



Annual Financial Report
June 30, 2019

Hemet Unified School District



HEMET UNIFIED SCHOOL DISTRICT

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HEMET UNIFIED SCHOOL DISTRICT

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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, 2019, 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 *2018-2019 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 opinions.

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, 2019, 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.

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 80, Schedule of Changes in the District's Total OPEB Liability and Related Ratios on page 81, Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program on page 82, Schedule of the District's Proportionate Share of the Net Pension Liability on page 83, and the Schedule of District Contributions on page 84, 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 non-major 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, 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 December 6, 2019, 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.

Eide Bailly LLP

Rancho Cucamonga, California
December 6, 2019



Christi Barrett
Superintendent

Darrin Watters
Deputy Superintendent

Tracy Chambers
Assistant Superintendent

Derek Jindra, Ed.D.
Assistant Superintendent

Darel Hansen
Assistant Superintendent

Dr. Karen Valdes
Assistant Superintendent

**Professional Development
Service Center**

1791 W. Acacia Avenue
Hemet, CA 92545
(951) 765-5100
Fax: (951) 765-5115

**Professional Development
Academy**

2085 W. Acacia Avenue
Hemet, CA 92545
(951) 765-5100
Fax: (951) 765-6421

www.hemetusd.org

Governing Board

Stacey Bailey
Rob Davis
Megan Haley
Gene Hikel
Vic Scavarda
Patrick Searl
Ross Valenzuela

This section of Hemet Unified School District's (the District) (2018-2019) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019, with comparative information for the year ended June 30, 2018. 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 and deferred outflows of resources of the District as well as all liabilities and deferred inflows of resources (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

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.

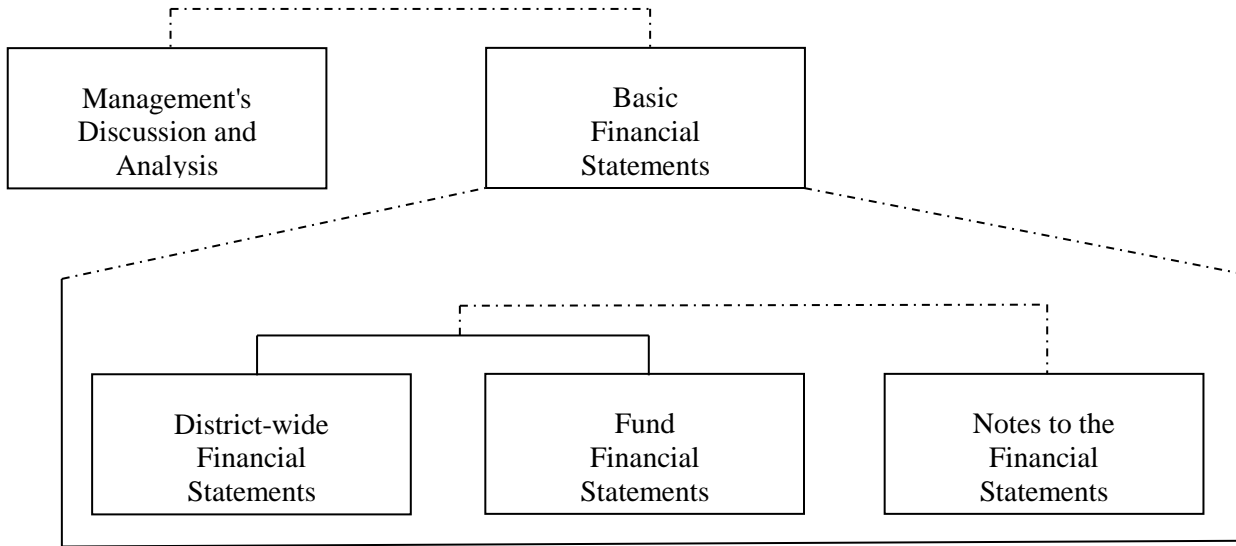
The Primary unit of the government is the Hemet Unified School District.

HEMET UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

Figure 1

Organization of Hemet Unified School District's Annual Financial Report



FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net position decreased by \$26,860,763 over the prior year for a new net position of \$54,643,670.
- Revenues, transfers in, and other financing sources for all funds, including bond issuances, totaled \$367,547,833. Expenses, transfers out and other uses totaled \$394,408,596.
- The General Fund audited ending balance, which includes \$12,816 and \$4,995,893 in the Deferred Maintenance Fund and the Special Reserve for Postemployment Benefits, respectively, totaled \$39,336,467. This represents an increase of \$7,864,432 from the prior year.
- New General Obligation Bonds of \$27,500,000 was issued in 2018-2019.
- The District's 2018-2019 P-2 Average Daily Attendance (ADA), excluding charter schools and students in County programs, was reported at 20,137, an increase of 108 over the prior year.
- The District filed a positive status with both its First and Second Interim reports in 2018-2019.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$54,643,670 for the fiscal year ended June 30, 2019. 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

	Governmental Activities		Business-Type Activities		School District Activities	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 123,618,328	\$ 90,287,809	\$ 12,916,991	\$ 12,766,101	\$ 136,535,319	\$ 103,053,910
Capital assets	430,473,382	443,872,312	7,484,199	8,157,950	437,957,581	452,030,262
Total Assets	554,091,710	534,160,121	20,401,190	20,924,051	574,492,900	555,084,172
Deferred Outflows of Resources	98,841,502	97,538,383	7,131,297	9,462,147	105,972,799	107,000,530
Liabilities						
Current liabilities	12,584,249	14,578,579	660,636	865,339	13,244,885	15,443,918
Long-term obligations	288,303,359	263,633,720	5,691,406	6,487,517	293,994,765	270,121,237
Aggregate net pension liability	284,981,445	259,313,511	20,722,480	23,494,505	305,703,925	282,808,016
Total Liabilities	585,869,053	537,525,810	27,074,522	30,847,361	612,943,575	568,373,171
Deferred Inflows of Resources	12,866,295	11,925,095	12,159	282,003	12,878,454	12,207,098
Net Position						
Net investment in capital assets	218,810,311	223,806,075	4,465,726	4,171,470	223,276,037	227,977,545
Restricted	29,792,562	27,667,876	-	-	29,792,562	27,667,876
Unrestricted (Deficit)	(194,405,009)	(169,226,352)	(4,019,920)	(4,914,636)	(198,424,929)	(174,140,988)
Total Net Position	\$ 54,197,864	\$ 82,247,599	\$ 445,806	\$ (743,166)	\$ 54,643,670	\$ 81,504,433

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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

	Governmental Activities		Business-Type Activities		School District Activities	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Charges for services	\$ 2,474,751	\$ 1,811,888	\$ 23,306,047	\$ 24,264,685	\$ 25,780,798	\$ 26,076,573
Operating grants and contributions	73,410,118	63,105,600	1,278,366	467,889	74,688,484	63,573,489
Capital grants and contributions	43,484	73,808	-	-	43,484	73,808
General Revenues:						
Federal and State aid	205,511,433	179,722,129	-	-	205,511,433	179,722,129
Property taxes	50,013,962	47,413,613	-	-	50,013,962	47,413,613
Other general revenues	11,509,672	12,067,721	-	-	11,509,672	12,067,721
Total Revenues	<u>342,963,420</u>	<u>304,194,759</u>	<u>24,584,413</u>	<u>24,732,574</u>	<u>367,547,833</u>	<u>328,927,333</u>
Expenses						
Instruction-related	259,586,654	234,400,556	-	-	259,586,654	234,400,556
Pupil services	50,545,033	42,977,019	-	-	50,545,033	42,977,019
Administration	21,555,234	19,149,158	-	-	21,555,234	19,149,158
Plant services	30,232,061	26,691,213	-	-	30,232,061	26,691,213
Ancillary	2,440,274	2,290,351	-	-	2,440,274	2,290,351
Other	11,835,832	8,485,698	18,213,508	28,381,599	30,049,340	36,867,297
Total Expenses	<u>376,195,088</u>	<u>333,993,995</u>	<u>18,213,508</u>	<u>28,381,599</u>	<u>394,408,596</u>	<u>362,375,594</u>
Transfers	5,181,933	4,646,695	(5,181,933)	(4,646,695)	-	-
Change in Net Position	<u>\$(28,049,735)</u>	<u>\$(25,152,541)</u>	<u>\$ 1,188,972</u>	<u>\$ (8,295,720)</u>	<u>\$(26,860,763)</u>	<u>\$(33,448,261)</u>

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all governmental activities in 2018-2019 was \$376,195,088. The amount that our taxpayers ultimately financed for these activities through local taxes was \$50,013,962. The remaining cost was paid by those who benefited from the programs \$2,474,751 or by other governments and organizations who subsidized certain programs with \$73,453,602 in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$205,511,433 in Federal and State aid and \$11,509,672 with other General Fund revenue sources such as interest and general entitlements.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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

	Total Cost of Services		Total Net Cost of Services	
	2019	2018	2019	2018
Instruction	\$ 215,989,477	\$ 197,034,593	\$ 184,248,270	\$ 165,856,725
Instruction-related activities	43,597,177	37,365,963	26,412,386	28,508,211
Pupil services	50,545,033	42,977,019	30,148,177	24,574,410
Administration	21,555,234	19,149,158	19,333,739	16,802,122
Plant services	30,232,061	26,691,213	28,645,650	24,755,357
Ancillary services	2,440,274	2,290,351	2,408,700	2,250,638
Other	11,835,832	8,485,698	9,069,813	6,255,236
Total	\$ 376,195,088	\$ 333,993,995	\$ 300,266,735	\$ 269,002,699

THE DISTRICT'S FUNDS

Upon completion of the 2018-2019 fiscal year, the District's governmental funds reported a combined fund balance of \$103,528,939, an increase of \$36,288,779 from 2017-2018 (Table 4).

Table 4

	Balances and Activity			
	July 1, 2018	Revenues	Expenditures	June 30, 2019
General	\$ 31,472,035	\$ 303,391,918	\$ 295,527,486	\$ 39,336,467
Building	-	27,577,828	-	27,577,828
Bond Interest and Redemption	14,747,961	13,459,007	12,780,565	15,426,403
Non-Major Governmental	21,020,164	37,730,614	37,562,537	21,188,241
Total	\$ 67,240,160	\$ 382,159,367	\$ 345,870,588	\$ 103,528,939

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 20, 2019. (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 80.)

