*
Required Employee Contribution Rates (at June 30, 2017)	7.000%	6.000%
Required Employer Contribution Rates (at June 30, 2017)	13.888%	13.888%

*Amounts are limited to 120% of Social Security Wage Base.

c. Contributions – CalPERS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated about necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016 (measurement date), the average active employee contribution rate is 6.974% of annual pay, and the employer's contribution rate is 11.847% of annual payroll. For the fiscal year ending June 30, 2017, the average active employee contribution rate is 6.974% and the employer’s contribution rate is 13.888%.

d. Contributions Recognized

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), the contributions recognized were:

	District Share of CalPERS	Bond Share of CalPERS
Contributions - Employer	$ 661,466	2,949
Total Contributions	$ 661,466	$ 2,949

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the plan as follows:

	District Proportionate Share of Net Pension Liability	Bond Proportionate Share of Net Pension Liability
CalPERS	$ 9,106,162	$ 40,589

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. 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 employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and June 30, 2017 was as follows:

	District Share CalPERS	Bond Share CalPERS
Proportion - June 30, 2016	0.046200%	0.000213%
Proportion - June 30, 2017	0.046100%	0.000206%
Change - Increase (Decrease)	-0.000100%	-0.000007%

a. Pension Expense

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), pension expense was recognized as follows:

	District Share of CalPERS	Bond Share of CalPERS
Change in Net Pension Liability (Asset)	$ 2,289,004	$ 9,207
Increase/(Decrease) resulting from changes in Deferred Outflows and Deferred Inflows of Resources for:		
Contributions - Employer made subsequent to measurement date	(176,821)	244
Differences between actual and expected experiences	(42,789)	(176)
Changes in assumptions	(112,660)	(519)
Changes in proportionate share	(980)	612
Net difference between projected and actual earnings	(1,653,835)	(7,473)
Total Pension Expense	$ 301,919	$ 1,895

b. Deferred Outflows and Inflows of Resources

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows if resources related to pensions from the following sources:

	District Share of CalPERS		Bond Share of CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 838,287	$ -	$ 2,704	$ -
Differences between actual and expected experience	461,956	-	2,106	-
Changes in assumptions	-	(337,981)	-	(1,556)
Change in employer's proportionate share	-	(69,949)	-	(1,642)
Net difference between projected and actual earnings	2,314,841	(917,280)	10,440	(4,374)
Total	$ 3,615,084	$ (1,325,210)	$ 15,250	$ (7,572)

Pension contributions made subsequent to measurement date reported as deferred outflows of resource will be recognized as a portion of pension expense in the year ended June 30, 2018. The remaining amounts reported as deferred outflows or deferred inflows of resources will be recognized as an increase or decrease to pension expense over a five-year period. Pension expense resulting from deferred outflows and deferred inflows of resources will be recognized as follows:

	District Share of CalPERS		Bond Share of CalPERS	
Year Ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	$ 1,628,663	$ (593,220)	$ 6,284	$ (3,181)
2019	790,376	(593,220)	3,580	(3,181)
2020	790,374	(134,582)	3,580	(994)
2021	405,671	(4,188)	1,806	(216)
Total	$ 3,615,084	$ (1,325,210)	$ 15,250	$ (7,572)

c. Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following assumptions:

	CalPERS	
Valuation Date	June 30, 2015	
Measurement Date	June 30, 2016	
Actuarial Cost Method	Entry Age Normal	
Actuarial Assumptions:		
Discount Rate	7.65%	
Inflation	2.75%	
Payroll Growth	3.00%	
Projected Salary Increase	3.20%-10.80%	(1)
Investment Rate of Return	7.65%	(2)
Mortality	0.00125-0.45905%	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Industry standard published by the Society of Actuaries

d. Discount Rate

The discount rate used to measure the total pension liability was 7.6500% for CalPERS. The projection of cash flows used to determine the discount rate assumed the contributions from plan members, employers, and state contributing agencies will be made at statutory contribution rates. To determine whether the District bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for the plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS websites.

The CalPERS discount rate was increased from 7.50% in 2015 to correct for an adjustment to exclude administrative expenses. There have been no other changes to discount rate for CalPERS.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The investment return assumption used in the accounting valuations is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest quarter of one percent.

