# HEMET UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**JUNE 30, 2015**

**HEMET UNIFIED SCHOOL DISTRICT**

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

# *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, 2015, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2014-2015 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 District'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 District'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.



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### ***Opinion***

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Notes 1 and 16 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 17, the budgetary comparison, other postemployment benefit information, District's proportionate share of the net pension liability, and the District contributions on pages 84 through 87, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hemet Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on 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 11, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hemet Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2015

Dr. Barry L. Kayrell
Superintendent

Dr. LaFaye Platter
Deputy Superintendent
Dr. David Horton
Assistant Superintendent
Vince Christakos
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This section of Hemet Unified School District's (the District) (2014-2015) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015, with comparative information from 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## *OVERVIEW OF THE FINANCIAL STATEMENTS*

### *The Financial Statements*

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

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

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

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

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

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

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

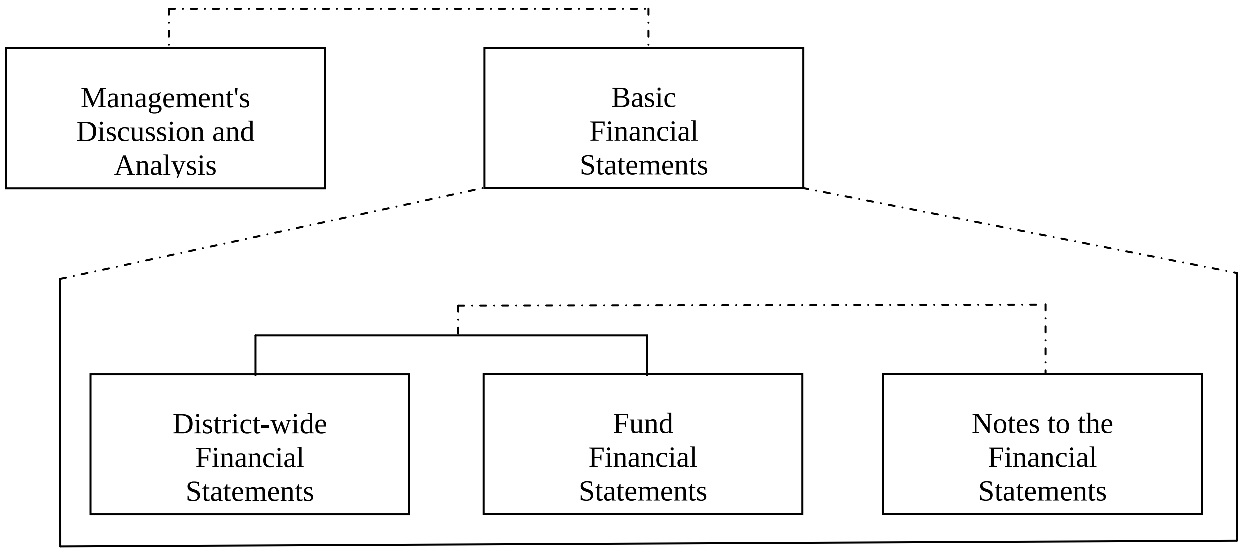
The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

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

**<u>Figure 1</u>**

**Organization of Hemet Unified School District's Annual Financial Report**




***FINANCIAL HIGHLIGHTS OF THE PAST YEAR***

- Total net position decreased by $187.2 million or 63 percent over the prior year for a new net position of $104.7 (page 12).
- Pension liabilities in the amount of $146.7 million were reported as reduction to the net for the period ending June 30, 2015, and were included for the first time in the District's annual financial report as both a 2014-2015 liability and as a restated item in the District's 2013-2014 net position (page 11).
- Revenues, transfers in, and other financing sources for all funds, including bond issuances, totaled $394.6 million (page 22). Expenses, transfers out and other uses totaled $386.0 million.
- The General Fund audited ending balance, which includes a balance in Fund 20 - Special Reserve for Post-Employment Benefits, decreased by $10.9 million from the prior year.
- The combined ending balance in the General Fund and Fund 20 as of June 30, 2015 was $24.6 million.
- 2012 General Obligation Bonds were issued in the amount of $49.0 million. Capital lease agreements totaling $4.1 million were also issued in 2014-2015 under the District's Enterprise Fund for transportation services, and $0.4 million in capital leases were issued under the District's General Fund. All capital leases were for the purchase of buses and other vehicles.
- The District's 2014-2015 P-2 Average Daily Attendance (ADA), excluding charter schools and students in County programs, was reported at 19,656, a drop of 168 from the prior year.
- The District filed a positive status with both its First and Second Interim reports in 2014-2015.