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had \$437,957,581 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 \$14,072,681, or 3.11 percent, over the prior year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		School District Activities	
	2019	2018	2019	2018	2019	2018
Land	\$ 24,701,180	\$ 24,701,180	\$ -	\$ -	\$ 24,701,180	\$ 24,701,180
Construction in progress	2,077,005	1,534,559	-	-	2,077,005	1,534,559
Buildings and improvements	394,369,626	409,004,620	-	-	394,369,626	409,004,620
Equipment	9,325,571	8,631,953	7,484,199	8,157,950	16,809,770	16,789,903
Total	\$430,473,382	\$443,872,312	\$ 7,484,199	\$ 8,157,950	\$437,957,581	\$452,030,262

This year's additions totaled \$4,534,910, with the majority of expenses related to capital assets for 2019-2020 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 2019-2020 year include Winchester Elementary, Little Lake Elementary, Idyllwild (K-8) Office, and the HVAC at Hemet High School and West Valley High School.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Long-Term Obligations

At June 30, 2019, the District had \$244,991,229 in general obligation bonds and certificates of participation outstanding compared to \$225,105,095 in June 30, 2018, an increase of \$19,886,134, or 8.83 percent. Other obligations consisted of those items listed in Table 6 below.

Table 6

	Governmental		Business-Type		School District	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds	\$ 186,050,000	\$ 164,295,000	\$ -	\$ -	\$ 186,050,000	\$ 164,295,000
Premium on issuance	8,779,525	8,044,996	-	-	8,779,525	8,044,996
Discount on issuance	(69,180)	(76,098)	-	-	(69,180)	(76,098)
Certificates of Participation	46,303,430	48,619,342	-	-	46,303,430	48,619,342
Premium on issuance	3,987,129	4,284,940	-	-	3,987,129	4,284,940
Discount on issuance	(59,675)	(63,085)	-	-	(59,675)	(63,085)
Lease Revenue Bonds	-	-	-	-	-	-
Discount on issuance	-	-	-	-	-	-
Capital Leases	-	92,710	-	-	-	92,710
Compensated Absences	1,079,201	902,647	3,018,473	3,986,480	4,097,674	4,889,127
Supplemental Early Retirement Program	-	-	-	-	-	-
Claims Liability	9,288,443	8,121,658	242,847	214,882	9,531,290	8,336,540
Net Other Postemployment (OPEB) Liability	32,944,486	29,411,610	2,430,086	2,286,155	35,374,572	31,697,765
Total	\$ 288,303,359	\$ 263,633,720	\$ 5,691,406	\$ 6,487,517	\$ 293,994,765	\$ 270,121,237

Other obligations include compensated absences (vacation), net other postemployment benefits (OPEB) liability (not including health benefits), capital leases, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

At year end, the District has a net pension liability of \$305,703,925 versus \$282,808,016 last year, an increase of \$22,895,909, or 8.10 percent.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Table 7 lists the District's 2019-2020 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 20, 2019. 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 2019-2020 budget, which includes site and department allocations for both staffing and operating budgets.

Table 7

2019-2020 Budget Assumptions

Cost of Living Adjustment (COLA) (applied to LCFF targeted base)	3.26%
Enrollment (excluding charters)	21,454
Enrollment Growth (Decline)	107
ADA – Average Daily Attendance	20,282
ADA – Funded	20,282
ADA Percentage	94.6%
Salary Increase	1.00%
Step and Column Percent of Salaries	1.56%
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 Deputy Superintendent, at Hemet Unified School District, 1791 West Acacia Avenue, Hemet, California, 92545-3797, or e-mail at: [dwatters@hemetUSD.org](mailto:dwaters@hemetUSD.org).

HEMET UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 109,309,695	\$ 8,629,519	\$ 117,939,214
Receivables	13,453,636	4,414,799	17,868,435
Internal balances	127,327	(127,327)	-
Prepaid expenses	14,531	-	14,531
Stores inventories	713,139	-	713,139
Capital assets			
Land and construction in process	26,778,185	-	26,778,185
Other capital assets	618,022,562	21,539,867	639,562,429
Less: Accumulated depreciation	(214,327,365)	(14,055,668)	(228,383,033)
Total Capital Assets	<u>430,473,382</u>	<u>7,484,199</u>	<u>437,957,581</u>
TOTAL ASSETS	<u>554,091,710</u>	<u>20,401,190</u>	<u>574,492,900</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	98,165,896	7,104,268	105,270,164
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	<u>675,606</u>	<u>27,029</u>	<u>702,635</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>98,841,502</u>	<u>7,131,297</u>	<u>105,972,799</u>
LIABILITIES			
Accounts payable	8,363,601	660,636	9,024,237
Accrued interest payable	3,466,131	-	3,466,131
Unearned revenue	754,517	-	754,517
Long-term obligations			
Current portion of long-term obligations other than pensions	9,996,067	990,899	10,986,966
Noncurrent portion of long-term obligations other than pensions	<u>278,307,292</u>	<u>4,700,507</u>	<u>283,007,799</u>
Total Long-Term Obligations	<u>288,303,359</u>	<u>5,691,406</u>	<u>293,994,765</u>
Aggregate net pension liability	<u>284,981,445</u>	<u>20,722,480</u>	<u>305,703,925</u>
TOTAL LIABILITIES	<u>585,869,053</u>	<u>27,074,522</u>	<u>612,943,575</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	<u>12,866,295</u>	<u>12,159</u>	<u>12,878,454</u>
NET POSITION			
Net investment in capital assets	218,810,311	4,465,726	223,276,037
Restricted for:			
Debt service	12,379,875	-	12,379,875
Capital projects	9,650,344	-	9,650,344
Educational programs	4,370,663	-	4,370,663
Other activities	3,391,680	-	3,391,680
Unrestricted (Deficit)	<u>(194,405,009)</u>	<u>(4,019,920)</u>	<u>(198,424,929)</u>
TOTAL NET POSITION	<u>\$ 54,197,864</u>	<u>\$ 445,806</u>	<u>\$ 54,643,670</u>

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

HEMET UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 215,989,477	\$ 5,953	\$ 31,691,770	\$ 43,484
Instruction-related activities:				
Supervision of instruction	16,899,378	1,009	15,621,193	-
Instructional library, media, and technology	2,444,936	1	39,815	-
School site administration	24,252,863	715	1,522,058	-
Pupil services:				
Home-to-school transportation	7,316,451	-	66,651	-
Food services	16,377,851	548,999	13,993,531	-
All other pupil services	26,850,731	15	5,787,660	-
Administration:				
Data processing	4,402,303	-	-	-
All other administration	17,152,931	35,688	2,185,807	-
Plant services	30,232,061	10,501	1,575,910	-
Ancillary services	2,440,274	-	31,574	-
Community services	93,244	-	56	-
Enterprise services	3,285,808	-	-	-
Interest on long-term obligations	8,456,780	-	-	-
Other outgo	-	1,871,870	894,093	-
Total Governmental Activities	376,195,088	2,474,751	73,410,118	43,484
Business-Type Activities				
Transportation	18,213,508	23,306,047	1,278,366	-
Total School District	\$ 394,408,596	\$ 25,780,798	\$ 74,688,484	\$ 43,484

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
 Special and extraordinary items
 Subtotal, General Revenues

Excess of Revenues Over Expenses

Transfers between funds

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

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
\$ (184,248,270)	\$ -	\$ (184,248,270)
(1,277,176)	-	(1,277,176)
(2,405,120)	-	(2,405,120)
(22,730,090)	-	(22,730,090)
(7,249,800)	-	(7,249,800)
(1,835,321)	-	(1,835,321)
(21,063,056)	-	(21,063,056)
(4,402,303)	-	(4,402,303)
(14,931,436)	-	(14,931,436)
(28,645,650)	-	(28,645,650)
(2,408,700)	-	(2,408,700)
(93,188)	-	(93,188)
(3,285,808)	-	(3,285,808)
(8,456,780)	-	(8,456,780)
2,765,963	-	2,765,963
<u>(300,266,735)</u>	<u>-</u>	<u>(300,266,735)</u>
-	6,370,905	6,370,905
<u>(300,266,735)</u>	<u>6,370,905</u>	<u>(293,895,830)</u>
34,134,481	-	34,134,481
11,956,439	-	11,956,439
3,923,042	-	3,923,042
205,511,433	-	205,511,433
482,435	-	482,435
200,248	-	200,248
10,083,248	-	10,083,248
743,741	-	743,741
<u>267,035,067</u>	<u>-</u>	<u>267,035,067</u>
(33,231,668)	6,370,905	(26,860,763)
<u>5,181,933</u>	<u>(5,181,933)</u>	<u>-</u>
(28,049,735)	1,188,972	(26,860,763)
<u>82,247,599</u>	<u>(743,166)</u>	<u>81,504,433</u>
<u>\$ 54,197,864</u>	<u>\$ 445,806</u>	<u>\$ 54,643,670</u>

HEMET UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 36,142,425	\$ 27,378,005	\$ 15,426,403
Receivables	10,822,733	199,823	-
Due from other funds	866,389	-	-
Prepaid expenditures	14,531	-	-
Stores inventories	194,035	-	-
Total Assets	\$ 48,040,113	\$ 27,577,828	\$ 15,426,403
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 7,482,620	\$ -	\$ -
Due to other funds	634,157	-	-
Unearned revenue	586,869	-	-
Total Liabilities	8,703,646	-	-
Fund Balances:			
Nonspendable	221,336	-	-
Restricted	4,370,663	27,577,828	15,426,403
Assigned	20,516,888	-	-
Unassigned	14,227,580	-	-
Total Fund Balances	39,336,467	27,577,828	15,426,403
Total Liabilities and Fund Balances	\$ 48,040,113	\$ 27,577,828	\$ 15,426,403

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 19,214,400	\$ 98,161,233
2,360,132	13,382,688
244,762	1,111,151
-	14,531
519,104	713,139
\$ 22,338,398	\$ 113,382,742

\$ 578,957	\$ 8,061,577
403,552	1,037,709
167,648	754,517
1,150,157	9,853,803

524,174	745,510
19,211,957	66,586,851
1,452,110	21,968,998
-	14,227,580
21,188,241	103,528,939

\$ 22,338,398	\$ 113,382,742
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HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2019

Total Fund Balance - Governmental Funds \$ 103,528,939

**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:	\$ 644,800,747	
Accumulated depreciation is:	<u>(214,327,365)</u>	
Net Capital Assets		430,473,382

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.