The table below reflects the 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 rates of return are net of administrative expenses.

Asset Class	Assumed Allocation 6/30/2016	Real Return (Years 1-10)(1)	Real Return (Years 11+)(2)
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

e. Sensitivity to Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the District’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, 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 or 1 percentage point higher than the current rate:

	District Share of CalPERS	Bond Share of CalPERS
1% Decrease	6.65%	6.65%
Net Pension Liability	$ 13,586,446	$ 60,562
Current Discount Rate	7.65%	7.65%
Net Pension Liability	$ 9,106,162	$ 40,589
1% Increase	8.65%	8.65%
Net Pension Liability	$ 5,375,446	$ 23,961

f. <u>Total Pension Liability, Pension Plan Fiduciary Net Position, and Net Pension Liability</u>

CalPERS - District Share	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	$ 33,137,997	$ 26,320,839	$ 6,817,158
Changes for the year:			
Adjustment for Change in Proportionate Share	(101,788)	(80,848)	(20,940)
Service cost	791,508	-	791,508
Interest	2,509,106	-	2,509,106
Differences between expected and actual experience	184,476	-	184,476
Changes in assumptions	-	-	-
Contributions - Employer	-	661,466	(661,466)
Contributions - Employee	-	392,432	(392,432)
Net plan to plan resource movement	-	5	(5)
Net investment income	-	137,175	(137,175)
Benefit payments, including refunds of employee contributions	(1,635,340)	(1,635,340)	-
Administrative expenses	-	(15,932)	15,932
Net Changes	1,747,962	(541,042)	2,289,004
Balance at June 30, 2017	$ 34,885,959	$ 25,779,797	$ 9,106,162

CalPERS - Bond Share	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	$ 152,550	$ 121,168	$ 31,382
Changes for the year:			
Adjustment for Change in Proportionate Share	(5,291)	(4,202)	(1,089)
Service cost	3,528	-	3,528
Interest	11,184	-	11,184
Differences between expected and actual experience	822	-	822
Changes in assumptions	-	-	-
Contributions - Employer	-	2,949	(2,949)
Contributions - Employee	-	1,749	(1,749)
Net plan to plan resource movement	-	-	-
Net investment income	-	611	(611)
Benefit payments, including refunds of employee contributions	- (7,290)	- (7,290)	-
Administrative expenses	-	(71)	71
Net Changes	2,953	(6,254)	9,207
Balance at June 30, 2017	$ 155,503	$ 114,914	$ 40,589

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

L. Postemployment Benefits Other Than Pension Benefits

The following information presented below is the District's government-wide liability for OPEB. As of June 30, 2017, the bond fund was 0.3868% of the District's OPEB contribution for the fiscal year.

1. 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. Additionally, the District prefunds for its retiree benefits through a Public Agency Retirement Services (PARS) Trust and makes contributions to PARS separate from direct contributions to its health plan coverage for current retiree benefits. Employee groups are as follows:

Classified Employees

The District provides retiree dental and medical (including prescription drug benefits) 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 (including prescription drug benefits), 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.

Plan Membership

At June 30, 2017, plan membership consisted of the following:

Inactive plan	66
Active plan members	339
Total plan members	405

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.

PARS Trust and Contributions

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 which has ranged between $250,000 and $500,000 annually in the past. Plan members are not required to contribute to the plan. For the 2016-17 fiscal year, the District contributed $500,000 to the PARS Trust. This amount does not reflect the contributions for the direct payment of current retiree benefits to VEBA.

PARS Board Representation

The governing board of the PARS Trust is composed of a coalition of the member public agencies. Each member public agency appoints its individual plan administrator to serve as a member of the governing board. Certain provisions of the Trust may be changed by a two-thirds vote of the members of the governing board.

2. PARS Trust Investments

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established by the PARS board by a majority vote of its members. It is the policy of PARS to pursue and investment strategy that provides a reasonable level of income and growth of capital income. PARS has elected to use U.S. Bank National Association as the trustee of the assets of the Trust and has selected to use the U.S. Bank Income Index Strategy for its investments. The Income Index Strategy is designed to provide current income and low to moderate growth of capital. Investors in the strategy should have sufficient tolerance for moderate to substantial price volatility and periodic declines in investment value.