Figure 2 summarizes the District's Combined General Fund activities, including activity reported in Funds 17- Special Reserve for Other Than Capital Outlay and Fund 20- Reserve for Post-Employment Benefits, for the 2014-2015 fiscal year. The District's total General Fund revenues as of June 30, 2015, were $197.8 million. Final expenditures were $205.2 million. Other financial activities reduced the General Fund ending balance by $3.5 million and include transfers in to other funds, transfers out to other funds, and other financing sources/uses. The June 30, 2015 ending fund balance for the combined General Fund was $24.6 million, included $1.5 million reserved in Fund 20 for other postemployment benefit costs.

**Figure 2**

| Combined General Fund and Fund 20 | Audited Actuals |
|---|---|
| (a) Total Revenues | $197.8 |
| (b) Total Expenditures | $205.2 |
| (c) Other Financial Activities | ($ 3.5) |
| **Net Increase/(Decrease) a-b+c** | **($ 10.9)** |
| Available Fund Balance | $ 24.6 |

***REVENUE SUMMARY***

The Local Control Funding Formula (LCFF) generated $151.6 million or 77.0 percent of the District's $197.8 million combined General Fund revenues for the 2014-2015 fiscal year.

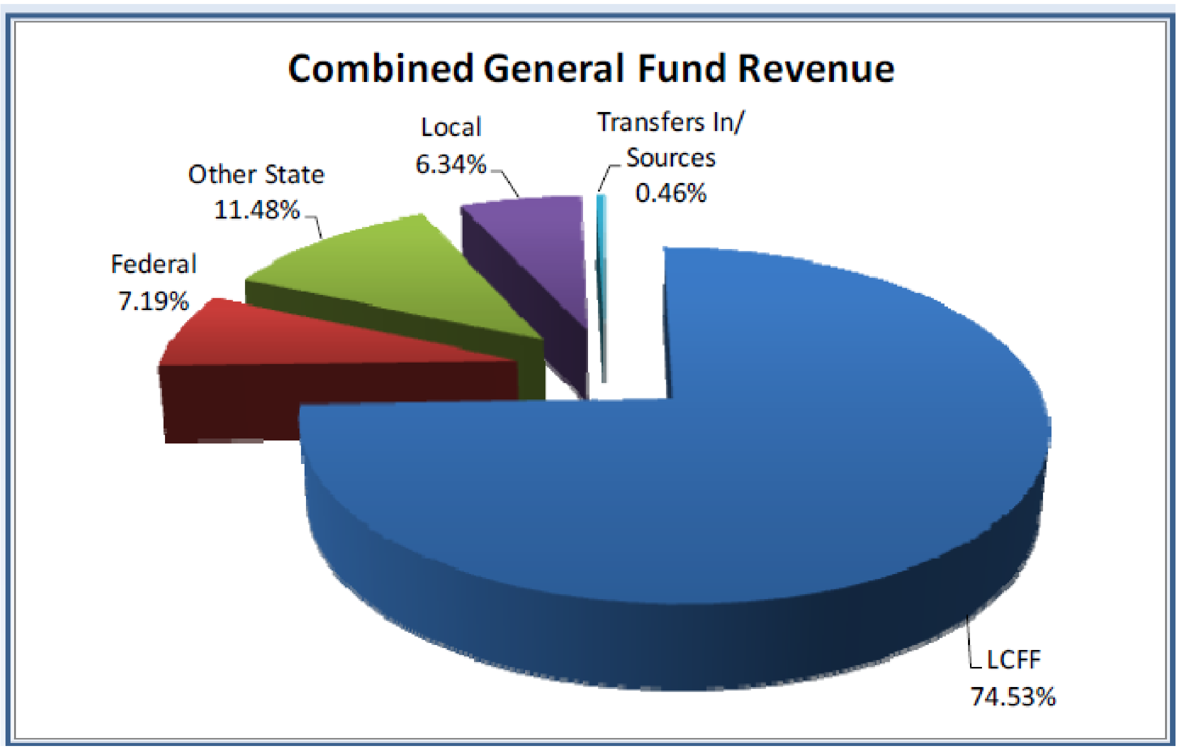
As shown in Figure 3, Average Daily Attendance (ADA) remained essentially unchanged from the prior year.