(3,466,131)

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:

1,682,828

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	28,535,946	
Net change in proportionate share of net pension liability	23,168,341	
Differences between projected and actual earnings on pension plan investments	706,645	
Differences between expected and actual experience in the measurement of the total pension liability	6,264,413	
Changes of assumptions	<u>39,490,551</u>	
Total Deferred Outflows of Resources Related to Pensions		98,165,896

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

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED) JUNE 30, 2019

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	\$ (2,322,031)	
Difference between projected and actual earnings on pension plan investments	(7,656,166)	
Differences between expected and actual experience in the measurement of the total pension liability	<u>(2,888,098)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (12,866,295)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (284,981,445)

Deferred outflows of resources related to OPEB 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 OPEB at year-end consist changes of assumptions. 675,606

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	(186,050,000)	
Premium on issuance, net of amortization	(8,779,525)	
Discount on issuance, net of amortization	69,180	
Certificates of participation	(46,303,430)	
Premium on issuance, net of amortization	(3,987,129)	
Discount on issuance, net of amortization	59,675	
Compensated absences payable	(1,079,201)	
Net other postemployment benefits (OPEB) liability	<u>(32,944,486)</u>	
Total Long-Term Obligations		<u>(279,014,916)</u>
Total Net Position - Governmental Activities		<u><u>\$ 54,197,864</u></u>

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

HEMET UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>
REVENUES			
Local Control Funding Formula	\$ 222,486,924	\$ -	\$ -
Federal sources	19,754,209	-	-
Other State sources	37,133,602	-	144,158
Other local sources	18,029,849	257,828	12,004,290
Total Revenues	<u>297,404,584</u>	<u>257,828</u>	<u>12,148,448</u>
EXPENDITURES			
Current			
Instruction	174,783,632	-	-
Instruction-related activities:			
Supervision of instruction	15,035,254	-	-
Instructional library, media, and technology	2,229,115	-	-
School site administration	20,114,913	-	-
Pupil services:			
Home-to-school transportation	7,316,451	-	-
Food services	314,204	-	-
All other pupil services	23,969,651	-	-
Administration:			
Data processing	3,952,159	-	-
All other administration	13,494,635	-	-
Plant services	25,868,123	-	-
Ancillary services	2,271,732	-	-
Community services	92,149	-	-
Facility acquisition and construction	1,187,641	-	-
Debt service			
Principal	473,622	-	5,745,000
Interest and other	22,459	-	7,035,565
Total Expenditures	<u>291,125,740</u>	<u>-</u>	<u>12,780,565</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,278,844</u>	<u>257,828</u>	<u>(632,117)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	5,987,334	-	-
Other sources	-	27,320,000	1,310,559
Transfers out	(4,401,746)	-	-
Net Financing Sources (Uses)	<u>1,585,588</u>	<u>27,320,000</u>	<u>1,310,559</u>
NET CHANGE IN FUND BALANCES	7,864,432	27,577,828	678,442
Fund Balance - Beginning	31,472,035	-	14,747,961
Fund Balances - Ending	<u>\$ 39,336,467</u>	<u>\$ 27,577,828</u>	<u>\$ 15,426,403</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 5,953,457	\$ 228,440,381
13,940,419	33,694,628
6,061,854	43,339,614
4,165,011	34,456,978
<u>30,120,741</u>	<u>339,931,601</u>
6,712,175	181,495,807
292,738	15,327,992
297	2,229,412
1,201,058	21,315,971
-	7,316,451
14,372,213	14,686,417
247,677	24,217,328
-	3,952,159
1,296,061	14,790,696
3,174,559	29,042,682
96,273	2,368,005
-	92,149
2,393,935	3,581,576
1,935,000	8,153,622
1,827,023	8,885,047
<u>33,549,009</u>	<u>337,455,314</u>
<u>(3,428,268)</u>	<u>2,476,287</u>
7,609,873	13,597,207
-	28,630,559
<u>(4,013,528)</u>	<u>(8,415,274)</u>
<u>3,596,345</u>	<u>33,812,492</u>
168,077	36,288,779
21,020,164	67,240,160
<u>\$ 21,188,241</u>	<u>\$ 103,528,939</u>

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, 2019

Total Net Change in Fund Balances - Governmental Funds \$ 36,288,779

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	\$ 4,534,910	
Depreciation expense	<u>(17,918,317)</u>	
Net Expense Adjustment		(13,383,407)

Loss on disposal of capital assets is reported in the government-wide financial Statement of Net Position, but is not recorded in the governmental funds. (15,523)

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 \$176,554. (176,554)

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. (25,981,621)

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. (2,857,270)

Proceeds received from issuance of general obligation bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities. (28,630,559)

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

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2019

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	\$ 5,745,000	
Certificates of participation	2,315,912	
Capital lease obligations	92,710	
Combined Adjustment	8,153,622	\$ 8,153,622

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	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.

(255,246)

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.

(1,875,469)

Change in Net Position of Governmental Activities \$ (28,049,735)

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

HEMET UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Transportation	
ASSETS		
Current Assets		
Deposits and investments	\$ 8,629,519	\$ 11,148,462
Receivables	4,414,799	70,948
Due from other funds	340,985	53,885
Total Current Assets	13,385,303	11,273,295
Noncurrent Assets		
Capital assets	21,539,867	-
Less: accumulated depreciation	(14,055,668)	-
Total Noncurrent Assets	7,484,199	-
Total Assets	20,869,502	11,273,295
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	7,104,268	-
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	27,029	-
	7,131,297	-
LIABILITIES		
Current Liabilities		
Accounts payable	660,636	302,024
Due to other funds	468,312	-
Current portion of long-term obligations	990,899	1,442,000
Total Current Liabilities	2,119,847	1,744,024
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	4,700,507	7,846,443
Aggregate net pension liability	20,722,480	-
Total Liabilities	27,542,834	9,590,467
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	12,159	-
NET POSITION		
Net investment in capital assets	4,465,726	-
Unrestricted	(4,019,920)	1,682,828
Total Net Position	\$ 445,806	\$ 1,682,828

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, 2019**

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Transportation	
OPERATING REVENUES		
Charges for services	\$ 23,306,047	\$ -
Charges to other funds and miscellaneous revenues	527,000	1,856,550
Total Operating Revenues	23,833,047	1,856,550
OPERATING EXPENSES		
Payroll costs	11,957,318	-
Professional and contract services	2,345,023	4,003,720
Supplies and materials	2,207,334	2,550
Facility rental	488,772	-
Depreciation	1,215,061	-
Total Operating Expenses	18,213,508	4,006,270
Operating Income (Loss)	5,619,539	(2,149,720)
NONOPERATING REVENUES		
Interest income	114,693	232,719
Grants	678,205	-
Total Nonoperating Revenues	792,898	232,719
Income Before Transfers	6,412,437	(1,917,001)
Transfers in	-	41,532
Transfers out	(5,223,465)	-
Change in Net Position	1,188,972	(1,875,469)
Net Position - Beginning	(743,166)	3,558,297
Total Net Position - Ending	\$ 445,806	\$ 1,682,828

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, 2019**

	Business-Type Activities Enterprise Fund Transportation	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 23,947,740	\$ 2,005,910
Cash received from assessments made to other funds	(340,985)	-
Cash payments to employees for services	(11,957,318)	-
Cash payments to suppliers for goods and services	(5,041,129)	-
Cash payments for administrative expense	(3,226,271)	(2,550)
Other operating cash payments	5,006,179	(2,632,847)
Net Cash Provided by (Used For) Operating Activities	8,388,216	(629,487)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	678,205	-
Transfers from other funds	-	41,532
Transfers to other funds	(5,223,465)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(4,545,260)	41,532
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(541,310)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	114,693	232,719
Net Increase (Decrease) in Cash and Cash Equivalents	3,416,339	(355,236)
Cash and Cash Equivalents - Beginning	5,213,180	11,503,698
Cash and Cash Equivalents - Ending	\$ 8,629,519	\$ 11,148,462

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, 2019

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:

Operating income (loss)	\$ 5,619,539	\$ (2,149,720)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	1,215,061	-
Changes in assets and liabilities:		
Receivables	3,147,939	(16,569)
Due from other funds	141,237	215,859
Deferred outflows	2,330,850	-
Accounts payable	(204,703)	154,158
Due to other funds	(23,727)	-
Capital leases	(968,007)	-
Net OPEB liability	143,931	-
Compensated absences payable	27,965	-
Aggregate net pension liability	(2,772,025)	-
Claims liabilities	-	1,166,785
Deferred inflows	(269,844)	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 8,388,216</u>	<u>\$ (629,487)</u>

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

HEMET UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Agency Funds			Total Agency Funds
	Associated Student Body	Debt Service Fund for Special Tax Bonds	Warrant Pass Through Fund	
ASSETS				
Deposits and investments	\$ 1,573,041	\$ 4,464,109	\$ 124,311	\$ 6,161,461
Stores inventories	25,635	-	-	25,635
Total Assets	<u>\$ 1,598,676</u>	<u>\$ 4,464,109</u>	<u>\$ 124,311</u>	<u>\$ 6,187,096</u>
LIABILITIES				
Accounts payable	\$ 11,572	\$ -	\$ 124,311	\$ 135,883
Due to bond holders	-	4,464,109	-	4,464,109
Due to student groups	1,587,104	-	-	1,587,104
Total Liabilities	<u>\$ 1,598,676</u>	<u>\$ 4,464,109</u>	<u>\$ 124,311</u>	<u>\$ 6,187,096</u>

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 (the 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 15 to the financial statements. These organizations are:

Riverside County Employer/Employee Partnership (REEP) and 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 an increase in the fund balance of \$5,008,708.

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.

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).

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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).

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).

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).