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	Range	Strategic	Tactical	Benchmark
Fixed Income	35%-55%	50%	46%	Barclays Global Agg Index
Equity	35%-55%	43%	48%	MSCI AC World Ree Index
Real Estate	0%-15%	4%	4%	S&P Global REIT USD Index
Commodities	0%-10%	3%	1%	S&P GSCI TR Index
Cash	0%-20%	0%	1%	Citigroup 3 Month T-Bill Index

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.

3. Net OPEB Liability of the District and the Plan

The components of the net OPEB liability of the District at June 30, 2017, calculated under GASB 45, were as follows:

	District Wide	Bond Fund
Annual required contribution	$ 1,068,074	$ 4,131
Interest on net OPEB obligation	160,490	621
Adjustment to annual required contribution	(234,647)	(908)
Annual OPEB cost (expense)	993,917	3,844
Contribution made	(920,790)	(3,561)
Change in net OPEB obligation	73,127	283
Net OPEB obligation, beginning of year	2,828,002	10,938
Net OPEB obligation, end of year	$ 2,901,129	$ 11,221

The components of the net OPEB liability of the Plan at June 30, 2017, calculated under GASB 74, were as follows:

	District Wide	Bond Fund
Total OPEB liability	$ 10,362,670	$ 40,081
Plan fiduciary net position	(2,698,690)	(10,438)
Plan's net OPEB liability	$ 7,663,980	$ 29,643
Plan fiduciary net position as a percentage of total OPEB liability	26.04%	26.04%

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of January 1, 2016, revised November 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Fiscal Year:	July 1st to June 30th
Measurement Date:	January 1, 2016
Funding Policy:	The District prefunds for its retiree benefits through a PARS trust in their Income Index Strategy to achieve both income and moderate growth of capital. In addition to the direct payment of current retiree benefits, the District may make a discretionary contribution which in recent past has ranged between $250,000 and $500,000 annually.
Expected Rate of Return:	6.5% per annum
Discount Rate:	5.675% per annum Sensitivity analysis showing a 0.5% increase or decrease in the discount rate is also provided.
Inflation:	2.8% per annum

Inflation: 2.8% per annum

Payroll Increases: 3.0% per annum, in aggregate

Pre-retirement turnover: Termination rates are based on the most recent rates used by CalPERS for the pension valuation**.** Sample rates are as follows:

	Entry Age			
Service (Years)	20	30	40	50
0	17.30%	15.25%	13.19%	11.14%
5	10.94%	8.70%	6.46%	1.07%
10	8.01%	5.72%	0.74%	0.25%
15	6.52%	4.18%	0.32%	0.02%
20	4.93%	0.38%	0.02%	0.02%
25	3.28%	0.10%	0.02%	0.02%
30	0.15%	0.02%	0.02%	0.02%

Mortality Rates: Mortality rates are based on the most recent rates used by CalPERS for the pension valuations. Sample rates are as follows:

	CalPERS			
	Actives		Retirees	
Age	Males	Females	Males	Females
25	0.040%	0.023%	-	-
30	0.049%	0.025%	-	-
35	0.057%	0.035%	-	-
40	0.075%	0.050%	-	-
45	0.106%	0.071%	-	-
50	0.155%	0.100%	-	-
55	0.228%	0.138%	0.599%	0.416%
60	0.308%	0.182%	0.710%	0.436%
65	0.400%	0.257%	0.829%	0.588%
70	-	-	1.305%	0.993%
75	-	-	2.205%	1.722%
80	-	-	3.899%	2.902%

The CalPERS mortality rates have been updated to reflect those used in the most recent CalPERS pension valuation which reflect additional mortality improvement experience

Retirement Rates:

	Percent Retiring*	
Age	Classic	PEPRA
55	25%	20%
56	10%	7.50%
57	10%	10%
58	10%	10%
59	15%	15%
60	15%	15%
61	20%	15%
62	35%	25%
63	35%	25%
64	35%	25%
65	45%	35%
66	35%	30%
67	30%	30%
68	30%	30%
69	30%	30%
70	100%	100%

*Of those having met eligibility to receive District paid OPEB benefits. The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Participation Rates: 98% of active employees meeting eligibility requirements are assumed to elect retiree health coverage at retirement. Future retirees are assumed to elect medical, dental, and vision plans based on current retiree elections. Certificated employees meeting eligibility for Option 2 are assumed to elect Option 2.

