HEMET UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Hemet Unified School District
Hemet, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* issued by the California Education Audit Appeals Panel as regulations. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 82, Schedule of Changes in the District's Total OPEB Liability and Related Ratios on page 83, Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program on page 84, schedule of the District's proportionate share of the net pension liability on page 85, and the schedule of District contributions on page 86, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hemet Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of the Hemet Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hemet Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hemet Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

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This section of Hemet Unified School District's (the District) (2017-2018) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

Governmental Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Business-Type Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

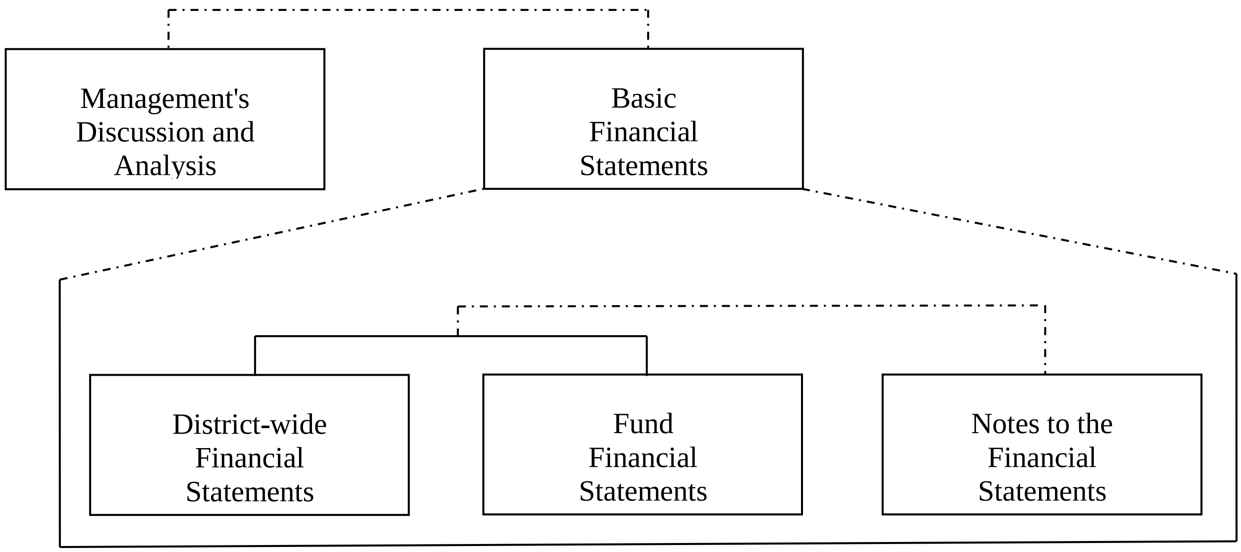
The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Hemet Unified School District.

Figure 1

Organization of Hemet Unified School District's Annual Financial Report



FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net position decreased by $33.4 million over the prior year for a new net position of $81.5 million.
- Revenues, transfers in, and other financing sources for all funds, including bond issuances, totaled $329 million. Expenses, transfers out and other uses totaled $362.4 million.
- The General Fund audited ending balance, which includes $4.8 million in Fund 20 - Special Reserve for Post-Employment Benefits, totaled $31.1 million. This represents a decrease of $8.3 million from the prior year.
- No new General Obligation Bonds or capital equipment leases were issued in 2017-18.
- The District's 2017-18 P-2 Average Daily Attendance (ADA), excluding charter schools and students in County programs, was reported at 20,029, an increase of 103 over the prior year.
- The District filed a positive status with both its First and Second Interim reports in 2017-18.

DISTRICT-WIDE STATEMENTS

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The relationship between revenues and expenses is the District's *operating results.* Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

***Governmental Activities* -** Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as certificates of participation, finance these activities.

***Business-Type Activities* -** The District charges fees to help it cover the costs of certain services it provides. The District's transportation operations are included in this category.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

***Proprietary Funds* -** When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund and Transportation (Enterprise Fund). The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in separate *Statements of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was $81.5 million for the fiscal year ended June 30, 2018. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental and business-type activities.

Table 1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	(As Restated) 2017	2018	(As Restated) 2017	2018	(As Restated) 2017
Assets						
Current and other assets	$ 90.2	$ 98.9	$ 12.8	$ 10.5	$ 103.0	$ 109.4
Capital assets	443.9	454.0	8.2	8.6	452.1	462.6
Total Assets	534.1	552.9	21.0	19.1	555.1	572.0
Deferred Outflows of Resources	97.5	77.7	9.5	5.1	107.0	82.8
Liabilities						
Current liabilities	14.6	14.8	0.9	0.5	15.5	15.3
Long-term obligations	263.6	266.7	6.5	5.3	270.1	272.0
Aggregate net pension liability	259.3	235.6	23.5	9.3	282.8	244.9
Total Liabilities	537.5	517.1	30.9	15.1	568.4	532.2
Deferred Inflows of Resources	11.9	6.1	0.3	0.3	12.2	6.4
Net Position						
Net investment in capital assets	223.8	218.4	4.2	4.5	228.0	222.9
Restricted	27.6	28.5	-	-	27.6	28.5
Unrestricted (Deficit)	(169.2)	(139.5)	(4.9)	4.3	(174.1)	(135.2)
Total Net Position	$ 82.2	$ 107.4	$ (0.7)	$ 8.8	$ 81.5	$ 116.2

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement for the year.

Table 2

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for services	$ 1.8	$ 1.8	$ 24.3	$ 32.0	$ 26.1	$ 33.8
Operating grants and contributions	63.1	56.2	0.5	0.7	63.6	56.9
Capital grants and contributions	0.1	6.0	-	-	0.1	6.0
General Revenues:						
Federal and State aid	179.7	179.7	-	-	179.7	179.7
Property taxes	47.4	47.4	-	-	47.4	47.4
Other general revenues	12.1	9.2	-	-	12.1	9.2
Total Revenues	304.2	300.3	24.8	32.7	329.0	333.0
Expenses						
Instruction-related	234.4	209.5	-	-	234.4	209.5
Pupil services	43.0	37.0	-	-	43.0	37.0
Administration	19.1	17.1	-	-	19.1	17.1
Plant services	26.7	22.9	-	-	26.7	22.9
Ancillary	2.3	2.1	-	-	2.3	2.1
Other	8.5	17.8	28.4	21.9	36.9	39.7
Total Expenses	334.0	306.4	28.4	21.9	362.4	328.3
Transfers	4.6	3.4	(4.6)	(3.4)	-	-
Change in Net Position	$ (25.2)	$ (2.7)	$ (8.2)	$ 7.4	$ (33.4)	$ 4.7

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all governmental activities in 2017-2018 was $334 million. The amount that our taxpayers ultimately financed for these activities through local taxes was $47.4 million. The remaining cost was paid by those who benefited from the programs $1.8 million or by other governments and organizations who subsidized certain programs with $63.1 million in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with $179.7 million in Federal and State aid and $12.1 million with other General Fund revenue sources such as interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions - instruction, instruction-related activities, pupil services, administration, plant services, ancillary services, and other activities, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits provided by that function.

Table 3

(Amounts in millions)	Total Cost of Services		Total Net Cost of Services	
	2018	2017	2018	2017
Instruction	$ 197.0	$ 177.5	$ 165.8	$ 141.7
Instruction-related activities	37.4	32.0	28.5	24.4
Pupil services	43.0	37.0	24.6	21.0
Administration	19.1	17.1	16.8	15.0
Plant services	26.7	22.9	24.8	22.0
Ancillary services	2.3	2.1	2.3	2.1
Other	8.5	17.8	6.2	16.3
Total	$ 334.0	$ 306.4	$ 269.0	$ 242.5

THE DISTRICT'S FUNDS

Upon completion of the 2017-2018 fiscal year, the District's governmental funds reported a combined fund balance of $67.2 million, a decrease of $10.0 million from 2016-2017 (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	$ 39.4	$ 269.6	$ 277.9	$ 31.1
Bond Interest and Redemption Fund	14.5	12.3	12.1	14.7
Non-Major Governmental Funds	23.3	33.6	35.5	21.4
Total	$ 77.2	$ 315.5	$ 325.5	$ 67.2

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 6, 2018. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in this annual financial report on page 82.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $452 million in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $10.5 million, or 2.3 percent, over the prior year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
Land	$ 24.7	$ 24.7	$ -	$ -	$ 24.7	$ 24.7
Construction in progress	1.5	35.3	-	-	1.5	35.3
Buildings and improvements	409.0	386.2	-	-	409.0	386.2
Equipment	8.6	7.8	8.2	8.5	16.8	16.3
Total	$ 443.8	$ 454.0	$ 8.2	$ 8.5	$ 452.0	$ 462.5

This year's additions totaled $6.8 million, with the majority of expenses related to capital assets for 2018-2019 include Hemet Elementary, Valle Vista Preschool facilities and bus purchases. The District's capital assets additions, deletions, and balances are presented in Note 5 in these financial statements.

Capital projects planned for the 2018-2019 year include completion of the Valle Vista Preschool facility and other miscellaneous projects.

Long-Term Obligations

At June 30, 2018, the District had $225.1 million in general obligation bonds and certificates of participation outstanding compared to $233.4 million in June 30, 2017, a decrease of $8.3 million, or 3.6 percent. Other obligations consisted of those items listed in Table 6 below.

Table 6

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	(As Restated) 2017	2018	(As Restated) 2017	2018	(As Restated) 2017
General obligation bonds	$ 172.3	$ 178.1	$ -	$ -	$ 172.3	$ 178.1
Certificates of participation	52.8	55.3	-	-	52.8	55.3
Capital leases	0.1	0.1	4.0	4.7	4.1	4.8
Compensated absences payable	0.9	0.9	0.2	0.2	1.1	1.1
Claims liability	8.1	5.3	-	-	8.1	5.3
Net OPEB obligation	29.4	26.9	2.3	2.1	31.7	29.0
Total	$ 263.6	$ 266.6	$ 6.5	$ 7.0	$ 270.1	$ 273.6

Other obligations include compensated absences payable, postemployment benefits (not including health benefits), capital leases, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District had a net pension liability of $282.9 million, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

Table 7 lists the District's 2018-19 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2018. Budgetary goals were developed and prioritized by the District's leadership team and governing board. Input provided by these two groups was used as the framework to develop the District's 2018-19 budget, which includes site and department allocations for both staffing and operating budgets.