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Capital Projects for Blended Component Units Fund The Capital Project Fund for Blended Component Units is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities 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 warrant pass through fund.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function, and exclude 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*, except for depreciation. 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 or business segment 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 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, prepared using the economic resources measurement focus and the accrual basis of accounting, 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 but are recognized in the entity-wide statements.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Investments

Investments held at June 30, 2019, 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 acquisition 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 governmental 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 related to prepaid insurance costs are amortized over the life of the bonds using the effective interest 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 and for OPEB 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, 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. The District currently does not have any committed funds.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 including deferred outflows of resources and liabilities including deferred inflows of resources. 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, 2019. 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 \$29,792,562 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 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 District has implemented the provisions of this Statement as of June 30, 2019.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The District has implemented the provisions of this Statement as of June 30, 2019.

New Accounting Pronouncements

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 the 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 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 109,309,695
Business-type activities	8,629,519
Fiduciary funds	6,161,461
Total Deposits and Investments	<u>\$ 124,100,675</u>

Deposits and investments as of June 30, 2019, consisted of the following:

Cash on hand and in banks	\$ 3,835,356
Cash in revolving	17,840
Investments	120,247,479
Total Deposits and Investments	<u>\$ 124,100,675</u>

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.

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Weighted Average Maturity in Days</u>
United States Treasury Obligations	\$ 3,472,130	138
Registered State Bonds	4,254,129	711
Commercial Paper	781,904	131
Riverside County Investment Pool	111,739,316	387
Total	<u>\$ 120,247,479</u>	

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. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Moody's Rating as of June 30, 2019</u>	<u>Reported Amount</u>
United States Treasury Obligations	Not Required	Aaa	\$ 3,472,130
Registered State Bonds	Not Required	Aaa	4,254,129
Commercial Paper	A1	Aaa	781,904
Riverside County Investment Pool	Not Required	Aaa-bf	111,739,316
Total			<u>\$ 120,247,479</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. All investments of the District other than the investments in commercial paper are exempt. The commercial paper has the limitations of a maximum percentage of portfolio not to exceed 25% and a maximum investment in one issuer of the portfolio not to exceed 10%. The investments in commercial paper do not exceed either of these limitations as of year-end.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, the District's bank balance \$3,660,014 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The District's fair value measurements are as follows at June 30, 2019:

Investment Type	Reported Amount	Fair Value Measurements Using	
		Level 2 Inputs	Uncategorized
United States Treasury Obligations	\$ 3,472,130	\$ 3,472,130	\$ -
Registered State Bonds	4,254,129	4,254,129	-
Commercial Paper	781,904	781,904	-
Riverside County Investment Pool	111,739,316	-	111,739,316
Total	<u>\$ 120,247,479</u>	<u>\$ 8,508,163</u>	<u>\$ 111,739,316</u>

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

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund
Federal Government				
Categorical aid	\$ 6,368,223	\$ -	\$ 1,688,358	\$ -
State Government				
Categorical aid	1,224,277	-	427,949	-
Lottery	1,004,392	-	32,454	-
Local Government				
Interest	91,314	199,823	71,629	69,838
Other local sources	2,134,527	-	139,742	1,110
Total	<u>\$ 10,822,733</u>	<u>\$ 199,823</u>	<u>\$ 2,360,132</u>	<u>\$ 70,948</u>

	Total Governmental Activities	Transportation Enterprise Fund
Federal Government		
Categorical aid	\$ 8,056,581	\$ -
State Government		
Categorical aid	1,652,226	-
Lottery	1,036,846	-
Local Government		
Interest	432,604	39,233
Other local sources	2,275,379	4,375,566
Total	<u>\$ 13,453,636</u>	<u>\$ 4,414,799</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 24,701,180	\$ -	\$ -	\$ 24,701,180
Construction in progress	1,534,559	973,405	430,959	2,077,005
Total Capital Assets Not Being Depreciated	26,235,739	973,405	430,959	26,778,185
Capital Assets Being Depreciated				
Buildings and improvements	589,473,149	1,883,379	-	591,356,528
Furniture and equipment	24,641,392	2,109,085	84,443	26,666,034
Total Capital Assets Being Depreciated	614,114,541	3,992,464	84,443	618,022,562
Total Capital Assets	640,350,280	4,965,869	515,402	644,800,747
Less Accumulated Depreciation				
Buildings and improvements	180,468,529	16,518,373	-	196,986,902
Furniture and equipment	16,009,439	1,399,944	68,920	17,340,463
Total Accumulated Depreciation	196,477,968	17,918,317	68,920	214,327,365
Governmental Activities Capital Assets, Net	443,872,312	(12,952,448)	446,482	430,473,382
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture and equipment	20,998,557	541,310	-	21,539,867
Less Accumulated Depreciation				
Furniture and equipment	12,840,607	1,215,061	-	14,055,668
Business-Type Activities Capital Assets, Net	8,157,950	(673,751)	-	7,484,199
School District Totals	\$ 452,030,262	\$ (13,626,199)	\$ 446,482	\$ 437,957,581

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Depreciation expense was charged as a direct expense to governmental and business-type functions as follows:

Governmental Activities

Instruction	\$ 14,800,505
School site administration	483,796
Food services	842,161
All other administration	1,057,180
Plant services	<u>734,675</u>
Total Depreciation Expenses Governmental Activities	<u>17,918,317</u>

Business-Type Activities

Home-to-school transportation	<u>1,215,061</u>
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School District Totals

\$ 19,133,378

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2019, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	
General Fund	\$ -	\$ 398,077	\$ 468,312	\$ 866,389
Non-Major Governmental Funds	241,079	3,683	-	244,762
Transportation Enterprise Fund	340,985	-	-	340,985
Internal Service Fund	52,093	1,792	-	53,885
Total	<u>\$ 634,157</u>	<u>\$ 403,552</u>	<u>\$ 468,312</u>	<u>\$ 1,506,021</u>

A balance of \$174,063 is due to the Charter Non-Major Governmental Fund from the General fund for In-Lieu final calculation.

A balance of \$59,666 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for unpaid meals.

The balance of \$340,985 is due to the Other Enterprise Fund from the General Fund to cover costs.

A balance of \$264,891 is due to the General Fund from the Charter Non-Major Governmental Fund for reimbursement of costs.

A balance of \$130,197 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect cost.

The balance of \$468,312 is due to the General Fund from the Other 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Operating Transfers

Interfund transfers for the year ended June 30, 2019, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	
General Fund	\$ -	\$ 763,869	\$ 5,223,465	\$ 5,987,334
Non-Major Governmental Funds	4,360,214	3,249,659	-	7,609,873
Internal Service Funds	41,532	-	-	41,532
Total	<u>\$ 4,401,746</u>	<u>\$ 4,013,528</u>	<u>\$ 5,223,465</u>	<u>\$ 13,638,739</u>

The General Fund transferred to the Charter Non-Major Governmental Fund to cover costs.	\$ 7,350
The General Fund transferred to the Cafeteria Non-Major Governmental Fund to cover costs.	45,402
The General Fund transferred to the Child Development Non-Major Governmental Fund to cover costs.	34,952
The General Fund transferred to the Internal Service Fund to cover costs.	41,532
The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for equipment purchase.	495,000
The General Fund transferred to the Debt Service for Blended Component Units Non-Major Governmental Fund for debt service payments.	3,777,510
The Charter School Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment.	388,869
The County School Facilities Non-Major Governmental Fund transferred to Capital Facilities Non-Major Governmental Fund for Proposition 51 facilities audit requirements.	3,249,659
The Special Reserve Non-Major Governmental Fund transferred to the General fund for reimbursement of costs.	375,000
The Transportation Enterprise Fund transferred to the General Fund for administrative fees and to cover District transportation costs.	<u>5,223,465</u>
Total	<u>\$ 13,638,739</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 3,156,709	\$ 273,138	\$ 302,024	\$ 3,731,871
LCFF apportionment	2,607,884	30,138	-	2,638,022
Salaries and benefits	1,694,623	101,502	-	1,796,125
Construction	23,404	174,179	-	197,583
Total	<u>\$ 7,482,620</u>	<u>\$ 578,957</u>	<u>\$ 302,024</u>	<u>\$ 8,363,601</u>

	Transportation Enterprise Fund	Fiduciary Funds
Vendor payables	\$ 658,443	\$ 11,572
LCFF apportionment	-	-
Salaries and benefits	2,193	124,311
Construction	-	-
Total	<u>\$ 660,636</u>	<u>\$ 135,883</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2019, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 358,739	\$ 48,945	\$ 407,684
State categorical aid	228,130	118,703	346,833
Total	<u>\$ 586,869</u>	<u>\$ 167,648</u>	<u>\$ 754,517</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2019, is shown below:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
Governmental Activities					
General Obligation Bonds	\$ 164,295,000	\$27,500,000	\$ 5,745,000	\$ 186,050,000	\$6,105,000
Premium on issuance	8,044,996	1,130,559	396,030	8,779,525	-
Discount on issuance	(76,098)	-	(6,918)	(69,180)	-
Certificates of Participation	48,619,342	-	2,315,912	46,303,430	2,449,067
Premium on issuance	4,284,940	-	297,811	3,987,129	-
Discount on issuance	(63,085)	-	(3,410)	(59,675)	-
Capital Leases	92,710	-	92,710	-	-
Compensated Absences	902,647	176,554	-	1,079,201	-
Claims Liability	8,121,658	2,514,785	1,348,000	9,288,443	1,442,000
Net Other Postemployment (OPEB) Liability	29,411,610	4,617,113	1,084,237	32,944,486	-
Total Governmental Activities	<u>\$ 263,633,720</u>	<u>\$ 35,939,011</u>	<u>\$ 11,269,372</u>	<u>\$ 288,303,359</u>	<u>\$ 9,996,067</u>
Business-Type Activities					
Capital Leases	\$ 3,986,480	\$ -	\$ 968,007	\$ 3,018,473	\$ 990,899
Compensated Absences	214,882	27,965	-	242,847	-
Net Other Postemployment (OPEB) Liability	2,286,155	184,715	40,784	2,430,086	-
Total Business- Type Activities	<u>\$ 6,487,517</u>	<u>\$ 212,680</u>	<u>\$ 1,008,791</u>	<u>\$ 5,691,406</u>	<u>\$ 990,899</u>

Payments on general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on the certificates of participation 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 accrued vacation will be paid by the fund for which the employee worked. Payments for net other postemployment (OPEB) liability will be paid by the fund for which the employee worked.