Spousal Coverage: Since the retiree pays 100% of the cost for spousal coverage, spouse coverage is not explicitly valued. For the implicit subsidy estimate, 10% of future retirees electing coverage are assumed to elect coverage for their spouse. Spouses are assumed to be the same age as the retiree.

Claim Cost Development: The valuation claim costs are based on the premiums paid for medical insurance coverage. The valuation was based on the medical premiums furnished by the District. The District participates in the Southern California Schools VEBA which was considered a community-rated plan. Past valuations assumed the District was exempt from the valuation of any medical plan implicit rate subsidy. An implicit rate subsidy can exist when the non-Medicare rates for the retirees are the same as for active employees. Since non-Medicare eligible retirees are typically much older than active employees, their actual medical costs are typically higher than for active employees. The current valuation contains an estimate of the implicit rate subsidy. The valuation results were determined using the higher expected costs associated with retired employees assuming that the underlying morbidity is similar to other similarly situated California-based plans.

Medical Trend Rates:

Year	Trend
2017	7.0%
2018	6.5%
2019	6.0%
2020	5.5%
2021+	5.0%

Dental & Vision Trend Rates:

Year	Trend
2017+	4.0%

Actuarial Cost Method: The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ration of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year.

All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the District were included in the valuation.

Actuarial Value of Assets: The District reported assets in a GASB eligible trust with PARS equal to$1,883,678 at December 31, 2015 as of the January 1, 2016 actuarial valuation date.

As of June 30, 2017, subsequent to the actuarial valuation, PARS reported assets equal to $2,698,690 in the District's OPEB Trust.

Amortization of UAAL: The unfunded actuarial accrued liability is being amortized over an initial 30 years using the level-dollar method. The remaining period is assumed to be 22 years.

Cost Method: Entry Age Normal Level % of Pay

The following actuarial assumptions were based on a measurement date as of June 30, 2017:

Return on Assets

The rate of return on assets was 6.25%. The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges were determined based on past investment history and are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Sample arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized as follows:

Asset Class (U.S. Income Index Strategy)	Allocation	Long-term Expected Real Rate of Return
Fixed Income	46%	2.25%
Domestic Equities	30%	4.25%
International Equities	18%	5.25%
Real Estate	4%	4.50%
Commodities	1%	1.25%
Cash	1%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total OPEB liability was 4.0%. The discount rate is a blended rate between the rate of return at 6.25% and 3.45%, the resulting rate using the average of 3 currently available 20-year municipal bond rate indices (S&P Municipal Bond 20 Year high Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index). The rate is rounded to 5 basis points.

The District does not currently have a pre-funding policy but its practice over the last five years show periodic contributions averaging $485,000 per year. The projection of cash flows used to determine the discount rate assumed that the average contributions would continue in future years.

Sensitivity of the net OPEB liability to changes in the Discount Rate

The following present the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3%) or 1-percentage point higher (5%) than the current discount rate:

	District Share	Bond Share
1% Decrease	3.00%	3.00%
Net OPEB Liability	$ 9,319,256	$ 36,045
Current Discount Rate	4.00%	4.00%
Net OPEB Liability	$ 7,663,980	$ 29,643
1% Increase	5.00%	5.00%
Net OPEB Liability	$ 6,988,010	$ 27,028

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5% decreasing to 4%) or 1-percentage point higher (5% increasing to 6%) than the current healthcare cost trend rate:

	District Share	Bond Share
1% Decrease Ultimate Trend Rate	4.00%	4.00%
Net OPEB Liability	$ 7,131,547	$ 27,584
Ultimate Trend Rate	5.00%	5.00%
Net OPEB Liability	$ 7,663,980	$ 29,643
1% Increase Ultimate Trend Rate	6.00%	6.00%
Net OPEB Liability	$ 9,950,511	$ 38,487

M. Subsequent Events

Implementation of New Accounting Guidance

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2018. Those newly implemented pronouncements are as follows:

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

Financial impact of implementing GASB Statement No. 75 has not yet been determined; however, it is expected that the Net OPEB Obligation will significantly increase. The District is currently in contact with an actuary to determine the complete fiscal impact.