Table 7

2018-2019 Budget Assumptions

Cost of Living Adjustment (COLA) (applied to LCFF targeted base)	3.00%
Enrollment (excluding charters)	21,443
Enrollment Growth (Decline)	274
ADA – Average Daily Attendance	20,281
ADA – Funded	20,281
ADA Percentage	94.6%
Salary Increase	3.0%
Step and Column Percent of Salaries	1.45%
Deferred/Routine Maintenance - Percent of Total Expenditures	3.00%
New Schools/(School Closures)	0
Reserve for Economic Uncertainties	5.00%

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional information contact the Assistant Superintendent, Business Services, at Hemet Unified School District, 1791 West Acacia Avenue, Hemet, California, 92545-3797, or e-mail at: vchristakos@hemetusd.k12.ca.us.

HEMET UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	$ 81,109,172	$ 5,213,180	$ 86,322,352
Receivables	8,503,123	7,562,738	16,065,861
Internal balances	9,817	(9,817)	-
Stores inventories	665,697	-	665,697
Capital assets			
Land and construction in process	26,235,739	-	26,235,739
Other capital assets	614,114,541	20,998,557	635,113,098
Less: Accumulated depreciation	(196,477,968)	(12,840,607)	(209,318,575)
Total Capital Assets	443,872,312	8,157,950	452,030,262
TOTAL ASSETS	534,160,121	20,924,051	555,084,172
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	97,538,383	9,462,147	107,000,530
LIABILITIES			
Accounts payable	10,209,285	865,339	11,074,624
Accrued interest payable	3,210,885	-	3,210,885
Unearned revenue	1,158,409	-	1,158,409
Long-term obligations			
Current portion of long-term obligations other than pensions	9,501,622	968,004	10,469,626
Noncurrent portion of long-term obligations other than pensions	254,132,098	5,519,513	259,651,611
Total Long-Term Obligations	263,633,720	6,487,517	270,121,237
Aggregate net pension liability	259,313,511	23,494,505	282,808,016
TOTAL LIABILITIES	537,525,810	30,847,361	568,373,171
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	11,925,095	282,003	12,207,098
NET POSITION			
Net investment in capital assets	223,806,075	4,171,470	227,977,545
Restricted for:			
Debt service	11,934,876	-	11,934,876
Capital projects	9,779,734	-	9,779,734
Educational programs	2,878,700	-	2,878,700
Other activities	3,074,566	-	3,074,566
Unrestricted (Deficit)	(169,226,352)	(4,914,636)	(174,140,988)
TOTAL NET POSITION	$ 82,247,599	$ (743,166)	$ 81,504,433

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

HEMET UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Governmental Activities:				
Instruction	$ 197,034,593	$ 9,496	$ 31,094,564	$ 73,808
Instruction-related activities:				
Supervision of instruction	14,165,595	121	7,386,725	-
Instructional library, media and technology	2,221,350	146	44,976	-
School site administration	20,979,018	3,816	1,421,968	-
Pupil services:				
Home-to-school transportation	7,005,879	-	248,392	-
Food services	15,137,369	864,859	12,336,062	-
All other pupil services	20,833,771	63	4,953,233	-
Administration:				
Data processing	5,314,414	710	1,171	-
All other administration	13,834,744	50,800	2,294,355	-
Plant services	26,691,213	18,328	1,917,528	-
Ancillary services	2,290,351	-	39,713	-
Community services	118,487	-	-	-
Enterprise services	631,354	-	-	-
Interest on long-term obligations	7,507,011	-	-	-
Other outgo	228,846	863,549	1,366,913	-
Total Governmental Activities	333,993,995	1,811,888	63,105,600	73,808
Business-Type Activities				
Transportation	28,381,599	24,264,685	467,889	-
Total School District	$ 362,375,594	$ 26,076,573	$ 63,573,489	$ 73,808

General Revenues and Subventions:
Property taxes, levied for general purposes
Property taxes, levied for debt service
Taxes levied for other specific purposes
Federal and State aid not restricted to specific purposes
Interest and investment earnings
Transfers between agencies
Miscellaneous
Subtotal, General Revenues
Excess of Revenues Over Expenses
Transfers between funds
Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning
Restatement
Net Position - Beginning (as Restated)
Net Position - Ending

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (165,856,725)	$ -	$ (165,856,725)
(6,778,749)	-	(6,778,749)
(2,176,228)	-	(2,176,228)
(19,553,234)	-	(19,553,234)
(6,757,487)	-	(6,757,487)
(1,936,448)	-	(1,936,448)
(15,880,475)	-	(15,880,475)
(5,312,533)	-	(5,312,533)
(11,489,589)	-	(11,489,589)
(24,755,357)	-	(24,755,357)
(2,250,638)	-	(2,250,638)
(118,487)	-	(118,487)
(631,354)	-	(631,354)
(7,507,011)	-	(7,507,011)
2,001,616	-	2,001,616
(269,002,699)	-	(269,002,699)
-	(3,649,025)	(3,649,025)
(269,002,699)	(3,649,025)	(272,651,724)
30,726,159	-	30,726,159
13,141,771	-	13,141,771
3,545,683	-	3,545,683
179,722,129	-	179,722,129
293,498	-	293,498
369,364	-	369,364
11,404,859	-	11,404,859
239,203,463	-	239,203,463
(29,799,236)	(3,649,025)	(33,448,261)
4,646,695	(4,646,695)	-
(25,152,541)	(8,295,720)	(33,448,261)
112,926,339	8,807,250	121,733,589
(5,526,199)	(1,254,696)	(6,780,895)
107,400,140	7,552,554	114,952,694
$ 82,247,599	$ (743,166)	$ 81,504,433

HEMET UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Bond Interest and Redemption Fund
ASSETS		
Deposits and investments	$ 34,208,702	$ 14,747,961
Receivables	6,263,060	-
Due from other funds	1,318,958	-
Stores inventories	167,825	-
Total Assets	$ 41,958,545	$ 14,747,961
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 8,972,919	$ -
Due to other funds	795,791	-
Unearned revenue	1,107,028	-
Total Liabilities	10,875,738	-
Fund Balances:		
Nonspendable	192,825	-
Restricted	2,816,755	14,747,961
Committed	14,175,227	-
Assigned	-	-
Unassigned	13,898,000	-
Total Fund Balances	31,082,807	14,747,961
Total Liabilities and Fund Balances	$ 41,958,545	$ 14,747,961

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

Non-Major Governmental Funds	Total Governmental Funds
$ 20,648,811	$ 69,605,474
2,185,684	8,448,744
297,343	1,616,301
497,872	665,697
$ 23,629,710	$ 80,336,216
$ 1,088,500	$ 10,061,419
1,080,437	1,876,228
51,381	1,158,409
2,220,318	13,096,056
502,942	695,767
18,445,613	36,010,329
390,728	14,565,955
2,070,109	2,070,109
-	13,898,000
21,409,392	67,240,160
$ 23,629,710	$ 80,336,216

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds		$ 67,240,160
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	$ 640,350,280	
Accumulated depreciation is:	(196,477,968)	
Net Capital Assets		443,872,312
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(3,210,885)
An internal service fund is used by the District's management to charge the costs of the health and welfare benefits and workers' compensation program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities. Internal Service Fund net assets are:		3,558,297
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:		
Pension contributions subsequent to measurement date	25,157,301	
Net change in proportionate share of net pension liability	21,429,471	
Differences between projected and actual earnings on pension plan investments	2,452,990	
Differences between expected and actual experience in the measurement of the total pension liability	3,237,137	
Changes of assumptions	45,261,484	
Total Deferred Outflows of Resources Related to Pensions		97,538,383

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2018

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:		
Net change in proportionate share of net pension liability	(2,786,437)	
Difference between projected and actual earnings on pension plan investments	(5,017,718)	
Differences between expected and actual experience in the measurement of the total pension liability	(3,286,066)	
Changes of assumptions	(834,874)	
Total Deferred Inflows of Resources Related to Pensions		(11,925,095)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		$ (259,313,511)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	$ (164,295,000)	
Premium on issuance, net of amortization	(8,044,996)	
Discount on issuance, net of amortization	76,098	
Certificates of participation	(48,619,342)	
Premium on issuance, net of amortization	(4,284,940)	
Discount on issuance, net of amortization	63,085	
Capital lease obligations	(92,710)	
Compensated absences payable	(902,647)	
Net OPEB liability	(29,411,610)	
Total Long-Term Obligations		(255,512,062)
Total Net Position - Governmental Activities		**$ 82,247,599**

HEMET UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
REVENUES			
Local Control Funding Formula	$ 203,876,640	$ -	$ 5,270,378
Federal sources	18,314,202	-	12,351,806
Other State sources	24,884,208	158,577	4,943,266
Other local sources	16,745,681	12,158,934	3,177,106
Total Revenues	263,820,731	12,317,511	25,742,556
EXPENDITURES			
Current			
Instruction	166,887,029	-	6,097,602
Instruction-related activities:			
Supervision of instruction	13,229,899	-	228,358
Instructional library, media, and technology	2,100,460	-	9,125
School site administration	18,141,551	-	1,172,844
Pupil services:			
Home-to-school transportation	7,005,879	-	-
Food services	28,824	-	13,271,624
All other pupil services	20,058,547	-	234,316
Administration:			
Data processing	4,579,163	-	128
All other administration	11,558,541	-	1,088,811
Plant services	23,146,832	-	3,223,226
Ancillary services	2,140,569	-	96,885
Community services	117,810	-	-
Other outgo	228,846	-	-
Enterprise services	1,049	-	-
Facility acquisition and construction	1,762,514	-	4,081,071
Debt service			
Principal	104,108	5,425,000	1,840,000
Interest and other	63,002	6,712,104	1,878,430
Total Expenditures	271,154,623	12,137,104	33,222,420
Excess (Deficiency) of Revenues Over Expenditures	(7,333,892)	180,407	(7,479,864)
OTHER FINANCING SOURCES (USES)			
Transfers in	5,860,848	-	7,826,637
Transfers out	(6,797,408)	-	(2,243,382)
Net Financing Sources (Uses)	(936,560)	-	5,583,255
NET CHANGE IN FUND BALANCES	(8,270,452)	180,407	(1,896,609)
Fund Balance - Beginning	39,353,259	14,567,554	23,306,001
Fund Balances - Ending	$ 31,082,807	$ 14,747,961	$ 21,409,392