The District's outstanding general obligation bonds of \$186,050,000 contain a provision that in an event of default, outstanding amounts become immediately due if the District is unable to make payment. The District's outstanding certificates of participation of \$46,303,430 are secured with collateral of an undeveloped lot zoned for commercial use.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2018	Issued	Accreted	Redeemed	Outstanding June 30, 2019
07/28/10	8/1/2026	3.50% - 4.50%	\$ 18,740,000	\$ 12,420,000	\$ -	\$ -	\$ 1,170,000	\$ 11,250,000
07/18/12	8/1/2028	1.25% - 4.00%	21,260,000	16,130,000	-	-	1,450,000	14,680,000
12/16/14	08/01/38	3.00% - 5.00%	93,170,000	87,010,000	-	-	2,770,000	84,240,000
05/19/15	08/01/40	3.13% - 5.00%	49,000,000	48,735,000	-	-	355,000	48,380,000
02/26/19	08/01/46	2.25% - 5.00%	27,500,000	-	27,500,000	-	-	27,500,000
			<u>\$ 209,670,000</u>	<u>\$ 164,295,000</u>	<u>\$ 27,500,000</u>	<u>\$ -</u>	<u>\$ 5,745,000</u>	<u>\$ 186,050,000</u>

Debt Service Requirements to Maturity

The bonds mature through 2047 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2020	\$ 6,105,000	\$ 7,180,172	\$ 13,285,172
2021	6,970,000	6,978,894	13,948,894
2022	7,870,000	6,669,269	14,539,269
2023	7,155,000	6,349,532	13,504,532
2024	7,565,000	6,034,900	13,599,900
2025-2029	40,305,000	25,442,072	65,747,072
2030-2034	38,295,000	18,383,522	56,678,522
2035-2039	46,510,000	9,684,896	56,194,896
2040-2044	17,950,000	2,784,400	20,734,400
2045-2047	7,325,000	454,100	7,779,100
Total	<u>\$ 186,050,000</u>	<u>\$ 89,961,757</u>	<u>\$ 276,011,757</u>

2010 General Obligation Refunding Bonds

On July 28, 2010, the District issued \$18,740,000 of the 2010 General Obligation

Refunding Bonds. The bonds mature on August 1, 2026 with interest rates ranging from 3.50 to 4.50 percent. The proceeds from the sale of the bonds were used to refund the current interest bonds related to the Election 2002 General Obligation Bonds, Series A.

\$ 11,250,000

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2012 General Obligation Refunding Bonds

On July 18, 2012, the District issued \$21,260,000 of the 2012 General Obligation

Refunding Bonds. The bonds mature on August 1, 2028 with interest rates ranging from 1.25 to 4.00 percent. The proceeds from the sale of the bonds were used to refund the current interest bonds related to the Election 2002 General Obligation Bonds, Series B.

\$ 14,680,000

2014 General Obligation Refunding Bonds

On December 16, 2014, the District issued \$93,170,000 of the 2014 General Obligation

Refunding Bonds. The bonds mature on August 1, 2038 with interest rates ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds were used to refund the current interest bonds related to the Election 2002 General Obligation Bonds, Series D and Series E, and the Election 2006 General Obligation Bonds, Series and Series B.

84,240,000

2012 General Obligation Bonds, Series A

On May 19, 2015, the District issued 49,000,000 in current interest serial bonds

of the Election 2012 General Obligation Bonds, Series A. The bonds mature on August 1, 2040 with interests rates ranging from 3.13 to 5.00 percent. The proceeds from the sale of the bonds were used to finance the construction, addition and modernization of school facilities.

48,380,000

2018 General Obligation Bonds, Series A

On February 26, 2019, the District issued 27,500,000 in current interest serial bonds

of the Election 2018 General Obligation Bonds, Series A. The bonds mature on August 1, 2046 with interests rates ranging from 2.25 to 5.00 percent. The proceeds from the sale of the bonds were used to finance the construction, addition and modernization of school facilities.

27,500,000

Subtotal bonds outstanding

186,050,000

2010 General Obligation Refunding Bonds

136,864

2014 General Obligation Refunding Bonds

6,188,540

2012 General Obligation Bonds, Series A

1,323,562

2018 General Obligation Bonds, Series A

1,130,559

Subtotal premium on bonds

8,779,525

2012 General Obligation Refunding Bonds

(69,180)

\$ 194,760,345

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Certificates of Participation Summary

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds	
				Outstanding July 1, 2018	Issued	Redeemed	Outstanding June 30, 2019
12/13/05	12/27/20	N/A	\$ 5,000,000	\$ 1,104,342	\$ -	\$ 380,912	\$ 723,430
11/21/07	10/01/36	4.00% - 5.00%	4,610,000	3,535,000	-	-	3,535,000
09/30/15	10/01/28	2.00% - 5.00%	16,690,000	14,545,000	-	1,105,000	13,440,000
09/30/16	10/01/34	3.00% - 5.00%	23,965,000	23,965,000	-	-	23,965,000
09/30/16	10/01/23	1.59% - 2.74%	6,225,000	5,470,000	-	830,000	4,640,000
			<u>\$ 56,490,000</u>	<u>\$ 48,619,342</u>	<u>\$ -</u>	<u>\$ 2,315,912</u>	<u>\$ 46,303,430</u>

Debt Service Requirements to Maturity

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	2,420,000	1,574,887	3,994,887
2024	2,560,000	1,480,582	4,040,582
2025-2029	15,620,000	5,490,244	21,110,244
2030-2034	13,580,000	2,346,700	15,926,700
2035-2037	4,865,000	197,813	5,062,813
Total	<u>\$ 46,303,430</u>	<u>\$ 16,218,970</u>	<u>\$ 62,522,400</u>

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. Payment are made every year on December 27th beginning on December 27, 2006 and ending December 27, 2020, which will total \$4,276,570.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The required payments through 2021, are as follows:

<u>Fiscal Year</u>	<u>Required Payments</u>
2020	\$ 275,665
2021	275,665
Total Remaining Payments	551,330
Cumulative payments made by County Office of Education	4,276,570
Projected cumulative interest earnings	172,100
Total Obligation	<u>\$ 5,000,000</u>
Remaining obligation to be funded with required payments and interest earnings	<u>\$ 723,430</u>

2007 Certificates of Participation

On November 21, 2007, the District, pursuant to a lease agreement with Hemet

Unified School District Facilities Corporation, issued certificates of participation in the amount of \$4,610,000. The certificates mature on October 1, 2036 with interest ranges ranging from 4.00 to 5.00 percent. 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.

\$ 3,535,000

2015 Refunding Certificates of Participation

On September 30, 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.

13,440,000

2016 Refunding Certificates of Participation, Series A

On September 30, 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.

23,965,000

2016 Refunding Certificates of Participation, Series B

On September 30, 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 2.74 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation.

4,640,000

Subtotal bonds outstanding

45,580,000

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

2015 Certificates of Participation	\$ 995,828
2016 Refunding Certificates of Participation, Series A	<u>2,991,301</u>
Subtotal premium on bonds	<u>3,987,129</u>
2007 Certificate of Participation	<u>(59,675)</u>
	<u><u>\$ 49,507,454</u></u>

Capital Leases

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
	Energy Management Equipment	Buses	Total School District
Balance, July 1, 2018	\$ 96,728	\$ 4,268,522	\$ 4,365,250
Payments	96,728	1,065,843	1,162,571
Balance, June 30, 2019	<u>\$ -</u>	<u>\$ 3,202,679</u>	<u>\$ 3,202,679</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities Lease Payment</u>
2020	\$ 1,065,846
2021	1,065,847
2022	401,338
2023	267,859
2024	267,859
2025-2026	<u>133,930</u>
Total	3,202,679
Less: Amount Representing Interest	184,206
Present Value of Minimum Lease Payments	<u><u>\$ 3,018,473</u></u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the Governmental Activities and the Business-Type Activities at June 30, 2019, amounted to \$1,079,201 and \$242,847, respectively.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Claims Liability

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of \$9,288,443.

Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2019, the District reported net OPEB liability, deferred outflows of resources, deferred inflows or resources, and OPEB expense for the following plans:

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>OPEB Expense</u>
District Plan	\$ 31,456,670	\$ 675,606	\$ 3,597,686
Transportation Plan	2,430,086	27,029	143,931
Medicare Premium Payment (MPP) Program	1,487,816	-	(64,810)
Total	<u>\$ 35,374,572</u>	<u>\$ 702,635</u>	<u>\$ 3,676,807</u>

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). 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 GASB 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
	<u>2,616</u>

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District and the Hemet Teachers Association (HTA), the local California School 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, HTA, CSEA, and the unrepresented groups. For fiscal year 2018-2019, the District contributed \$1,060,211 to the Plan, all of which 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	3.50 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 actuarial 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, 2018	\$ 30,145,139
Service cost	2,958,458
Interest	1,088,299
Changes of assumptions or other inputs	755,071
Benefit payments	(1,060,211)
Net change in total OPEB liability	3,741,617
Balance at June 30, 2019	\$ 33,886,756

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.5%)	\$ 36,306,697
Current discount rate (3.5%)	33,886,756
1% increase (4.5%)	31,700,695

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 one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3%)	\$ 31,688,812
Current healthcare cost trend rate (4%)	33,886,756
1% increase (5%)	35,950,743

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2019, the District and Transportation recognized OPEB expense of \$3,597,686 and \$143,931, respectively. At June 30, 2019, the District and Transportation reported deferred outflows of resources for OPEB changes of assumptions of \$675,606 and 27,029, respectively.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>
2020	\$ 52,436
2021	52,436
2022	52,436
2022	52,436
2023	52,436
Thereafter	440,455
	<u>\$ 702,635</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2017, annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

Net OPEB Liability and OPEB Expense

At June 30, 2019, the District reported a liability of \$1,487,816 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. 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, 2018, was 0.3887 percent.

For the year ended June 30, 2019, the District recognized OPEB expense of \$(64,810).

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Actuarial Methods and Assumptions

The June 30, 2018 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018 using the assumptions listed in the following table:

Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.87%	3.58%
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, 2017, 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 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 459 or an average of 0.27 percent of the potentially eligible population (171,593).