**Figure 3**

| | 2013-2014 **P-2** ADA | 2014-2015 **P-2** ADA | **P-2** ADA Difference | Adjusted ADA for 2014-2015 LCFF |
|---|---|---|---|---|
| K-12 ADA | 19,824 | 19,656 | **168** | 19,796 |
| | | | | |
| **Charters** | 372 | 375 | **3** | N/A |

***LCFF, Federal, Other State, and Local Revenues***

Including on behalf contributions from the State for CalSTRS and CalPERS, combined General Fund LCFF, Federal, other State, and local revenues at year-end was $197.8 million or 10.4 percent more than the prior year's total of $179.3 million.




***EXPENDITURE SUMMARY***

***Salaries and Benefits***

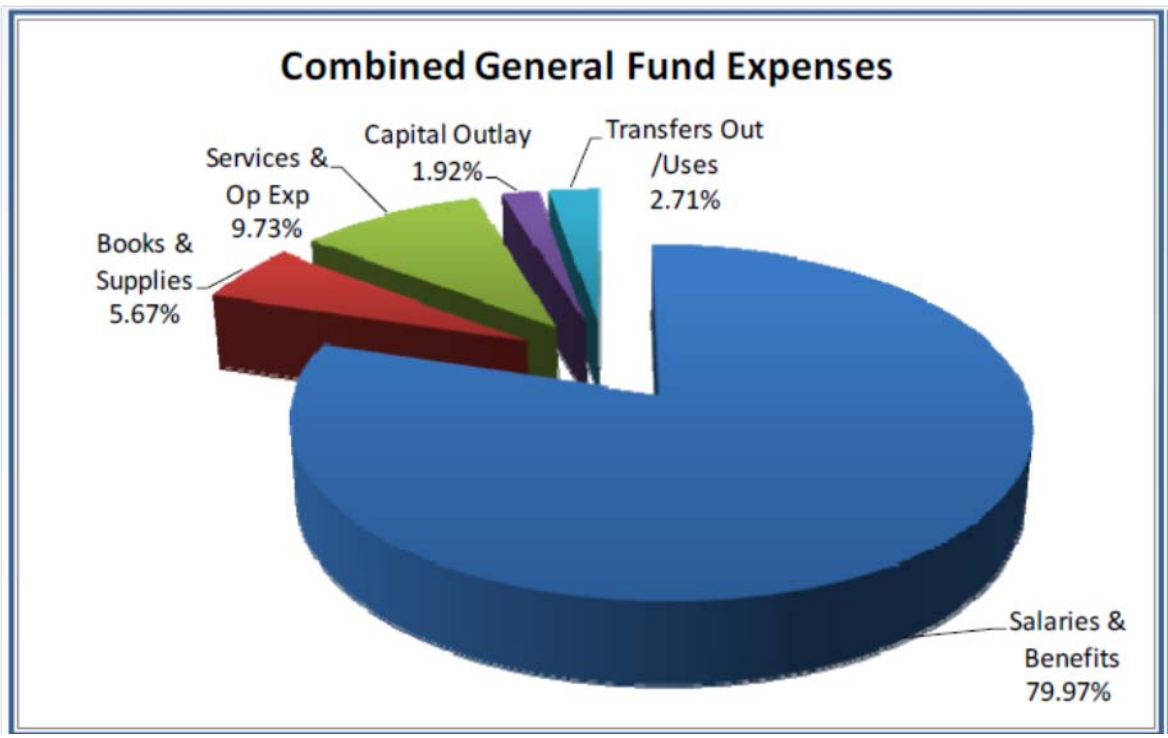
Salaries and benefits represent a substantial percentage of all District expenditures. In 2014-2015, salaries and benefits accounted for nearly 80.0 percent of all combined General Fund expenditures. General Fund salaries and benefit costs totaled $169.2 million, including on behalf payments to CalSTRS/CalPERS. Salaries and benefits costs increased 13.4 percent over the prior year due to salary increases and added staff.

***Operating Expenditures***

At the close of the 2014-2015 fiscal year, combined General Fund expenses in the books and supplies category totaled $11.9 million which was $2.8 million more than reported for the prior year.

Services and other operating expenses, which include consultants, maintenance contracts, legal fees, and utilities, ended the year at amounted to $20.6 million or approximately $2.8 million more than was spent in this category in 2013-2014.