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

Total Governmental Funds
$ 209,147,018
30,666,008
29,986,051
32,081,721
301,880,798
172,984,631
13,458,257
2,109,585
19,314,395
7,005,879
13,300,448
20,292,863
4,579,291
12,647,352
26,370,058
2,237,454
117,810
228,846
1,049
5,843,585
7,369,108
8,653,536
316,514,147
(14,633,349)
13,687,485
(9,040,790)
4,646,695
(9,986,654)
77,226,814
$ 67,240,160

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds		$ (9,986,654)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeded capital outlay in the period.		
Capital outlays	$ 6,790,709	
Depreciation expense	(16,879,875)	
Net Expense Adjustment		(10,089,166)
In the Statement of Activities, certain operating expenses - compensated absences(vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than amounts earned by $45,784.		(45,784)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(9,672,648)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.		(2,526,346)

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Repayment of principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds and bond anticipation notes		5,425,000
Certificates of participation		2,212,955
Capital lease obligations		88,859
Governmental funds report the effect of premiums and discounts when the debt is first issued, whereas the amounts are deferred and amortized over the life of the debt in the Statement of Activities. This amount is the net effect of the amortization of the related items:		
Premium on issuance for general obligation bonds	$ 396,030	
Discount on issuance for general obligation bonds	(6,918)	
Premium on issuance for certificates of participation	297,811	
Discount on issuance for certificates of participation	(3,410)	
Combined Adjustment		683,513
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		105,306
An internal service fund is used by the District's management to charge the costs of the health and welfare benefits and workers' compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.		(1,347,576)
Change in Net Position of Governmental Activities		**$ (25,152,541)**

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2018

	Business-Type Activities Enterprise Fund Transportation	Governmental Activities Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$ 5,213,180	$ 11,503,698
Receivables	7,562,738	54,379
Due from other funds	482,222	269,744
Total Current Assets	13,258,140	11,827,821
Noncurrent Assets		
Capital assets	20,998,557	-
Less: accumulated depreciation	(12,840,607)	-
Total Noncurrent Assets	8,157,950	-
Total Assets	21,416,090	11,827,821
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	9,462,147	-
LIABILITIES		
Current Liabilities		
Accounts payable	865,339	147,866
Due to other funds	492,039	-
Claims liabilities	-	1,348,000
Total Current Liabilities	1,357,378	1,495,866
Noncurrent Liabilities		
Noncurrent portion of claims liabilities	-	6,773,658
Capital lease	3,986,480	-
Net OPEB liability	2,286,155	-
Compensated absences payable	214,882	-
Aggregate net pension liability	23,494,505	-
Total Liabilities	31,339,400	8,269,524
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	282,003	-
NET POSITION		
Net investment in capital assets	4,171,470	-
Unrestricted	(4,914,636)	3,558,297
Total Net Position	$ (743,166)	$ 3,558,297

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Fund	Governmental Activities
	Transportation	Internal Service Fund
OPERATING REVENUES		
Charges for services	$ 24,644,304	$ -
Charges to other funds and miscellaneous revenues	-	1,688,437
Total Operating Revenues	24,644,304	1,688,437
OPERATING EXPENSES		
Payroll costs	26,222,567	306
Professional and contract services	(2,958,616)	3,198,256
Supplies and materials	2,933,168	1,515
Facility rental	902,185	-
Depreciation	1,282,295	-
Total Operating Expenses	28,381,599	3,200,077
Operating (Loss)	(3,737,295)	(1,511,640)
NONOPERATING REVENUES		
Interest income	82,238	164,064
Grants	6,032	-
Total Nonoperating Revenues	88,270	164,064
Income Before Transfers	(3,649,025)	(1,347,576)
Transfers out	(4,646,695)	-
Change in Net Position	(8,295,720)	(1,347,576)
Net Position - Beginning	8,807,250	4,905,873
Restatement	(1,254,696)	-
Net Position - Beginning (as Restated)	7,552,554	4,905,873
Total Net Position - Ending	$ (743,166)	$ 3,558,297

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Fund	Governmental Activities
	Transportation	**Internal Service Fund**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 24,726,542	$ -
Cash received from assessments made to other funds	(482,222)	1,501,308
Cash payments to employees for services	(26,222,567)	(306)
Cash payments to suppliers for goods and services	(876,737)	-
Cash payments for administrative expense	(1,298,088)	(1,515)
Other operating cash payments	(1,027,952)	(2,435,684)
Net Cash Used For Operating Activities	(5,181,024)	(936,197)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	6,032	-
Transfers to other funds	4,646,693	-
Net Cash Provided by Noncapital Financing Activities	4,652,725	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	916,275	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	82,238	141,934
Net Increase (Decrease) in Cash and Cash Equivalents	470,214	(794,263)
Cash and Cash Equivalents - Beginning	4,742,966	12,297,961
Cash and Cash Equivalents - Ending	$ 5,213,180	$ 11,503,698

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	$ (3,737,295)	$ (1,511,640)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,282,295	-
Changes in assets and liabilities:		
Receivables	1,201,173	-
Due from other funds	(40,755)	(187,129)
Capital assets	916,275	-
Deferred outflows	4,313,965	-
Accounts payable	388,058	60,416
Due to other funds	(684,216)	16,676
Capital leases	(732,319)	-
Net OPEB liability	1,001,074	-
Compensated absences payable	17,189	-
Aggregate net pension liability	(14,242,162)	-
Claims liabilities	5,131,669	685,480
Deferred inflows	4,025	-
NET CASH USED FOR OPERATING ACTIVITIES	$ (5,181,024)	$ (936,197)

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

HEMET UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Agency Funds		
	Associated Student Body	**Debt Service Fund for Special Tax Bonds**	**Total Agency Funds**
ASSETS			
Deposits and investments	$ 1,438,495	$ 4,725,055	$ 6,163,550
Stores inventories	23,446	-	23,446
Total Assets	$ 1,461,941	$ 4,725,055	$ 6,186,996
LIABILITIES			
Accounts payable	$ 852	$ -	$ 852
Due to bond holders	-	4,725,055	4,725,055
Due to student groups	1,461,089	-	1,461,089
Total Liabilities	$ 1,461,941	$ 4,725,055	$ 6,186,996

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hemet Unified School District (the District) was established on July 1, 1966, under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates fourteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, an adult school, and two charter schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Hemet Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Golden West Schools Financing Authority (the Authority) and the Hemet Unified School District School Facilities Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Certificates of participation and other debt issued by the Authority and the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Authority or the Corporation.

The Hemet Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

Charter School The District has approved a Charter for the Western Center Academy Charter School pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the Charter School Special Revenue Fund.

Other Related Entity

Joint Powers Authority The District is associated with one joint powers authority. This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 16 to the financial statements. This organization is:

Southern California Regional Liability Excess Fund (So Cal ReLiEF)

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Postemployment Benefits, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects a decrease in the fund balance of $4,848,373.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund are used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Charter Schools Fund The Charter Schools Fund is used by the District to account separately for the operating activities of district-operated charter schools that would otherwise be reported in the authorizing district's General Fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for restricted or committed adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes.(*Education Code* Sections 17582

Capital Project Funds The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51), authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Capital Projects for Blended Component Units Fund The Capital Projects for Blended Component Units Fund is used to account for capital projects financed by the 2004 COP, 2006 COP, 2007 COP, 2005-3 CFD, and 2005-4 CFD issuances that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Debt Service Funds The Debt Service funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term obligations.

Debt Service Fund for Blended Component Units The Debt Service Fund for Blended Component Units is used to account for the accumulation of resources for the payment of the principal and interest on bonds issued by Financing Authorities and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the Local Education Agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. These funds of the District account for the financial transactions related to the Transportation activities of the District.

Internal Service Fund Internal service funds may be used to account for goods or services provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self-Insurance program for health and welfare and workers' compensation services that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District does not have any trust funds.

The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB), debt service fund for special tax bonds, and funds held on behalf of other agencies.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide financial *Statement of Activities* presents a comparison between direct expenses and program revenues for each segment of the District and for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. 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 balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the *Statement of Net Position*. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental-type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial *Statement of Net Position*. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables".

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-Term Obligations

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

However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities *Statement of Net Position*. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment Program (MPP) and additions to/deductions from MPP's fiduciary net position have been determined on the same basis as they are reported by MPP. For this purpose, MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes 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, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than five percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2018. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $27,667,876 of restricted net position.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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 for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued 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 other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- 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;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued 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—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 to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	$ 81,109,172
Business-type activities	5,213,180
Fiduciary funds	6,163,550
Total Deposits and Investments	$ 92,485,902

Deposits and investments as of June 30, 2018, consisted of the following:

Cash on hand and in banks	$ 7,274,582
Cash in revolving	30,070
Investments	85,181,250
Total Deposits and Investments	$ 92,485,902

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations; the Riverside County Investment Pool.

Investment in County Treasury - 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 investment in the pool is reported in the accounting financial statements at 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 that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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 Fund (LAIF)	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Reported Amount	Maturity Date/ Weighted Average Maturity in Days
Federal Farm Credit Banks	$ 1,292,935	3/12/2019
Certificates of Deposit	980,337	86
Federal Home Loan Mortgage Corp. - MTN	1,163,558	1007
Federal National Mortgate Association	365,930	578
Commercial Paper	800,040	9/19/2018
Riverside County Investment Pool	80,578,450	427
Total	$ 85,181,250	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated.