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, 2018, 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, 2018, is 3.87 percent. 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 3.87 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 (2.87%)	\$ 1,645,600
Current discount rate (3.87%)	1,487,816
1% increase (4.87%)	1,345,350

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

The following presents the District's proportionate share of the net OPEB liability calculated using the current Medicare cost trend rates 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 Cost Trend Rates	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 1,356,739
Current Medicare cost trend rates (3.7% Part A and 4.1% Part B)	1,487,816
1% increase (4.7% Part A and 5.1% Part B)	1,628,788

NOTE 10 - 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 \$28,770,000 as of June 30, 2019, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 12,770	\$ -	\$ -	\$ 5,070	\$ 17,840
Stores inventories	194,035	-	-	519,104	713,139
Prepaid expenditures	14,531	-	-	-	14,531
Total Nonspendable	<u>221,336</u>	<u>-</u>	<u>-</u>	<u>524,174</u>	<u>745,510</u>
Restricted					
Legally restricted programs	4,370,663	-	-	9,142,010	13,512,673
Capital projects	-	27,577,828	-	9,650,344	37,228,172
Debt service	-	-	15,426,403	419,603	15,846,006
Total Restricted	<u>4,370,663</u>	<u>27,577,828</u>	<u>15,426,403</u>	<u>19,211,957</u>	<u>66,586,851</u>
Assigned					
H&W premium holding accounts	1,174,849	-	-	-	1,174,849
Furniture and equipment	338,597	-	-	-	338,597
SMAA - student support/ instructional services/supplies	2,833,499	-	-	-	2,833,499
Erate - IT infrastructure	913,399	-	-	-	913,399
Textbooks	922,333	-	-	-	922,333
Instructional services/ supplies - site allocations	1,233,888	-	-	-	1,233,888
Unclaimed property	82,440	-	-	-	82,440
LCAP initiatives	3,535,220	-	-	-	3,535,220
Deficit spending - future years	4,473,955	-	-	-	4,473,955
Deferred maintenance projects	12,815	-	-	-	12,815
Post retirement benefits	4,995,893	-	-	-	4,995,893
LCAP initiatives	-	-	-	143,778	143,778
Donations	-	-	-	214,089	214,089
Instructional Supplies and services	-	-	-	506,880	506,880
Furniture and equipment	-	-	-	587,363	587,363
Total Assigned	<u>20,516,888</u>	<u>-</u>	<u>-</u>	<u>1,452,110</u>	<u>21,968,998</u>
Unassigned					
Remaining unassigned	14,227,580	-	-	-	14,227,580
Total	<u>\$ 39,336,467</u>	<u>\$ 27,577,828</u>	<u>\$ 15,426,403</u>	<u>\$ 21,188,241</u>	<u>\$ 103,528,939</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 12 - 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, 2017 to June 30, 2019:

	Workers' Compensation
Liability Balance, July 1, 2017	\$ 7,436,178
Claims provision	2,343,816
Claims paid	(1,658,336)
Liability Balance, June 30, 2018	8,121,658
Claims provision	3,202,777
Claims paid	(2,035,992)
Liability Balance, June 30, 2019	\$ 9,288,443
Amount available to pay claims	\$ 11,273,295

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 13 - 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, 2019, 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	\$ 199,031,497	\$ 68,385,172	\$ 12,878,454	\$ 27,442,908
CalPERS	106,672,428	36,884,992	-	28,346,299
Total School District Pension Summary	<u>\$ 305,703,925</u>	<u>\$ 105,270,164</u>	<u>\$ 12,878,454</u>	<u>\$ 55,789,207</u>

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, 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%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019, are presented above and the District's total contributions were \$19,818,442.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

At June 30, 2019, 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	\$ 199,031,497
State's proportionate share of the net pension liability associated with the District	113,954,840
Total	<u>\$ 312,986,337</u>

The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, was 0.2166 percent and 0.2038 percent, respectively, resulting in a net increase in the proportionate share of 0.0127 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$27,442,908. In addition, the District recognized pension expense and revenue of \$13,387,124 for support provided by the State. At June 30, 2019, 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	\$ 19,818,442	\$ -
Net change in proportionate share of net pension liability	17,029,462	2,323,440
Differences between projected and actual earnings on pension plan investments	-	7,663,971
Differences between expected and actual experience in the measurement of the total pension liability	617,189	2,891,043
Changes of assumptions	30,920,079	-
Total	<u>\$ 68,385,172</u>	<u>\$ 12,878,454</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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
2020	\$ 1,664,063
2021	(1,207,489)
2022	(6,429,773)
2023	(1,690,772)
Total	<u>\$ (7,663,971)</u>

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
2020	\$ 9,130,473
2021	9,130,473
2022	9,130,473
2023	7,304,757
2024	7,249,416
Thereafter	1,406,655
Total	<u>\$ 43,352,247</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
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, 2018, 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%

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 291,557,852
Current discount rate (7.10%)	199,031,497
1% increase (8.10%)	122,318,170

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, 2017, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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, 2019, are presented above and the total District contributions were \$10,673,134.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$106,672,428. The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, was 0.4001 percent and 0.3950 percent, respectively, resulting in a net increase in the proportionate share of 0.0051 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$28,346,299. At June 30, 2019, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Pension contributions subsequent to measurement date	\$ 10,673,134
Net change in proportionate share of net pension liability	7,693,078
Difference between projected and actual earnings on pension plan investments	874,954
Differences between expected and actual experience in the measurement of the total pension liability	6,993,054
Changes of assumptions	10,650,772
Total	<u>\$ 36,884,992</u>

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
2020	\$ 3,182,397
2021	761,042
2022	(2,438,860)
2023	(629,625)
Total	<u>\$ 874,954</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 12,846,774
2021	9,944,483
2022	2,545,647
Total	<u>\$ 25,336,904</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
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 90 percent of scale MP-2016.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-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%)	\$ 155,309,954
Current discount rate (7.15%)	106,672,428
1% increase (8.15%)	66,320,638

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 \$7,650,361 (9.828 percent of annual payroll) and CalPERS in the amount of \$3,616,673. 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, 2019. 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.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–19 contribution on behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule* and the *Major Special Revenue Fund – Budgetary Comparison Schedule*.

NOTE 14 - 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, 2019.

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, 2019.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Construction Commitments

As of June 30, 2019, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	Remaining Construction Commitments	Expected Date of Completion
Site acquisition	\$ 90,000	2019-2020
Portable relocation projects	1,049,545	2019-2020
DSA closeout projects	18,210	2020-2021
Hemet elementary school relocation additions	81,400	2019-2020
Little Lake elementary school modernization	41,600	2020-2021
Security projects	15,210	2019-2020
Gibbel elementary school	1,106,074	2023-2024
Winchester modernization	763,700	2020-2021
	<u>\$ 3,165,739</u>	

NOTE 15 - PARTICIPATION JOINT POWERS AUTHORITY

The District is a member of the Riverside County Employer/Employee Partnership (REEP) and the Southern California Regional Liability Excess Fund (SoCal ReLiEF) a joint powers authority (JPA). The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

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

During the year ended June 30, 2019, the District made payments of \$6,060,568 and \$1,866,450 to Riverside County Employer/Employee Partnership (REEP) and SoCal ReLiEF, respectively, for its health coverage and property liability.



REQUIRED SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Local Control Funding Formula	\$ 221,269,152	\$ 222,894,301	\$ 222,486,924	\$ (407,377)
Federal sources	18,143,146	18,676,085	19,754,209	1,078,124
Other State sources	27,051,792	26,088,150	37,133,602	11,045,452
Other local sources	16,973,214	17,215,417	18,029,849	814,432
Total Revenues ¹	283,437,304	284,873,953	297,404,584	12,530,631
EXPENDITURES				
Current				
Certificated salaries	123,183,569	121,033,811	121,648,860	(615,049)
Classified salaries	44,435,583	42,923,170	43,432,503	(509,333)
Employee benefits	62,845,506	62,219,818	73,597,424	(11,377,606)
Books and supplies	17,146,107	13,765,130	12,760,229	1,004,901
Services and operating expenditures	35,845,828	37,773,650	36,493,637	1,280,013
Capital outlay	817,346	1,101,870	943,014	158,856
Other outgo	(647,959)	(604,874)	1,753,992	(2,358,866)
Debt service				
Principal	1,922,595	2,094,823	473,622	1,621,201
Interest	2,021,701	1,736,423	22,459	1,713,964
Total Expenditures ¹	287,570,276	282,043,821	291,125,740	(9,081,919)
Excess (Deficiency) of Revenues Over Expenditures	(4,132,972)	2,830,132	6,278,844	3,448,712
Other Financing Sources (Uses)				
Transfers in	5,508,854	5,715,412	5,987,334	271,922
Transfers out	(2,995,000)	(3,615,950)	(4,401,746)	(785,796)
Net Financing Sources (Uses)	2,513,854	2,099,462	1,585,588	(513,874)
NET CHANGE IN FUND BALANCES	(1,619,118)	4,929,594	7,864,432	2,934,838
Fund Balance - Beginning	31,472,035	31,472,035	31,472,035	-
Fund Balance - Ending	\$ 29,852,917	\$ 36,401,629	\$ 39,336,467	\$ 2,934,838

¹ Due to the consolidation of Fund 14, Deferred Maintenance Fund and 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. On behalf payments of \$11,267,034 related to Senate Bill 90 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

See accompanying note to required supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 2,958,458	\$ 2,879,278
Interest	1,088,299	1,068,087
Changes of assumptions	755,071	-
Benefit payments	<u>(1,060,211)</u>	<u>(1,019,434)</u>
Net change in total OPEB liability	3,741,617	2,927,931
Total OPEB liability - beginning	30,145,139	27,217,208
Total OPEB liability - ending (a)	<u><u>\$ 33,886,756</u></u>	<u><u>\$ 30,145,139</u></u>
Covered-employee payroll	N/A ¹	N/A ¹
District's net OPEB liability as a percentage of covered-employee payroll	N/A ¹	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.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2019

Year ended June 30,	<u>2019</u>	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.3887%</u>	<u>0.3691%</u>
District's proportionate share of the net OPEB liability	\$ 1,487,816	\$ 1,552,626
District's covered-employee payroll	<u>N/A¹</u>	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>-0.40%</u>	<u>0.01%</u>