GASB Statement No. 81 - Irrevocable Split-Interest Agreements

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

As of the date this audit report is issued, the District does not have any split-interest agreements. Consequently, implementation of GASB No 81 is not expected to have a financial or reporting impact on the District.

GASB Statement No. 85 - Omnibus 2017

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Specifically, this Statement addresses the following topics:

1. Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.

2. Reporting amounts previously reported as goodwill and “negative” goodwill.

3. Classifying real estate held by insurance entities

4. Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.

5. Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.

6. Recognizing on-behalf payments for pensions or OPEB in employer financial statements.

7. Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.

8. Classifying employer-paid member contributions for OPEB.

9. Simplifying certain aspects of the alternative measurement method for OPEB.

10. Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Financial impact of implementing GASB Statement No. 85 has not yet been determined.

GASB Statement No. 86 - Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes financial statements for debt that is defeased in substance.

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

As of the date this audit report was issued, the District did not have any defeasance of debt. Consequently, the implementation of GASB Statement No. 86 is not expected to have a fiscal impact on the District.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
Schedule of the District's Proportionate Share of the
Net Pension Liability – Bond Share
California Public Employees' Retirement System (CALPERS)
Year Ended June 30,

	Fiscal Year		
	2017	2016	2015
Bond's proportion of the net pension liability (asset)	0.0002%	0.0002%	0.0002%
Bond's proportionate share of the net pension liability (asset)	$ 40,589	$ 31,383	$ 25,458
Bond's covered employee payroll	19,470	24,888	23,677
Bond's proportionate share of the net pension liability (asset) as a percentage of it's covered payroll	208.47%	126.10%	107.52%
Plan fiduciary net position as a percentage of the total pension liability	73.90%	79.43%	83.38%

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:
1) Benefit Changes: In 2015, 2016 & 2017 there were no changes to benefits

2) Changes in Assumptions: In 2015 and 2017 there were no changes in assumptions. In 2016 the discount rate was changed from 7.5% to 7.65% to correct for an adjustment to exclude administrative expense.

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
Schedule of the District Contributions – Bond Share
California Public Employees' Retirement System (CALPERS)
Year Ended June 30,

	Fiscal Year		
	2017	2016	2015
Contractually Required Contribution - District Bond Share	$ 2,704	$ 2,949	$ 2,787
Contributions - District Bond Share	(2,704)	(2,949)	(2,787)
Contribution deficiency (excess)	$ -	$ -	$ -
Bond's covered employee payroll	$ 19,470	$ 24,888	$ 23,677
Contributions as a percentage of covered employee payroll	13.888%	11.847%	11.771%

* This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available

Notes to Schedule:

Actuarial methods and assumptions

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 & 2015, and rolling forward the total pension liability to June 30, 2015 & 2016. The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015 and June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014	June 30, 2015	June 30, 2016
Experience Study	7/1/96 - 6/30/10	7/1/97 - 6/30/11	7/1/98 - 6/30/12
Actuarial Cost Method	Entry age normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.50%	7.50%	7.50%
Consumer Price Inflation	2.75%	2.75%	2.75%
Wage Growth (Average)	3.00%	3.00%	3.00%
Post-retirement Benefit Increases	2.00% simple	2.00% simple	2.00% simple

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. For more details on this table, please refer to the April 2013 experience study (based on demographic data from 1996 through 2010) and the April 2014 experience study (based on demographic data from 1997 to 2011) and the April 2015 experience study (based on demographic data from 1998 to 2012) available on the CalPERS website.