Investment Type	Minimum Legal Rating	Rating as of June 30, 2018	Reported Amount
Federal Farm Credit Banks	Not Required	Aaa	$ 1,292,935
Certificates of Deposit	Not Required	Not Rated	980,337
Federal Home Loan Mortgage Corp. - MTN	Not Required	Aaa	1,163,558
Federal National Mortgate Association	Not Required	Aaa	365,930
Commercial Paper	P-1	Aaa	800,040
Riverside County Investment Pool	Not Required	Aaa-bf	80,578,450
Total			$ 85,181,250

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance $6,686,208 was exposed to custodial credit risk because it was uninsured..

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

> Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Riverside County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

		Fair Value Measurements Using	
Investment Type	Reported Amount	Level 2 Inputs	Uncategorized
Federal Farm Credit Banks	$ 1,292,935	$ 1,292,935	$ -
Certificates of Deposit	980,337	980,337	-
Federal Home Loan Mortgage Corp. - MTN	1,163,558	1,163,558	-
Federal National Mortgate Association	365,930	365,930	-
Commercial Paper	800,040	800,040	-
Riverside County Investment Pool	80,578,450	-	80,578,450
Total	$ 85,181,250	$ 4,602,800	$ 80,578,450

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Transportation Enterprise Fund
Federal Government					
Categorical aid	$ 2,764,416	$ 1,411,848	$ -	$ 4,176,264	$ -
State Government					
LCFF apportionment	2,558	-	-	2,558	-
Categorical aid	784,042	563,151	-	1,347,193	-
Lottery	886,708	27,406	-	914,114	-
Other State	1,477,487	29,456	-	1,506,943	
Local Government					
Interest	124,430	59,225	51,983	235,638	24,761
Other local sources	223,419	94,598	2,396	320,413	7,537,977
Total	$ 6,263,060	$ 2,185,684	$ 54,379	$ 8,503,123	$ 7,562,738

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 24,701,180	$ -	$ -	$ 24,701,180
Construction in progress	35,298,947	850,292	34,614,680	1,534,559
Total Capital Assets Not Being Depreciated	60,000,127	850,292	34,614,680	26,235,739
Capital Assets Being Depreciated				
Buildings and improvements	551,126,794	38,416,355	70,000	589,473,149
Furniture and equipment	22,502,650	2,138,742	-	24,641,392
Total Capital Assets Being Depreciated	573,629,444	40,555,097	70,000	614,114,541
Total Capital Assets	633,629,571	41,405,389	34,684,680	640,350,280
Less Accumulated Depreciation				
Buildings and improvements	164,944,225	15,594,304	70,000	180,468,529
Furniture and equipment	14,723,868	1,285,571	-	16,009,439
Total Accumulated Depreciation	179,668,093	16,879,875	70,000	196,477,968
Governmental Activities Capital Assets, Net	453,961,478	24,525,514	34,614,680	443,872,312
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture and equipment	20,082,282	916,275	-	20,998,557
Less Accumulated Depreciation				
Furniture and equipment	11,558,312	1,282,295	-	12,840,607
Business-Type Activities Capital Assets, Net	8,523,970	(366,020)	-	8,157,950
School District Totals	$ 462,485,448	$ 24,159,494	$ 34,614,680	$ 452,030,262

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	$ 13,942,753
School site administration	455,758
Food services	793,354
All other administration	995,912
Plant services	692,098
Total Depreciation Expenses Governmental Activities	16,879,875
Business-Type Activities	
Home-to-school transportation	1,282,295
School District Totals	$ 18,162,170

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, and internal service funds are as follows:

	Due From			
Due To	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	Total
General Fund	$ -	$ 828,864	$ 490,094	$ 1,318,958
Non-Major Governmental Funds	297,343	-	-	297,343
Transportation Enterprise Fund	482,222	-	-	482,222
Internal Service Fund	16,226	251,573	1,945	269,744
Total	$ 795,791	$ 1,080,437	$ 492,039	$ 2,368,267

A balance of $123,474 is due to the Charter Schools Non-Major Governmental Fund from the General fund for In-Lieu final calculation.

A balance of $91,140 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for unpaid meals.

A balance of $422,805 is due to the Transportation Enterprise Fund from the General Fund to cover costs.

A balance of $319,363 is due to the to the General Fund from the Charter Schools Non-Major Governmental Fund for Special Education Master Plan.

A balance of $127,457 is due to the General Fund from the Charter Non-Major Governmental Fund to cover costs.

A balance of $250,000 is due to Internal Service Fund from the Child Development Non-Major Governmental Fund for temporary loan.

A balance of $261,146 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect cost.

A balance of $486,920 is due to the General Fund from the Transportation Enterprise Fund for charge backs.

Remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

	Transfer From			
Transfer To	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	Total
General Fund	$ -	$ 1,214,153	$ 4,646,695	$ 5,860,848
Non-Major Governmental Funds	6,797,408	1,029,229	-	7,826,637
Total	$ 6,797,408	$ 2,243,382	$ 4,646,695	$ 13,687,485

The General Fund transferred to the Debt Service for Blended Component Units Non-Major Governmental Fund for debt service payments.	$ 3,711,268
The General Fund transferred to the Cafeteria Non-Major Governmental Fund to support excess costs.	91,140
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund to cover costs.	2,500,000
The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for debt service payments.	495,000
The Charter Schools Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment.	379,416
The Capital Projects Non-Major Governmental Fund for Blended Component Units transferred to the Capital Facilities Non-Major Governmental Fund for the reimbursement of costs.	1,029,229
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the General Fund for Prop 39 expenses.	834,737
The Transportation Enterprise Fund transferred to the General Fund for admin fees and to cover District transportation costs.	4,646,695
Total	$ 13,687,485

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	$ 4,441,014	$ 583,149	$ 147,866	$ 5,172,029
LCFF apportionment	2,674,661	73,727	-	2,748,388
Salaries and benefits	1,857,244	225,443	-	2,082,687
Construction	-	206,181	-	206,181
Total	$ 8,972,919	$ 1,088,500	$ 147,866	$ 10,209,285

	Transportation Enterprise Fund	Fiduciary Funds
Vendor payables	$ 582,346	$ 852
LCFF apportionment	-	-
Salaries and benefits	282,993	-
Construction	-	-
Total	$ 865,339	$ 852

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	$ 21,837	$ -	$ 21,837
State categorical aid	1,085,191	51,381	1,136,572
Total	$ 1,107,028	$ 51,381	$ 1,158,409

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 6, 2017, the District issued $7,900,000 of Tax and Revenue Anticipation Notes bearing interest at 3 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 29, 2018. By April, 2018, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2017	Additions	Payments	Outstanding June 30, 2018
7/6/2017	3.00%	6/29/2018	$ -	$ 7,900,000	$ 7,900,000	$ -

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2018, is shown below:

	(as Restated) Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
Governmental Activities					
General Obligation Bonds	$ 169,720,000	$ -	$ 5,425,000	$ 164,295,000	$ 5,745,000
Premium on issuance	8,441,026	-	396,030	8,044,996	-
Discount on issuance	(83,016)	-	(6,918)	(76,098)	-
Certificates of Participation	50,832,297	-	2,212,955	48,619,342	2,315,912
Premium on issuance	4,582,751	-	297,811	4,284,940	-
Discount on issuance	(66,495)	-	(3,410)	(63,085)	-
Capital Leases	181,569	-	88,859	92,710	92,710
Compensated Absences Payable	856,863	45,784	-	902,647	-
Claims Liability	5,273,552	4,506,442	1,658,336	8,121,658	1,348,000
Net Other Postemployement (OPEB) Liability	26,885,264	3,648,004	1,121,658	29,411,610	-
Total Governmental Activities	$ 261,097,612	$ 8,200,230	$ 11,190,321	$ 263,633,720	$ 9,501,622
Business-Type Activities					
Capital Leases	$ 4,718,799	$ -	$ 732,319	$ 3,986,480	$ 968,004
Compensated Absences Payable	197,693	17,189	-	214,882	-
Net Other Postemployement (OPEB) Liability	2,064,106	299,361	77,312	2,286,155	-
Total Business-Type Activities	$ 5,308,555	$ 316,550	$ 809,631	$ 6,487,517	$ 968,004

- Payments on General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues.
- Payments on the Certificates of Participation and Lease Revenue Bonds are made by the Debt Service for Blended Component Units Fund.
- Payments for Capital Leases are made by the General Fund, Capital Facilities Fund, and the Transportation Enterprise Fund.
- The Accumulated Vacation will be paid by the fund for which the employee worked.
- Payments for Supplemental Early Retirement obligations are made by the General Fund.
- Payments for the OPEB obligation will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Issued	Redeemed	Bonds Outstanding June 30, 2018
7/28/10	8/1/26	4.00% - 4.50%	$ 18,740,000	$ 13,555,000	$ -	$ 1,135,000	$ 12,420,000
7/18/12	8/1/28	2.00% - 4.00%	21,260,000	17,525,000	-	1,395,000	16,130,000
12/16/14	8/1/38	3.00% - 5.00%	93,170,000	89,640,000	-	2,630,000	87,010,000
5/19/15	8/1/40	3.00% - 5.00%	49,000,000	49,000,000	-	265,000	48,735,000
			$ 182,170,000	$ 169,720,000	$ -	$ 5,425,000	$ 164,295,000

Debt Service Requirements to Maturity

The bonds mature through 2041 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 5,745,000	$ 6,465,913	$ 12,210,913
2020	6,105,000	6,202,642	12,307,642
2021	6,450,000	5,941,448	12,391,448
2022	6,790,000	5,671,788	12,461,788
2023	7,155,000	5,379,043	12,534,043
2024-2028	40,500,000	22,381,039	62,881,039
2029-2033	34,245,000	15,166,425	49,411,425
2034-2038	42,050,000	7,526,775	49,576,775
2039-2041	15,255,000	852,900	16,107,900
Total	$ 164,295,000	$ 75,587,973	$ 239,882,973

2010 General Obligation Refunding Bonds

In July 2010, the District issued $18,740,000 of the 2010 General Obligation Refunding Bonds. The bonds mature on August 1, 2026, with interest yields ranging from 4.00 to 4.50 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series A. At June 30, 2018, the principal balance outstanding was $12,420,000 and unamortized premium was $153,972.