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.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018	2017
CalSTRS			
District's proportion of the net pension liability	0.2166%	0.2038%	0.2081%
District's proportionate share of the net pension liability	\$ 199,031,497	\$ 188,518,139	\$ 168,316,604
State's proportionate share of the net pension liability associated with the District	113,954,840	111,525,738	95,819,640
Total	<u>\$ 312,986,337</u>	<u>\$ 300,043,877</u>	<u>\$ 264,136,244</u>
District's covered payroll	<u>\$ 117,924,823</u>	<u>\$ 110,506,645</u>	<u>\$ 104,777,884</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>168.78%</u>	<u>170.59%</u>	<u>160.64%</u>
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>	<u>70%</u>
CalPERS			
District's proportion of the net pension liability	0.4001%	0.3950%	0.3874%
District's proportionate share of the net pension liability	\$ 106,672,428	\$ 94,289,877	\$ 76,508,391
District's covered payroll	<u>\$ 65,038,729</u>	<u>\$ 54,065,452</u>	<u>\$ 66,483,861</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>164.01%</u>	<u>174.40%</u>	<u>115.08%</u>
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

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

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
CalSTRS			
Contractually required contribution	\$ 19,818,442	\$ 17,016,552	\$ 13,901,736
Contributions in relation to the contractually required contribution	<u>19,818,442</u>	<u>17,016,552</u>	<u>13,901,736</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 121,734,902</u>	<u>\$ 117,924,823</u>	<u>\$ 110,506,645</u>
Contributions as a percentage of covered payroll	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>
CalPERS			
Contractually required contribution	\$ 10,673,134	\$ 10,101,165	\$ 7,508,610
Contributions in relation to the contractually required contribution	<u>10,673,134</u>	<u>10,101,165</u>	<u>7,508,610</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 59,091,651</u>	<u>\$ 65,038,729</u>	<u>\$ 54,065,452</u>
Contributions as a percentage of covered payroll	<u>18.06%</u>	<u>15.53%</u>	<u>13.89%</u>

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

See accompanying note to required supplementary information.

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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.

At June 30, 2019, the District's major fund exceeded the budgeted amount in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	\$ 285,659,771	\$ 295,527,486	\$ 9,867,715

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

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the total 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 3.58 percent to 3.87 percent since the previous valuation.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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 State'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 – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

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, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education (CDE):				
Child Nutrition Cluster				
School Breakfast Needy	10.553	13526	\$ 3,213,876	\$ -
National School Lunch	10.555	13523	9,251,822	-
Summer Food Service Program	10.559	13004	218,042	-
Food Distribution	10.555	13524	<u>951,832</u>	<u>-</u>
Child Nutrition Cluster Total			<u>13,635,572</u>	<u>-</u>
Child and Adult Care Food Program	10.558	13393	233,499	-
Fresh Fruits and Vegetables Program	10.582	14968	71,348	-
Forest Services Schools and Roads Cluster				
Forest Reserve Funds	10.665	10044	<u>62,640</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>14,003,059</u>	<u>-</u>
U.S. DEPARTMENT OF DEFENSE				
Passed through California Department of Defense:				
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	<u>236,642</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through CDE:				
Vocational Educational Grant				
Carl Perkins	84.048	14894	218,724	-
Elementary and Secondary Education Act				
Title I, Part A	84.010	14329	7,719,332	20,161
Title II, Part A	84.367	14341	1,111,651	-
Title III - English Learner Student Program	84.365	14346	254,410	-
Title IV, Part A	84.424	15396	9,134	-
Title IV, Part B	84.287	14349	865,000	-
Special Education Cluster				
Local Assistance - Basic	84.027	13379	4,383,918	-
Local Assistance - Private Schools ISPs	84.027	10115	981	-
Preschool Grants	84.173	13430	80,843	-
Mental Health Allocation Plan	84.027A	15197	310,742	-
Preschool Staff Development	84.173A	13431	<u>724</u>	<u>-</u>
Special Education Cluster Total			<u>4,777,208</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION, CONTINUED				
Indian Education	84.060	10011	19,192	-
School Climate Transformation Grant	84.184G	[1]	386,226	-
Passed through California Department of Rehabilitation:				
Vocational Rehabilitation State Grants	84.126A	[1]	26,675	-
Education for Homeless Children and Youths Grants	84.196	14332	2,650	-
Passed through Napa County Office of Education:				
Special Education Professional Development Project READ	84.323	14913	6,500	-
Building Assets Reducing Risk Investing in Innovation (i3) Fund	84.411	10130	8,060	-

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)				
Passed through California HHS:				
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	\$ 187,274	\$ -
Medical Administrative Activities	93.778	10060	<u>2,636,058</u>	<u>-</u>
Medicaid Cluster Total			<u>2,823,332</u>	<u>-</u>
Head Start	93.600	10016	<u>1,226,833</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>4,050,165</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 33,694,628</u>	<u>\$ 20,161</u>

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

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 schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Megan Haley	President	2022
Rob Davis	Vice President	2022
Stacey Bailey	Member	2020
Gene Hikel	Member	2020
Vic Scavarda	Member	2022
Patrick Searl	Member	2020
Horacio Valenzuela	Member	2022

ADMINISTRATION

Dr. Christi Barrett	Superintendent
Darrin Watters	Deputy Superintendent
Tracy Chambers	Assistant Superintendent, Educational Services
Karen Valdes	Assistant Superintendent, Student Services
Derek Jindra, Ed.D.	Assistant 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, 2019

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,166.51	6,171.61
Fourth through sixth	4,515.21	4,517.86
Seventh and eighth	2,981.08	2,980.65
Ninth through twelfth	6,389.03	6,295.99
Total Regular ADA	<u>20,051.83</u>	<u>19,966.11</u>
Extended Year Special Education		
Transitional kindergarten through third	-	8.78
Fourth through sixth	-	4.61
Seventh and eighth	-	2.65
Ninth through twelfth	-	7.55
Total Extended Year Special Education	<u>-</u>	<u>23.59</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.90	2.22
Fourth through sixth	10.55	10.60
Seventh and eighth	8.24	8.33
Ninth through twelfth	10.81	10.88
Total Special Education, Nonpublic, Nonsectarian Schools	<u>31.50</u>	<u>32.03</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.02	0.02
Fourth through sixth	0.68	0.68
Seventh and eighth	0.82	0.82
Ninth through twelfth	0.81	0.81
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>2.33</u>	<u>2.33</u>
Community Day School		
Seventh and eighth	13.20	14.89
Ninth through twelfth	48.73	46.89
Total Community Day School	<u>61.93</u>	<u>61.78</u>
Total ADA	<u><u>20,147.59</u></u>	<u><u>20,085.84</u></u>

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
WESTERN CENTER ACADEMY CHARTER		
Regular ADA		
Fourth through sixth	125.82	125.66
Seventh and eighth	263.32	263.06
Ninth through twelfth	276.60	276.27
Total Regular ADA	<u>665.74</u>	<u>664.99</u>
Classroom based ADA		
Regular ADA		
Fourth through sixth	125.82	125.66
Seventh and eighth	263.32	263.06
Ninth through twelfth	276.60	276.27
Total Regular ADA	<u>665.74</u>	<u>664.99</u>

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019**

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	37,364	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,221	180	N/A	Complied
Grade 2		54,221	180	N/A	Complied
Grade 3		54,221	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,163	180	N/A	Complied
Grade 5		54,904	180	N/A	Complied
Grade 6		57,628	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		57,628	180	N/A	Complied
Grade 8		57,628	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,289	180	N/A	Complied
Grade 10		65,289	180	N/A	Complied
Grade 11		65,289	180	N/A	Complied
Grade 12		65,289	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, 2019**

Western Center Academy

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Days</u>		<u>Status</u>
			<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grades 6 - 8	54,000				
Grade 6		58,885	180	N/A	Complied
Grade 7		58,885	180	N/A	Complied
Grade 8		58,885	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,920	180	N/A	Complied
Grade 10		64,920	180	N/A	Complied
Grade 11		64,920	180	N/A	Complied
Grade 12		64,920	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, 2019**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

	(Budget) 2020 ¹	2019	2018	2017
GENERAL FUND³				
Revenues	\$ 289,062,722	\$ 297,404,584	\$ 263,820,731	\$ 254,930,891
Other sources and transfers in	5,796,672	5,987,334	5,860,848	4,704,548
Total Revenues and Other Sources	294,859,394	303,391,918	269,681,579	259,635,439
Expenditures	299,411,476	291,125,740	271,154,623	256,291,539
Other uses and transfers out	4,265,000	4,401,746	6,797,408	3,959,625
Total Expenditures and Other Uses	303,676,476	295,527,486	277,952,031	260,251,164
INCREASE (DECREASE) IN FUND BALANCE	\$ (8,817,082)	\$ 7,864,432	\$ (8,270,452)	\$ (615,725)
ENDING FUND BALANCE	\$ 25,510,676	\$ 39,336,467	\$ 31,472,035	\$ 39,742,487
AVAILABLE RESERVES²	\$ 15,183,825	\$ 14,227,580	\$ 13,898,000	\$ 13,015,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO⁴	5.00%	5.01%	5.00%	5.00%
LONG-TERM OBLIGATIONS	N/A	\$ 288,303,359	\$ 263,633,720	\$ 261,097,612
K-12 AVERAGE DAILY ATTENDANCE AT P-2	20,288	20,148	20,029	19,926

The General Fund balance has decreased by \$406,020 over the past two years. The fiscal year 2019-2020 budget projects a further decrease of \$13,825,791 (35.15 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 2019-2020 fiscal year. Total long-term obligations have increased by \$27,205,747 over the past two years.

Average daily attendance has increased by 211 over the past two years. Additional growth of 151 ADA is anticipated during fiscal year 2019-2020.

¹ Budget 2020 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 Deferred Maintenance Fund and Special Reserve Fund for Other Postemployment Benefits as required by GASB Statement No. 54.