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
Schedule of Funding Progress – Healthcare Plan
Year Ended June 30,

District Wide

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	$ -	$ 7,113,998	$ 7,113,998	0.0%	$ 22,794,686	31.2%
1/1/2010	-	7,404,500	7,404,500	0.0%	21,286,461	34.8%
1/1/2012	-	7,360,311	7,360,311	0.0%	17,215,000	42.8%
1/1/2014	-	6,587,763	6,587,763	0.0%	19,140,000	34.4%
1/1/2016	1,883,678	8,361,134	6,477,456	22.5%	20,145,000	32.2%

Bond Share

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	$ -	$ 27,516	$ 27,516	0.0%	$ 88,166	31.2%
1/1/2010	-	28,639	28,639	0.0%	82,332	34.8%
1/1/2012	-	28,468	28,468	0.0%	66,585	42.8%
1/1/2014	-	25,480	25,480	0.0%	74,030	34.4%
1/1/2016	7,286	32,339	25,053	22.5%	77,917	32.2%

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS

Schedule of Changes in the District's Net OPEB Obligation and Related Ratios – Bond Share

Year Ended June 30,

	2017	
	District Wide	Bond Share
Total OPEB Liability		
Service Cost	$ 729,514	$ 2,822
Interest	410,893	1,589
Changes of benefit items	-	-
Differences between expected		-
and actual experience	-	-
Changes of assumptions	-	-
Benefit payments	(641,110)	(2,480)
Net Change in total OPEB liability	499,297	1,931
Total OPEB liability - beginning	9,863,373	38,150
Total OPEB liability - ending (a)	$ 10,362,670	$ 40,081
Plan fiduciary net position		
Contributions - employer	$ 1,141,110	$ 4,414
Contributions - employee	-	-
Net investment income	240,683	931
Benefit payments	(641,110)	(2,480)
Administrative expense	-	-
Net change on plan fiduciary net position	740,683	2,865
Plan fiduciary net position - beginning	1,958,006	7,573
Plan fiduciary net position - ending (b)	$ 2,698,689	$ 10,438
District's net OPEB lability - ending (a) - (b)	$ 7,663,981	$ 29,643
Plan fiduciary net position as a percentage of the total OPEB liability	26%	26%
Covered - employee payroll	20,750,000	80,257
District's net OPEB liability as a percentage of covered employee payroll	36.9%	36.9%

Notes to Schedule:

Benefit Changes: In 2017 there were no changes to benefits.

Changes in Assumptions: In 2017 there were no changes in assumptions.

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS

Schedule of District Contributions for Net OPEB Liability – Bond Share

Year Ended June 30,

	2017	
	District Wide	Bond Share
Actuarially determined contribution	$ 1,068,074	$ 4,131
Contributions in relation to actuarially determined contribution	(500,000)	(1,934)
Contribution deficiency (excess)	$ 568,074	$ 2,197
Covered - employee payroll	$ 20,750,000	$ 80,257
Contributions as a percentage of covered employee payroll	2.4%	0.0%

Notes to Schedule:

The financial reporting actuarial valuation as of June 30, 2017 used the following actuarial methods assumptions, applied to all prior periods included in the measurement:

Valuation Date	6/30/2017
Actuarial Cost Method	Entry Age Normal Level % of Pay
Amortization Method	Level-Dollar Method
Amortization Period	30 years
Asset Valuation Method	Fair Market Value
Inflation	2.8% per annum
Healthcare Cost Trend Rates	5%
Salary Increases	3% per annum, in aggregate
Investment Rate of Return	6.25%, net of OPEB plan investment expense, including inflation

OTHER INDEPENDENT AUDITORS' REPORTS

P. Robert Wilkinson, CPA
Brian K. Hadley, CPA

WILKINSON HADLEY
KING & CO. LLP
CPAs AND ADVISORS

Aubrey W. King, CPA
Kevin A. Sproul, CPA

INDEPENDENT AUDITOR'S 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*

Governing Board Members and
Citizens' Oversight Committee
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 Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) of Lemon Grove School District, which comprise the balance sheet as of June 30, 2017, and the related statements of revenues, expenditures, and change in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lemon Grove School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lemon Grove School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

El Cajon Office
218 W. Douglas Avenue ◆ El Cajon, CA 92020
Tel. (619) 447-6700 ◆ Fax (619) 447-6707

Emeryville Office
1900 Powell Street, Suite 600 ◆ Emeryville, CA 94608
Tel. (510) 588-8729 ◆ Fax (510) 588-8701

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King & Co., LLP

El Cajon, California
March 16, 2018

P. Robert Wilkinson, CPA
Brian K. Hadley, CPA

WILKINSON HADLEY KING & CO. LLP
CPAs AND ADVISORS

Aubrey W. King, CPA
Kevin A. Sproul, CPA

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board Members and
Citizens' Oversight Committee
Lemon Grove School District
Lemon Grove, California