2012 General Obligation Refunding Bonds

In July 2012, the District issued $21,260,000 of the 2012 General Obligation Refunding Bonds. The bonds mature on August 1, 2028, with interest yields ranging from 2.00 to 4.00 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series B, and C. At June 30, 2018, the principal balance outstanding was $16,130,000 and unamortized discount was $76,098.

2014 General Obligation Refunding Bonds

In December 2014, the District issued $93,170,000 of the 2014 General Obligation Refunding Bonds. The bonds mature on August 1, 2038, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds were used to refund a portion of the outstanding 2002 General Obligation Bonds, Series D and E and the 2006 General Obligation Bonds, Series A and B. The additional proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2018, the principal balance outstanding was $87,010,000 and unamortized premium was $6,505,901.

2012 General Obligation Bonds, Series A

In May 2015, the District issued $49,000,000 of the 2012 General Obligation Bonds, Series A. The bonds mature on August 1, 2040, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2018, the principal balance outstanding was $48,735,000 and unamortized premium was $1,385,123.

Certificates of Participation Summary

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Original Issue	COP Outstanding July 1, 2017	Issued	Redeemed	COP Outstanding June 30, 2018
12/13/05	12/27/20	$ 5,000,000	$ 1,477,297	$ -	$ 372,955	$ 1,104,342
11/21/07	10/01/36	4,610,000	3,535,000	-	-	3,535,000
09/30/15	10/01/28	16,690,000	15,630,000	-	1,085,000	14,545,000
09/27/16	10/01/34	23,965,000	23,965,000	-	-	23,965,000
09/27/16	10/01/23	6,225,000	6,225,000	-	755,000	5,470,000
		$ 56,490,000	$ 50,832,297	$ -	$ 2,212,955	$ 48,619,342

Debt Service Requirements to Maturity

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 2,315,912	$ 1,827,024	$ 4,142,936
2020	2,449,087	1,765,886	4,214,973
2021	2,524,343	1,711,166	4,235,509
2022	2,285,000	1,651,692	3,936,692
2023	2,980,000	1,582,556	4,562,556
2024-2028	14,300,000	6,146,988	20,446,988
2029-2033	13,740,000	2,925,019	16,665,019
2034-2037	8,025,000	435,663	8,460,663
Total	$ 48,619,342	$ 18,045,994	$ 66,665,336

2005 Qualified Zone Academy Bond Certificates of Participation

On December 13, 2005, the District issued $5,000,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on December 27, 2020. The District received net proceeds of $4,876,231 (after payment of $123,769 in underwriter fees, and issuance costs).

The District began making annual deposits of $275,665 on December 27, 2006, into an investment account with US Bank for payment of the QZAB at maturity. Fifteen payments will be made from December 27, 2006 to December 27, 2020, which will total $4,134,975.

The required payments through December 27, 2020, are as follows:

Fiscal Year	Required Payments
2019	$ 275,665
2020	275,665
2021	275,665
Total Remaining Payments	826,995
Cumulative payments made by County Office of Education	3,895,658
Projected cumulative interest earnings	277,347
Total obligation	$ 5,000,000
Remaining obligation to be funded with required payments and interest earnings	$ 1,104,342

2007 Certificates of Participation

On November 21, 2007, the District, pursuant to a lease agreement with the Hemet Unified School District Facilities Corporation, issued certificates of participation in the amount of $4,610,000. The certificates were issued to finance the acquisition and construction of school facilities, fund a reserve account, and pay issuance costs associated with the execution and delivery of the certificates. At June 30, 2018, the principal balance outstanding was $3,535,000 and unamortized discount was $63,085.

2015 Refunding Certificates of Participation

In September 2015, the District issued $16,690,000 of the 2015 Refunding Certificates of Participation. The certificates mature on October 1, 2028, with interest yields ranging from 2.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2004 Certificates of Participation and the 2005 Lease Revenue Bonds. At June 30, 2018, the principal balance outstanding was $14,545,000 and unamortized premium was $1,100,652.

2016 Refunding Certificates of Participation, Series A

In September 2016, the District issued $23,965,000 of the 2016 Refunding Certificates of Participation, Series A. The certificates mature on October 1, 2034, with interest yields ranging from 3.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2018, the principal balance outstanding was $23,965,000 and unamortized premium was $3,184,288.

2016 Refunding Certificates of Participation, Series B

In September 2016, the District issued $6,225,000 of the 2016 Refunding Certificates of Participation, Series B. The certificates mature on October 1, 2023, with interest yields ranging from 1.59 to 2.72 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2018, the principal balance outstanding was $5,470,000.

Capital Leases - Governmental Activities

The District's liability on lease agreements with options to purchase is summarized below:

	Energy Management Equipment
Balance, July 1, 2017	$ 193,456
Payments	96,728
Balance, June 30, 2018	$ 96,728

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	$ 96,728
Less: Amount Representing Interest	4,018
Present Value of Minimum Lease Payments	$ 92,710

Capital Leases - Business-Type Activities

The District's liability on lease agreements with options to purchase is summarized below:

	Buses
Balance, July 1, 2017 (as Restated)	$ 5,131,826
Payments	863,304
Balance, June 30, 2018	$ 4,268,522

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	$ 1,065,843
2020	1,065,846
2021	1,065,847
2022	401,338
2023	267,859
2024-2025	401,789
Total	4,268,522
Less: Amount Representing Interest	282,042
Present Value of Minimum Lease Payments	$ 3,986,480

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District and the Business-Type Activities at June 30, 2018, amounted to $902,647 and 214,882, respectively.

Claims Liability

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of $8,121,658.

Net Other Post Employment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, deferred inflows or resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	OPEB Expense
District Plan	$ 27,858,984	$ 3,648,004
Transportation Plan	2,286,155	299,361
Medicare Premium Payment (MPP) Program	1,552,626	179,536
Total	$ 31,697,765	$ 4,126,901

The details of each plan are as follows:

District and Transportation Plan

Plan administration

The District's Governing Board administers the Postemployment Benefits Plan (the Plan) is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASSB Statement No. 75.

Plan membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	95
Active employees	2,521
	2,616

Benefits provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. The Hemet Unified School District's Governing Board (the Governing Board) has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed $1,019,434 to the Plan, of which $379,228 was used for current premiums

Net OPEB Liability of the District and Transportation

Actuarial assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.80 percent
Health care cost trend rates	4.00 percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	$ 27,217,208
Service cost	2,879,278
Interest	1,068,087
Benefit payments	(1,019,434)
Net change in total OPEB liability	2,927,931
Balance at June 30, 2018	$ 30,145,139

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.8 percent) or 1-percentage-point higher (4.8 percent) than the current discount rate:

Discount Rate	Total OPEB Liability
1% decrease (2.8%)	$ 32,234,772
Current discount rate (3.8%)	30,145,139
1% increase (4.8%)	28,214,472

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3 percent) or 1-percentage-point higher (5 percent) than the current healthcare costs trend rates:

Health Care Cost Trend Rates	Total OPEB Liability
1% decrease (3%)	$ 28,772,974
Current healthcare cost trend rate (4%)	30,145,139
1% increase (5%)	31,379,129

OPEB Expense related to OPEB

For the year ended June 30, 2018, the District and Transportation recognized OPEB expense of $3,648,004 and $299,361, respectively.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the STRP DB Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District's contributions. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of $1,552,626 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 was 0.3691 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $179,536.

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016 was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 1,718,866
Current discount rate (3.58%)	1,552,626
1% increase (4.58%)	1,390,923

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a Medicare cost trend rates that are one percent lower or higher than the current rate:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 1,403,035
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,552,626
1% increase (4.7% Part A and 5.1% Part B)	1,700,723

NOTE 11 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $29,505,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 12 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 25,000	$ -	$ 5,070	$ 30,070
Stores inventories	167,825	-	497,872	665,697
Total Nonspendable	192,825	-	502,942	695,767
Restricted				
Legally restricted programs	2,816,755	-	3,136,511	5,953,266
Capital projects	-	-	14,911,302	14,911,302
Debt service	-	14,747,961	397,800	15,145,761
Total Restricted	2,816,755	14,747,961	18,445,613	36,010,329
Committed				
Deferred maintenance program	-	-	389,228	389,228
OPEB reserves	4,914,042	-	-	4,914,042
Capital equipment and improvements	-	-	1,500	1,500
LCAP initiatives	3,442,773	-	-	3,442,773
STRS and PERS rate increases	3,049,970	-	-	3,049,970
Instructional materials and services	1,323,809	-	-	1,323,809
Health and welfare premiums	830,170	-	-	830,170
Technology infrastructure	375,000	-	-	375,000
Instructional supplies and services	239,463	-	-	239,463
Total Committed	14,175,227	-	390,728	14,565,955
Assigned				
Capital equipment and improvements	-	-	458,744	458,744
Other assignments	-	-	1,611,365	1,611,365
Total Assigned	-	-	2,070,109	2,070,109
Unassigned				
Economic uncertainties	13,898,000	-	-	13,898,000
Total	$ 31,082,807	$ 14,747,961	$ 21,409,392	$ 67,240,160

NOTE 13 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, vision, dental, disability, and workers' compensation programs are administered by the District. The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance through Southern California Regional Liability Excess Fund Joint Powers Authority for first party damage with coverage up to a maximum of $250 million, subject to Member Retained Limits ranging from $250 to $5,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to $1 million per occurrence with excess liability coverage up to $24 million per occurrence and $52 million aggregate, all subject to a $5,000 Member Retained Limit per occurrence. The District self-insures workers' compensation coverage up to $1,000,000 per occurrence with excess coverage up to $10,000,000.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	$ 6,824,989
Claims provision	2,562,483
Claims paid	(1,951,294)
Liability Balance, June 30, 2017	7,436,178
Claims provision	2,343,816
Claims paid	(1,658,336)
Liability Balance, June 30, 2018	$ 8,121,658
Amount available to pay claims	$ 11,827,821

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 188,518,139	$ 63,714,777	$ 11,096,951	$ 29,632,899
CalPERS	94,289,877	43,285,753	1,110,147	17,089,688
Total Governmental	$ 282,808,016	$ 107,000,530	$ 12,207,098	$ 46,722,587

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $17,016,552.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	$ 188,518,139
State's proportionate share of the net pension liability associated with the District	111,525,738
Total	$ 300,043,877

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.2038 percent and 0.2081 percent, resulting in a net decrease in the proportionate share of 0.0043 percent.