⁴ Additional on behalf payments related to Senate Bill 90 (Chapter 33, Statutes of 2019) of \$11,267,034 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2019.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
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, 2019

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Deposits and investments	\$ 948,010	\$ 1,884	\$ 163,754	\$ 1,621,690
Receivables	284,628	16,492	98,376	1,837,086
Due from other funds	174,063	7,350	-	63,349
Stores inventories	-	-	-	519,104
Total Assets	\$ 1,406,701	\$ 25,726	\$ 262,130	\$ 4,041,229
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 194,367	\$ 25,071	\$ 8,127	\$ 156,420
Due to other funds	264,891	655	7,809	130,197
Unearned revenue	-	-	118,703	48,945
Total Liabilities	459,258	25,726	134,639	335,562
Fund Balances:				
Nonspendable	-	-	-	524,174
Restricted	82,696	-	127,491	3,181,493
Assigned	864,747	-	-	-
Total Fund Balances	947,443	-	127,491	3,705,667
Total Liabilities and Fund Balances	\$ 1,406,701	\$ 25,726	\$ 262,130	\$ 4,041,229

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
\$ 9,725,461	\$ -	\$ 583,668	\$ 5,750,330	\$ 419,603	\$ 19,214,400
119,855	-	3,695	-	-	2,360,132
-	-	-	-	-	244,762
-	-	-	-	-	519,104
<u>\$ 9,845,316</u>	<u>\$ -</u>	<u>\$ 587,363</u>	<u>\$ 5,750,330</u>	<u>\$ 419,603</u>	<u>\$ 22,338,398</u>
\$ 194,972	\$ -	\$ -	\$ -	\$ -	\$ 578,957
-	-	-	-	-	403,552
-	-	-	-	-	167,648
<u>194,972</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,150,157</u>
-	-	-	-	-	524,174
9,650,344	-	-	5,750,330	419,603	19,211,957
-	-	587,363	-	-	1,452,110
<u>9,650,344</u>	<u>-</u>	<u>587,363</u>	<u>5,750,330</u>	<u>419,603</u>	<u>21,188,241</u>
<u>\$ 9,845,316</u>	<u>\$ -</u>	<u>\$ 587,363</u>	<u>\$ 5,750,330</u>	<u>\$ 419,603</u>	<u>\$ 22,338,398</u>

HEMET UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Local Control Funding Formula	\$ 5,953,457	\$ -	\$ -	\$ -
Federal sources	-	-	-	13,940,419
Other State sources	1,659,151	745,417	2,663,059	994,227
Other local sources	554,954	24,476	25,443	610,573
Total Revenues	8,167,562	769,893	2,688,502	15,545,219
EXPENDITURES				
Current				
Instruction	4,257,339	460,222	1,994,614	-
Instruction-related activities:				
Supervision of instruction	1,073	-	291,665	-
Instructional library, media, and technology	-	297	-	-
School site administration	754,888	275,472	170,698	-
Pupil services:				
Food services	-	-	3,490	14,368,723
All other pupil services	231,137	6,022	10,518	-
Administration:				
All other administration	322,500	33,589	152,303	734,846
Plant services	2,841,350	1,641	62,247	269,321
Ancillary services	96,273	-	-	-
Facility acquisition and construction	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	8,504,560	777,243	2,685,535	15,372,890
Excess (Deficiency) of Revenues Over Expenditures	(336,998)	(7,350)	2,967	172,329
OTHER FINANCING SOURCES (USES)				
Transfers in	-	7,350	34,952	45,402
Transfers out	(388,869)	-	-	-
Net Financing Sources (Uses)	(388,869)	7,350	34,952	45,402
NET CHANGE IN FUND BALANCES	(725,867)	-	37,919	217,731
Fund Balances - Beginning	1,673,310	-	89,572	3,487,936
Fund Balances - Ending	\$ 947,443	\$ -	\$ 127,491	\$ 3,705,667

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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,953,457
-	-	-	-	-	13,940,419
-	-	-	-	-	6,061,854
2,201,801	114,067	8,619	618,762	6,316	4,165,011
<u>2,201,801</u>	<u>114,067</u>	<u>8,619</u>	<u>618,762</u>	<u>6,316</u>	<u>30,120,741</u>
-	-	-	-	-	6,712,175
-	-	-	-	-	292,738
-	-	-	-	-	297
-	-	-	-	-	1,201,058
-	-	-	-	-	14,372,213
-	-	-	-	-	247,677
52,823	-	-	-	-	1,296,061
-	-	-	-	-	3,174,559
-	-	-	-	-	96,273
1,371,406	1,022,529	-	-	-	2,393,935
-	-	-	-	1,935,000	1,935,000
-	-	-	-	1,827,023	1,827,023
<u>1,424,229</u>	<u>1,022,529</u>	<u>-</u>	<u>-</u>	<u>3,762,023</u>	<u>33,549,009</u>
<u>777,572</u>	<u>(908,462)</u>	<u>8,619</u>	<u>618,762</u>	<u>(3,755,707)</u>	<u>(3,428,268)</u>
3,249,659	-	495,000	-	3,777,510	7,609,873
-	(3,249,659)	(375,000)	-	-	(4,013,528)
<u>3,249,659</u>	<u>(3,249,659)</u>	<u>120,000</u>	<u>-</u>	<u>3,777,510</u>	<u>3,596,345</u>
4,027,231	(4,158,121)	128,619	618,762	21,803	168,077
5,623,113	4,158,121	458,744	5,131,568	397,800	21,020,164
<u>\$ 9,650,344</u>	<u>\$ -</u>	<u>\$ 587,363</u>	<u>\$ 5,750,330</u>	<u>\$ 419,603</u>	<u>\$ 21,188,241</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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.

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.

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 has met 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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



CPAs & BUSINESS ADVISORS

**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, 2019, 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 December 6, 2019.

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.

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 December 6, 2019.

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.

Eide Bailly LLP

Rancho Cucamonga, California
December 6, 2019



**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, 2019. 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 the 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.

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, 2019.

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.

Eide Bailly LLP

Rancho Cucamonga, California
December 6, 2019



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 *2018-2019 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, 2019.

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 *2018-2019 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, 2019.

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
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
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
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 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 operate an Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

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 District of Choice Program; therefore, we did not perform any procedures for the District of Choice 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 offer Non Classroom-Based Instruction/Independent Study; therefore, we did not perform procedures related to Non Classroom-Based Instruction/Independent Study.

Eide Bailly LLP

Rancho Cucamonga, California
December 6, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,010,839</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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HEMET UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.



Management
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, 2019, 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 _____, 2019, on the financial statements of Hemet Unified School District.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

Acacia Middle School

Unauditable Records

Observation

We were unable to express an opinion or perform our audit due to the condition of the records at the site. The following problems were noted during a cursory review:

- The information necessary to perform our audit was unavailable.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel. A periodic review should be made by the District of the sites progress towards the deficiencies mentioned above.

Change Fund

Observation

The site maintains a change fund of cash being held at the school to fund change drawers during events which is not maintained 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.

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.

Dartmouth Middle School

Prohibited Fund Raisers

Observation

In reviewing the revenues from fund raising activities, we discovered that the site was holding Bingo games. School entities, including student clubs, are not authorized to participate in raffles because they are not nonprofit organizations exempt from state tax as defined in the Franchise Tax Code. Rather, school entities are exempt from tax by virtue of being a government entity.

Recommendation

The site should carefully review the types of fund raisers being held to ensure that no prohibited fundraisers are being held by a student body group. Should the site wish to use one of these types of fund raisers, a private, non-district, non-ASB nonprofit group, such as a booster club, foundation, auxiliary organization or other parent-teacher organization should conduct it. It is not prohibited for students to help nor is it prohibited for the parent club to donate the money to the student body.

Dartmouth Middle School, West Valley High School

Reconciliation Incorrect

Observation

In reviewing the monthly reconciliation and financial statements we noted that the agency and trust account balances do not equal the total reconciled assets of the student body including inventory and change fund. The purpose of performing the monthly reconciliation is to ensure that no errors have occurred in the banks' posting of transactions and that the agency and trust balances, and monthly activity is accurately reported.

Recommendation

The site should ensure that the reconciled assets of the student body equal the balances in the liability accounts and the agency and trust accounts. If an unreconciled difference is found, it should be investigated to determine in what account (asset, liability, agency or trust account balance) the error has occurred.

West Valley High School

Deficit Club Account Balances

Observation

In reviewing the financial statements for the student body accounts we noted the following trust accounts had a negative club account balance:

- Elite Student Athletic Trainer (\$851)

Since the student body accounts represent individual portions of the cash and asset pool, by some accounts 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 individual account balances by ensuring the expenditure is allowable and the account requesting the expenditure has the funds to cover it.

Recommendation

By allowing certain clubs to spend in excess of their available reserves, the Associated Student Body is effectively using the funds of 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 clubs account.

PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS

ACACIA MIDDLE SCHOOL

Change Fund

Observation

The site maintains a change fund of cash being held at the school to fund change drawers during events which is not maintained 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.

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.

Current Status

Not, implemented. See current year observation.

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. 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.

Current Status

Implemented.

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.

Current Status

Implemented.

Cash Disbursements - Documentation

Observation

Six of six 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) on all disbursements from a student body account and that documents supporting a disbursement should be kept in organized files with the student body bookkeeper so that they can be easily reviewed should the need arise. Checks must never be issued unless they are completely filled out including the payee, date, approval signatures and amount in order to properly safeguard cash. The safeguard accounting ledgers should record only the carbon of the actual notations on the check. Hand writing amounts or other information, besides the account balance information, on the ledger sheets is not appropriate. The manual also suggests that minutes be taken and filed which includes details of the meeting including budgeting procedures, fund raising discussions, and approval of expenditures.

Current Status

Implemented.

HAMILTON HIGH SCHOOL

Student Store – Cash Closeout

Observation

VTD was unable to track the sales of the student store because closeouts were not being completed daily as suggested by the ASB Accounting Manual. We could not track items sold as there is not an inventory that is maintained. We were also unable to count the student store cash drawer during operating hours.

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*, identifies steps for reconciling cash. At the end of the day, cash register tape total should equal the total of the cash collected. Also, the total cash register should be counted and recorded on the ASB Cash Count Form. The Advisor should immediately investigate any significant difference between the cash register tape and the amount reported on the ASB Cash Count Form. The advisor should provide the ASB Bookkeeper the ASB Cash Count Form and the register tape. The cash and checks should be counted in the presence of both parties. Both parties should sign and keep copies of the receipt as verification that the cash was deposited with the ASB bookkeeper.

Current Status

Implemented.

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

By allowing certain clubs to spend in excess of their available reserves, the Associated Student Body is effectively using the funds of 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 clubs account.

Current Status

Implemented.

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

Eide Bailly LLP

Rancho Cucamonga, California
December 6, 2019