We have audited the financial statements of the Proposition W Building Fund (21-39) and Measure R Building Fund (21-33) of Lemon Grove School District as of and for the fiscal year ended June 30, 2017 and have issued our report thereon dated March 16, 2018. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Proposition W and Measure R General Obligation Bonds for the fiscal year ended June 30, 2017. The objective of the audit of compliance applicable to Lemon Grove School District is to determine with reasonable assurance that:

- The proceeds from the sale of the Proposition W Bonds and Measure R Bonds were only used for the purposes set forth in the ballot measure and not for any other purpose, such as teacher and administrative salaries.

- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure to modernize, replace, renovate, construct, acquire, equip, furnish, and otherwise improve facilities of the District as noted in the bond project list.

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In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedure Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud, waste, or abuse regarding Proposition W and Measure R resources.
- Prevent material misstatement in the Proposition W and Measure R Building Fund financial statements.
- Ensure all expenditures are properly allocated.
- Ensure adequate separation of duties exists in the accounting of Proposition W and Measure R funds.

Purchase requisitions are required for all expenditures. All Proposition W and Measure R purchase order transmittals get approval by the Assistant Superintendent of Business Services and Proposition W and Measure R Owner's Representative. The Assistant Superintendent of Business Services, Proposition W and Measure R Owner's Representative, and Projects and Facilities Supervisor verifies that all expenditures are properly recorded by project and expense category. When the purchase requisition had gone through the approval process, it will then be turned into a purchase order. Purchase orders are then processed via the District's normal purchase order system.

Purchase orders are then provided to the vendor who then proceeds to perform the requested service or provide the requested item. After the service is performed or item received and subsequent invoice is received requesting payment, the Assistant Superintendent of Business Services, Proposition W and Measure R Owner's Representative, and Projects and Facilities Supervisor verifies the services were performed or the items were received, then the invoices are processed for payment. The District has established a separate Building Fund to properly account for the receipt of bond proceeds and expenditures. The District has properly recorded receipts of bond proceeds within the Building Funds.

Results of Procedures Performed

The results of our audit determined the internal control procedures as implemented are sufficient to meet the financial and compliance objectives required by generally accepted accounting principles and applicable laws and regulations.

Tests of Expenditures

Procedures Performed:

We tested expenditures to determine whether funds were spent solely on voter and Board approved school facilities projects as set forth in the Bond Project Lists and language of the Proposition W and Measure R ballot measure. Our testing included a sample of vendors and payroll payments, totaling approximately $994,461 or approximately 97% of total expenditures for the year.

Results of Procedures Performed:

We found no instances where expenditures tested were not in compliance with the terms of Proposition W and Measure R ballot measure and applicable state laws and regulations.

Tests of Contracts and Bid Procedures

Procedures Performed:

We reviewed the District's board minutes for approval of construction contracts and change orders, if any, to determine compliance with the District's policy and Public Contract Code provisions related to biddings and contracting.

Results of Procedures Performed:

We noted no instances where the District was out of compliance with respect to contracts and bidding procedures.

Citizens' Oversight Committee

Procedures Performed:

We have reviewed the minutes of the Independent Citizens' Oversight Committee meetings to verify compliance with Education Code sections 15278 through 15282.

Results of Procedures Performed:

We have determined the Lemon Grove School District's Citizens' Oversight Committee and its involvement is in compliance with Education Code sections 15278 through 15282.

Our audit of compliance made for the purposes set forth in the second and third paragraphs of this report above would not necessarily disclose all instances of noncompliance.

Opinion on Performance

In our opinion, the District complied, in all material respects, with the compliance requirements for the Proposition W Building Fund (21-39) and Measure R Building Fund (21-33), for the fiscal year ended June 30, 2017.

This report is intended solely for the information and use of the District's Governing Board, the Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Lemon Grove School District and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley King & Co., LLP

El Cajon, California
March 16, 2018

FINDINGS AND RECOMMENDATION

There were no findings to report.

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W BUILDING FUND (21-39)
MEASURE R BUILDING FUND (21-33)
GENERAL OBLIGATION BONDS
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

There were no findings reported for the year ended June 30, 2016.