For the year ended June 30, 2018, the District recognized pension expense of $29,632,899. In addition, the District recognized pension expense and revenue of $11,226,136 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,016,552	$ -
Net change in proportionate share of net pension liability	11,075,880	2,788,128
Differences between projected and actual earnings on pension plan investments	-	5,020,763
Differences between expected and actual experience in the measurement of the total pension liability	697,158	3,288,060
Changes of assumptions	34,925,187	-
Total	$ 63,714,777	$ 11,096,951

The deferred outflows/(inflows) of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (4,173,946)
2020	3,158,446
2021	455,430
2022	(4,460,693)
Total	$ (5,020,763)

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	$ 7,400,061
2020	7,400,061
2021	7,400,061
2022	7,400,061
2023	5,549,426
Thereafter	5,472,367
Total	$ 40,622,037

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 276,804,477
Current discount rate (7.10%)	188,518,139
1% increase (8.10%)	116,867,792

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $10,101,165.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $94,289,877. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.3950 percent and 0.3874 percent, resulting in a net increase in the proportionate share of 0.0076 percent.

For the year ended June 30, 2018, the District recognized pension expense of $17,089,688. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 10,101,165	
Net change in proportionate share of net pension liability	12,772,266	-
Difference between projected and actual earnings on pension plan investments	3,261,785	-
Differences between expected and actual experience in the measurement of the total pension liability	3,378,017	-
Changes of assumptions	13,772,520	1,110,147
Total	$ 43,285,753	$ 1,110,147

The deferred outflows/(inflows) of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (88,383)
2020	3,763,392
2021	1,372,927
2022	(1,786,151)
Total	$ 3,261,785

The deferred outflows of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	$ 11,502,478
2020	10,483,157
2021	6,827,021
Total	$ 28,812,656

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7. 15%
Investment rate of return	7. 15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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 ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.9%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.15%)	$ 138,730,625
Current discount rate (7.15%)	94,289,877
1% increase (8.15%)	57,422,556

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of 9,069,430 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS). No contributions were made to CalPERS for the year ended June 30, 2018. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Site acquisition	$ 25,000	2019
DSA closeout projects	22,710	2020
Fire alarm replacement project	208,550	2019
Relo restroom replacement project	265,413	2019
Relo trailer move project	7,983	2019
Security modernization project	19,990	2019
Turf replacement project	464,445	2019
College & Career Center modernization multi sites project	63,255	2019
New school Gibbel ES project	1,106,074	2021
	$ 2,183,420	

NOTE 16 - PARTICIPATION JOINT POWERS AUTHORITY

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF) a joint powers authority (JPA). The District pays an annual premium for its property liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the JPA and the District are included in these statements. Audited financial statements are available from the JPA.

During the year ended June 30, 2018, the District made payments of $1,383,737 to SoCal ReLiEF, for services received.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

Certain items that occurred in the prior year net position have been restated as of June 30, 2017, to more accurately reflect the substance of the underlying transactions. Additionally, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position - Governmental Activities

Net Position - Beginning	$ 112,926,339
Change in net OPEB liability from the adoption of GASB Statement No. 75	(6,106,707)
Overstatement of compensated absences payable	197,693
Overstatement of capital lease payable	382,815
Net Position - Beginning as Restated	$ 107,400,140

Statement of Net Position - Business-Type Activities

Net Position - Beginning	$ 8,807,250
Change in net OPEB liability from the adoption of GASB Statement No. 75	(779,025)
Understatement of deferred inflows of resources related to pensions	(277,978)
Understatement of compensated absences payable	(197,693)
Net Position - Beginning as Restated	$ 7,552,554

Government-Wide Financial Statements

Net Position - Beginning	$ 121,733,589
Change in net OPEB liability from the adoption of GASB Statement No. 75	(6,885,732)
Understatement of deferred inflows of resources related to pensions	(277,978)
Understatement of capital leases payable	382,815
Net Position - Beginning as Restated	$ 114,952,694

REQUIRED SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Control Funding Formula	$ 202,930,091	$ 204,178,597	$ 203,876,640	$ (301,957)
Federal sources	16,135,274	18,854,712	18,314,202	(540,510)
Other State sources	17,430,199	25,414,021	24,884,208	(529,813)
Other local sources	16,125,968	16,421,326	16,745,681	324,355
Total Revenues [1]	252,621,532	264,868,656	263,820,731	(1,047,925)
EXPENDITURES				
Current				
Certificated salaries	114,684,706	117,509,594	117,091,118	418,476
Classified salaries	39,539,803	39,066,043	40,085,014	(1,018,971)
Employee benefits	56,621,193	57,184,547	55,957,350	1,227,197
Books and supplies	18,045,606	21,129,857	20,481,840	648,017
Services and operating expenditures	30,113,398	36,929,035	35,653,490	1,275,545
Capital outlay	1,177,944	2,241,521	2,362,171	(120,650)
Other outgo	(768,119)	(494,975)	(643,470)	148,495
Debt service				
Principal	2,005,468	1,999,747	104,108	1,895,639
Interest	1,660,645	1,772,984	63,002	1,709,982
Total Expenditures [1]	263,080,644	277,338,353	271,154,623	6,183,730
Excess (Deficiency) of Revenues Over Expenditures	(10,459,112)	(12,469,697)	(7,333,892)	5,135,805
Other Financing Sources (Uses)				
Transfers in	4,298,285	5,365,736	5,860,848	495,112
Transfers out	(2,495,000)	(3,033,318)	(6,797,408)	(3,764,090)
Net Financing Sources (Uses)	1,803,285	2,332,418	(936,560)	(3,268,978)
NET CHANGE IN FUND BALANCES	(8,655,827)	(10,137,279)	(8,270,452)	1,866,827
Fund Balance - Beginning	39,353,259	39,353,259	39,353,259	-
Fund Balance - Ending	$ 30,697,432	$ 29,215,980	$ 31,082,807	$ 1,866,827

[1] Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

		2018
Total OPEB Liability		
Service cost	$	2,879,278
Interest		1,068,087
Benefit payments		(1,019,434)
Net change in total OPEB liability		2,927,931
Total OPEB liability - beginning		27,217,208
Total OPEB liability - ending (a)	$	30,145,139
Covered-employee payroll		N/A[1]
District's net OPEB liability as a percentage of covered-employee payroll		N/A[1]

1 The District's OPEB Plan is not administered through a trust and contributions are not made based on measure of pay. Therefore, no measure of payroll is presented.

Note: In the Future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	2018
District's proportion of the net OPEB liability	0.3691%
District's proportionate share of the net OPEB liability	$ 1,552,626
District's covered-employee payroll	N/A[1]
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

[1] As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.2038%	0.2081%
District's proportionate share of the net pension liability	$ 188,518,139	$ 168,316,604
State's proportionate share of the net pension liability associated with the District	111,525,738	95,819,640
Total	$ 300,043,877	$ 264,136,244
District's covered - employee payroll	$ 110,506,645	$ 104,777,884
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	170.59%	160.64%
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.3950%	0.3874%
District's proportionate share of the net pension liability	$ 94,289,877	$ 76,508,391
District's covered - employee payroll	$ 54,065,452	$ 66,483,861
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	174.40%	115.08%
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	72%	74%

See accompanying note to required supplementary information.

2016	2015
0.2040%	0.1826%
$ 137,370,181	$ 106,695,256
72,653,682	64,427,202
$ 210,023,863	$ 171,122,458
$ 94,422,286	$ 101,632,715
145.48%	104.98%
74%	77%
0.3753%	0.3178%
$ 55,315,901	$ 40,039,851
$ 41,568,601	$ 42,763,852
133.07%	93.63%
79%	83%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	$ 17,016,552	$ 13,901,736
Contributions in relation to the contractually required contribution	17,016,552	13,901,736
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 117,924,823	$ 110,506,645
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 10,101,165	$ 7,508,610
Contributions in relation to the contractually required contribution	10,101,165	7,508,610
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 65,038,729	$ 54,065,452
Contributions as a percentage of covered - employee payroll	15.53%	13.89%

See accompanying note to required supplementary information.

2016	2015
$ 11,242,667	$ 8,384,699
11,242,667	8,384,699
$ -	$ -
$ 104,777,884	$ 94,422,286
10.73%	8.88%
$ 7,876,343	$ 4,893,040
7,876,343	4,893,040
$ -	$ -
$ 66,483,861	$ 41,568,601
11.85%	11.77%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

***Change in benefit terms* –** There were no changes in benefit terms since the previous valuation for other postemployment benefits.

***Change of assumptions* –** Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

Schedule of the District's Proportionate Share of the Net Pension Liability – MPP Program

Change in benefit terms – There were no changes in benefits terms since the previous valuation.

Change of assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the States's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

***Changes in Benefit Terms* –** There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

***Change of Assumptions* –** The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	$ 2,457,073	$ -
National School Lunch Program	10.555	13524	8,068,756	-
Meal Supplement	10.555	13396	305,265	-
Food Distribution	10.555	13524	1,387,203	-
Total Child Nutrition Cluster			12,218,297	-
Equipment Assistance Grants	10.579	14906	24,839	-
Fresh Fruit and Vegetable Program	10.582	14968	80,053	-
Forest Reserve	10.665	10044	75,502	-
Total U.S. Department of Agriculture			12,398,691	-
U.S. DEPARTMENT OF DEFENSE				
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	126,071	-
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Indian Education - Grants to Local Educational Agencies	84.060	10011	$ 15,627	$ -
Carl D. Perkins Vocational and Technical Education	84.048	14894	221,487	-
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14981	7,975,679	10,902
Title I, Part G - Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	17,454	-
Title II, Part A - Supporting Effective Instruction	84.367	14341	1,024,801	249
Title III - English Learner Student Program	84.365	14346	359,574	-
Title IV, Part B - 21st Century Community Learning Centers Program	84.287	14349	900,010	-
Elementary and Secondary School Counseling Grant	84.215E	[1]	345,786	-
Building Assets Reducing Risk (BARR) Investing in Innovation (i3) Fund	84.411	10130	196,735	-

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
Passed through Riverside County Special Education Local Plan Area:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,130,267	-
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	2,831	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	78,017	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	291,499	-
Mental Health Allocation Plan, Part B, Section 611	84.027	15197	393,517	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	808	-
Total Special Education Cluster			4,896,939	-
Special Education: Project Read	84.323	14913	48,180	-
Total U.S. Department of Education			16,002,272	11,151
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Riverside County Office of Education (RCOE):				
Head Start	93.600	10016	1,371,748	-
Passed through California Department of Health Services:				
Child Care Initiative Project (CCIP) and Resource & Referral (CRRP) contracts	93.575	13942	28,510	-
Medi-Cal Assistance Program				
Medi-Cal Billing Option	93.778	10013	215,187	-
Medi-Cal Administrative Activities Program	93.778	10060	602,586	-
Total Medi-Cal Assistance Program			817,773	-
Total U.S. Department of Health and Human Services			2,218,031	-
Total Federal Programs			$ 30,745,065	$ 11,151

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Hemet Unified School District was established on July 1, 1966, and consists of an area comprising approximately 640 square miles. The District operates fourteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, an adult school, and two-charter school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Horacio Valenzuela	President	2018
Megan Haley	Vice President	2020
Stacey Bailey	Member	2020
Rob Davis	Member	2018
Gene Hikel	Member	2020
Vic Scavarda	Member	2018
Patrick Searl	Member	2020

ADMINISTRATION

Christi Barrett	Superintendent
Vincent Christakos	Assistant Superintendent, Business Services
Tracy Chambers	Assistant Superintendent, Educational Services
Karen Valdes	Assistant Superintendent, Student Services
Darel Hansen	Deputy Superintendent, Human Resources
Pam Buckhout	Director of Fiscal Services

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,022.05	6,015.75
Fourth through sixth	4,583.95	4,581.53
Seventh and eighth	2,990.47	2,992.39
Ninth through twelfth	6,266.49	6,225.30
Total Regular ADA	19,862.96	19,814.97
Extended Year Special Education		
Transitional kindergarten through third	16.26	23.77
Fourth through sixth	14.73	17.91
Seventh and eighth	8.46	9.11
Ninth through twelfth	9.94	27.80
Total Extended Year Special Education	49.39	78.59
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	3.55	2.98
Fourth through sixth	9.78	7.96
Seventh and eighth	8.92	3.82
Ninth through twelfth	13.15	11.20
Total Special Education, Nonpublic, Nonsectarian Schools	35.40	25.96
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.20	0.20
Fourth through sixth	0.83	0.83
Seventh and eighth	0.52	0.52
Ninth through twelfth	1.36	1.36
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	2.91	2.91
Community Day School		
Seventh and eighth	23.33	23.94
Ninth through twelfth	55.40	54.89
Total Community Day School	78.73	78.83
Total ADA	20,029.39	20,001.26

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
WESTERN CENTER ACADEMY CHARTER		
Regular ADA		
Fourth through sixth	124.83	125.05
Seventh and eighth	260.66	260.52
Ninth through twelfth	262.20	260.33
Total Regular ADA	647.69	645.90
Classroom based ADA		
Regular ADA		
Fourth through sixth	124.83	125.05
Seventh and eighth	260.66	260.52
Ninth through twelfth	262.20	260.33
Total Regular ADA	647.69	645.90

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	37,189	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,940	180	N/A	Complied
Grade 2		54,020	180	N/A	Complied
Grade 3		54,190	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,336	180	N/A	Complied
Grade 5		54,336	180	N/A	Complied
Grade 6		58,805	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		58,805	180	N/A	Complied
Grade 8		58,805	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	180	N/A	Complied
Grade 10		64,820	180	N/A	Complied
Grade 11		64,820	180	N/A	Complied
Grade 12		64,820	180	N/A	Complied

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Western Center Academy

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		58,805	180	N/A	Complied
Grade 7		58,805	180	N/A	Complied
Grade 8		58,805	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	180	N/A	Complied
Grade 10		64,820	180	N/A	Complied
Grade 11		64,820	180	N/A	Complied
Grade 12		64,820	180	N/A	Complied

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Cafeteria Fund	Enterprise Fund
FUND BALANCE		
Balance, June 30, 2018, Unaudited Actuals	$ 4,053,649	$ 535,886
Decrease in:		
Deposits and investments	(565,713)	-
Increase in:		
Deferred outflows of resources related to pensions	-	4,025
Deferred inflows of resources related to pensions	-	(282,003)
Net OPEB liability	-	(1,001,074)
Balance, June 30, 2018, Audited Financial Statement	$ 3,487,936	$ (743,166)

See accompanying note to supplementary information.

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 [1]	2018	2017	2016
GENERAL FUND [3]				
Revenues	$ 283,437,304	$ 263,820,731	$ 254,930,891	$ 242,096,929
Other sources and transfers in	5,508,854	5,860,848	4,704,548	1,669,730
Total Revenues and Other Sources	288,946,158	269,681,579	259,635,439	243,766,659
Expenditures	287,570,276	271,154,623	256,291,539	225,737,870
Other uses and transfers out	2,995,000	6,797,408	3,959,625	3,973,757
Total Expenditures and Other Uses	290,565,276	277,952,031	260,251,164	229,711,627
INCREASE (DECREASE) IN FUND BALANCE	$ (1,619,118)	$ (8,270,452)	$ (615,725)	$ 14,055,032
ENDING FUND BALANCE	$ 22,748,492	$ 26,234,434	$ 34,504,886	$ 35,120,611
AVAILABLE RESERVES [2]	$ 14,529,600	$ 13,898,000	$ 13,015,000	$ 16,637,577
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	5.00%	5.00%	5.00%	7.43%
LONG-TERM OBLIGATIONS [4]	N/A	$ 263,633,720	$ 261,097,612	$ 260,868,460
K-12 AVERAGE DAILY ATTENDANCE AT P-2	20,282	20,029	19,926	19,735

The General Fund balance has decreased by $8,886,177 over the past two years. The fiscal year 2018-2019 budget projects a further decrease of $1,619,118 (6.17 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $2,765,260 over the past two years.

Average daily attendance has increased by 294 over the past two years. Additional growth of 253 ADA is anticipated during fiscal year 2018-2019.

[1] Budget 2019 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

[3] General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Post Employment Benefits as required by GASB Statement No. 54.

[4] Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018

Name of Charter School	Included in Audit Report
Western Center Academy (Charter No. 1144)	Yes

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	$ 2,002,090	$ 30,662	$ 103,361	$ 1,908,133	$ 691,400
Receivables	184,457	1,650	335,032	1,600,453	1,722
Due from other funds	163,167	15,210	87	118,879	-
Stores inventories	-	-	-	497,872	-
Total Assets	$ 2,349,714	$ 47,522	$ 438,480	$ 4,125,337	$ 693,122
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 130,004	$ 32,114	$ 92,574	$ 323,725	$ 303,894
Due to other funds	546,400	15,408	252,334	266,295	-
Unearned revenue	-	-	4,000	47,381	-
Total Liabilities	676,404	47,522	348,908	637,401	303,894
Fund Balances:					
Nonspendable	-	-	-	502,942	-
Restricted	61,945	-	89,572	2,984,994	-
Committed	-	-	-	-	389,228
Assigned	1,611,365	-	-	-	-
Total Fund Balances	1,673,310	-	89,572	3,487,936	389,228
Total Liabilities and Fund Balances	$ 2,349,714	$ 47,522	$ 438,480	$ 4,125,337	$ 693,122

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
$ 5,700,696	$ 4,226,430	$ 456,671	$ 5,131,568	$ 397,800	$ 20,648,811
38,050	22,247	2,073	-	-	2,185,684
-	-	-	-	-	297,343
-	-	-	-	-	497,872
$ 5,738,746	$ 4,248,677	$ 458,744	$ 5,131,568	$ 397,800	$ 23,629,710
$ 115,633	$ 90,556	$ -	$ -	$ -	$ 1,088,500
-	-	-	-	-	1,080,437
-	-	-	-	-	51,381
115,633	90,556	-	-	-	2,220,318
-	-	-	-	-	502,942
5,623,113	4,156,621	-	5,131,568	397,800	18,445,613
-	1,500	-	-	-	390,728
-	-	458,744	-	-	2,070,109
5,623,113	4,158,121	458,744	5,131,568	397,800	21,409,392
$ 5,738,746	$ 4,248,677	$ 458,744	$ 5,131,568	$ 397,800	$ 23,629,710

HEMET UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES					
Local Control Funding Formula	$ 5,270,378	$ -	$ -	$ -	$ -
Federal sources	106	-	28,510	12,323,190	-
Other State sources	1,010,424	752,993	2,348,541	831,308	-
Other local sources	485,869	21,750	20,303	936,499	8,345
Total Revenues	6,766,777	774,743	2,397,354	14,090,997	8,345
EXPENDITURES					
Current					
Instruction	3,862,069	480,086	1,755,447	-	-
Instruction-related activities:					
Supervision of instruction	350	-	228,008	-	-
Instructional library, media and technology	-	9,125	-	-	-
School site administration	743,539	273,105	156,200	-	-
Pupil services:					
Food services	-	-	-	13,271,624	-
All other pupil services	219,325	4,182	10,809	-	-
Administration:					
Data processing	128	-	-	-	-
All other administration	201,477	39,551	111,189	604,996	-
Plant services	1,237,202	1,968	54,784	256,804	1,672,468
Ancillary services	96,885	-	-	-	-
Facility acquisition and construction	-	-	-	3,800	843,057
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	6,360,975	808,017	2,316,437	14,137,224	2,515,525
Excess (Deficiency) of Revenues Over Expenditures	405,802	(33,274)	80,917	(46,227)	(2,507,180)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	91,140	2,500,000
Transfers out	(379,416)	-	-	-	-
Net Financing Sources (Uses)	(379,416)	-	-	91,140	2,500,000
NET CHANGE IN FUND BALANCES	26,386	(33,274)	80,917	44,913	(7,180)
Fund Balances - Beginning	1,646,924	33,274	8,655	3,443,023	396,408
Fund Balances - Ending	$ 1,673,310	$ -	$ 89,572	$ 3,487,936	$ 389,228

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ 5,270,378
-	-	-	-	-	-	12,351,806
-	-	-	-	-	-	4,943,266
2,587	1,049,370	78,694	9,073	559,217	5,399	3,177,106
2,587	1,049,370	78,694	9,073	559,217	5,399	25,742,556
-	-	-	-	-	-	6,097,602
-	-	-	-	-	-	228,358
-	-	-	-	-	-	9,125
-	-	-	-	-	-	1,172,844
-	-	-	-	-	-	13,271,624
-	-	-	-	-	-	234,316
-	-	-	-	-	-	128
-	131,598	-	-	-	-	1,088,811
-	-	-	-	-	-	3,223,226
-	-	-	-	-	-	96,885
1,163,083	340,373	1,730,758	-	-	-	4,081,071
-	-	-	-	-	1,840,000	1,840,000
-	-	-	-	-	1,878,430	1,878,430
1,163,083	471,971	1,730,758	-	-	3,718,430	33,222,420
(1,160,496)	577,399	(1,652,064)	9,073	559,217	(3,713,031)	(7,479,864)
-	1,029,229	-	495,000	-	3,711,268	7,826,637
-	-	-	(834,737)	(1,029,229)	-	(2,243,382)
-	1,029,229	-	(339,737)	(1,029,229)	3,711,268	5,583,255
(1,160,496)	1,606,628	(1,652,064)	(330,664)	(470,012)	(1,763)	(1,896,609)
1,160,496	4,016,485	5,810,185	789,408	5,601,580	399,563	23,306,001
$ -	$ 5,623,113	$ 4,158,121	$ 458,744	$ 5,131,568	$ 397,800	$ 21,409,392

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 30,666,008
Medi-Cal Billing Option	93.778	79,057
Total Schedule of Expenditures of Federal Awards		$ 30,745,065

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school on whether or not the charter school is included in the District audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

The Non-Major Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balances Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

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
Hemet Unified School District
Hemet, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hemet Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hemet Unified School District's basic financial statements, and have issued our report thereon dated November 21, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hemet Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hemet Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hemet Unified School District's internal control.

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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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hemet Unified 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*.

We noted certain matters that we reported to management of Hemet Unified School District in a separate letter dated November 21, 2018.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Hemet Unified School District
Hemet, California

Report on Compliance for Each Major Federal Program

We have audited Hemet Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hemet Unified School District's major Federal programs for the year ended June 30, 2018. Hemet Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hemet Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Hemet Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Hemet Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Hemet Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Hemet Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hemet Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hemet Unified School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Hemet Unified School District
Hemet, California

Report on State Compliance

We have audited Hemet Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Hemet Unified School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Hemet Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Hemet Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Hemet Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Hemet Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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In connection with the audit referred to above, we selected and tested transactions and records to determine the Hemet Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	Yes
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study – Course based Program; therefore, we did not perform procedures related to the Independent Study – Course Based Program.

The District does not have any non-classroom based Charter Schools, therefore, we did not perform any procedures for non-classroom based Charter School Programs.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

***S**CHEDULE OF **F**INDINGS AND **Q**UESTIONED **C**OSTS*

HEMET UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.367	Title II, Part A, Supporting Effective Instruction
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 922,352
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

The following finding represents an instance of noncompliance relating to State program laws and regulations. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2017-001 **40000 – After School Education and Safety Program**

Criteria or Specific Requirements

Compliance requirements, detailed in Education code Section 8483.7, mandate that schools maintain adequate source documents supporting the number of students served by the After School Program (the Program) as reported semi-annually to the California Department of Education (CDE).

Condition

There appears to be inadequate documentation indicating actual student participation in the Program. Source documents used for recording attendance do not consistently agree with the records included in the total number of students served.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition identified was determined through analysis of attendance records from two of the sites that operate the Program. Manual sign out rosters were reviewed for each child's sign out time in order to determine daily participation. The auditor selected four schools for the first semi-annual reporting period dated July 1, 2016 to December 31, 2016. The auditor reviewed a sample of manual sign out rosters for the month of September and noted nine exceptions in a sample size of 40 students.

Effect

Conditions identified make the Program's ability to report an accurate number of students served to the State as required as identified in the State Audit Guide in the required semi-annual attendance reports difficult. Per Education Code Section 8483.7, the CDE may terminate a grant that does not comply with fiscal reporting, attendance reporting, or outcomes reporting requirements. The CDE may also withhold the grant allocation for the program if the prior year reporting is outstanding.

Cause

It appears that the condition identified has materialized as a result of the absence of properly maintaining the standardized attendance recording and reporting procedures by those responsible for administering the program.

Recommendation

The district may want to consider revising procedures used to take attendance. Revised procedures should incorporate standardized procedures that are necessary to record and report attendance related to the program that are accurate and consistent. The District should clearly communicate its expectation for attendance documentation to all program administrators in order to prevent future non-compliance issues..

Corrective Action Plan

Hemet Unified School District has revised the attendance taking procedures to ensure accurate and consistent attendance for the After School Education and Safety Program. The steps taken by the District are by requiring timely attendance submissions and additional layers of review at the administration level. The District has clearly communicated the expectation for accurate attendance documentation to all program administrators and appropriate personnel to prevent future non-compliance.

Current Status

Implemented

Governing Board
Hemet Unified School District
Hemet, California

In planning and performing our audit of the basic financial statements of Hemet Unified School District (the District) for the year ending June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2017, on the financial statements of Hemet Unified School District.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

ACACIA MIDDLE SCHOOL

Change Fund

Observation

The site maintains a change fund for the student store or to be used during events. However, the change fund is not reported as an asset account on the balance sheet thereby understating the total assets. The change fund that is maintained by the school site is $200. The current total on the change fund is listed as a liability account with a balance of $60.

Recommendation

According to the policies and procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference, a change fund is normally checked out from the bookkeeper for individual fundraisers or activities and should be used solely for making change. Expenditures should not be made from this account under any circumstances. When the fundraiser is complete, the change fund should be deposited back into the bank account. If it is not deposited, it should be accounted for as an asset on the balance sheet.

Inventory – Perpetual Inventory

Observation

Perpetual Inventory is not being maintained. According to the policies and procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference, a physical inventory should be taken quarterly under supervision of the student store advisor.

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The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.

Recommendation

The student body should maintain a perpetual inventory of goods purchased and sold and should perform a physical inventory count at least quarterly. Perpetual inventory involves the continual updating of the inventory records. These updates typically include additions to and subtractions from inventory for such activities as purchased inventory and goods sold from inventory. This will allow the school site to know what they have on hand and will make it easier to compare the physical count to the amount in the software system.

Revenue Potentials

Observation

Revenue potential forms are not being used to document and control fundraising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.

Cash Disbursements - Documentation

Observation

6 of 6 disbursements were not adequately supported by proper receiving documentation. Receiving documentation ensures that the club/ASB received all of the items ordered. By initialing or signing an invoice, the bookkeeper knows that all the merchandise was received prior to paying for the order. The disbursements noted are as follows:

- Check numbers: 7857, 7865, 7884, 7895, 7903, & 7907, did not have proper receiving documentation.

Recommendation

The site should review the cash disbursement procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference. The manual explains that three signatures, one being a student representative, are required pursuant to California Educational Code Section 48933(5)(b) the designated receiver (this could be either the ASB bookkeeper or the club advisor) will open the shipment and compare the shipped items to the packing slip. After all the items have been compared to the packing slip, the receiver will sign the receiving copy of the purchase order. If the advisor is receiving the goods, the advisor should provide the ASB bookkeeper with a signed receiving report (copy of the purchase order) and the packing slip.

HAMILTON HIGH SCHOOL

Student Store

Observation

Daily sales reports are not generated by the student store.

Recommendation

Daily sales reports should be maintained and reconciled to deposits.

DIAMOND VALLEY MIDDLE SCHOOL

Negative Balances

Observation

In reviewing the financial statements for the student body accounts we noted that six had negative balances. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

Recommendation

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each groups best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the groups account.

PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS

HAMILTON HIGH SCHOOL

Prohibited Expenditures

Observation

Auditor noted that Associated Student Body had prohibited disbursements in the amount of $100.87 for disbursements.

Recommendation

Expenditure of ASB funds for the following items is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students, or are considered a District responsibility, or are a gift of public funds;

- Salaries or supplies that are the responsibility of the District.
  - Curriculum supplies, and office supplies and equipment.
  - Repair and maintenance of District-owned facilities and equipment

Because student body funds are to benefit students as a group and not individuals, awards and scholarships are generally discouraged.

Current Status

Implemented.

Student Store

Observation

Daily sales reports are not generated by the student store.

Recommendation

Daily sales reports should be maintained and reconciled to deposits.

Current Status

Not implemented, see current year observation and recommendations.

DIAMOND VALLEY MIDDLE SCHOOL

Negative Balances

Observation

In reviewing the financial statements for the student body accounts we noted that six had negative balances. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

Recommendation

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each groups best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the group's account.

Current Status

Not implemented, see current year observation and recommendations.

Associated Student Body – Inventory

Observation

Inventory dollar amount was calculated incorrectly, causing a misstatement of inventory on the balance sheet.

Recommendation

Supporting schedules and worksheets should be corrected to reflect the actual inventory amount on a regular basis.

Current Status

Implemented.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018