Capital Outlay costs for the year ending June 30, 2015 totaled $2.7 million which was more than twice the amount spent on capital equipment in the prior year.  Increases in this area were related to the purchase of buses for expended transportation services and construction of modular office space for technology and special education staff.



## *DISTRICT-WIDE STATEMENTS*

### *The Statement of Net Position and the Statement of Activities*

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

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

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

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

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

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

## *REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS*

### *Fund Financial Statements*

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

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

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

## *THE DISTRICT AS TRUSTEE*

### *Reporting the District's Fiduciary Responsibilities*

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

## *FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE*

### *Net Position*

The District's net position was $98.1 million for the fiscal year ended June 30, 2015. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental and business-type activities.

**Table 1**

| (Amounts in millions) | Governmental Activities | | Business-Type Activities | | School District Activities | |
|---|---|---|---|---|---|---|
| | 2015 | (As Restated) 2014 | 2015 | 2014 | 2015 | (As Restated) 2014 |
| **Assets** | | | | | | |
| Current and other assets | $ 106.2 | $ 114.7 | $ 4.9 | $ 1.4 | $ 111.1 | $ 116.1 |
| Capital assets | 445.6 | 450.2 | 7.2 | 4.4 | 452.8 | 454.6 |
| **Total Assets** | 551.8 | 564.9 | 12.1 | 5.8 | 563.9 | 570.7 |
| **Deferred Outflows of Resources** | 17.0 | 10.9 | - | - | 17.0 | 10.9 |
| **Liabilities** | | | | | | |
| Current liabilities | 12.6 | 29.8 | 0.2 | 0.4 | 12.8 | 30.2 |
| Long-term obligations | 271.4 | 246.0 | 5.3 | 2.7 | 276.7 | 248.7 |
| Aggregate net pension liability | 146.7 | 179.5 | - | - | 146.7 | 179.5 |
| **Total Liabilities** | 430.7 | 455.3 | 5.5 | 3.1 | 436.2 | 458.4 |
| **Deferred Inflows of Resources** | 40.0 | - | - | - | 40.0 | - |
| **Net Position** | | | | | | |
| Net investment in capital assets | 229.5 | 249.4 | 1.9 | 1.7 | 231.4 | 251.1 |
| Restricted | 27.8 | 22.6 | 4.7 | 1.0 | 32.5 | 23.6 |
| Unrestricted | (159.2) | (151.5) | - | - | (159.2) | (151.5) |
| **Total Net Position** | $ 98.1 | $ 120.5 | $ 6.6 | $ 2.7 | $ 104.7 | $ 123.2 |

***Changes in Net Position***

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 19. Table 2 takes the information from the Statement for the year.

**Table 2**

| (Amounts in millions) | Governmental Activities | | Business-Type Activities | | School District Activities | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Revenues** | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | $ 10.5 | $ 1.2 | $ 16.7 | $ 12.6 | $ 27.2 | $ 13.8 |
| Operating grants and contributions | 44.7 | 50.4 | - | - | 44.7 | 50.4 |
| Capital grants and contributions | 12.5 | - | - | - | 12.5 | - |
| General Revenues: | | | | | | |
| Federal and State aid | 100.0 | 115.6 | - | - | 100.0 | 115.6 |
| Property taxes | 37.1 | 37.0 | - | - | 37.1 | 37.0 |
| Other general revenues | 32.7 | 4.5 | - | 2.5 | 32.7 | 7.0 |
| **Total Revenues** | 237.5 | 208.7 | 16.7 | 15.1 | 254.2 | 223.8 |
| **Expenses** | | | | | | |
| Instruction-related | 175.3 | 150.4 | - | - | 175.3 | 150.4 |
| Pupil services | 31.2 | 25.9 | - | - | 31.2 | 25.9 |
| Administration | 13.6 | 10.7 | - | - | 13.6 | 10.7 |
| Plant services | 20.8 | 19.2 | - | - | 20.8 | 19.2 |
| Ancillary | 1.9 | 1.2 | - | - | 1.9 | 1.2 |
| Other | 17.1 | 8.3 | 12.8 | 11.3 | 29.9 | 19.6 |
| **Total Expenses** | 259.9 | 215.7 | 12.8 | 11.3 | 272.7 | 227.0 |
| Transfers | - | 1.1 | - | (1.1) | - | - |
| **Change in Net Position** | $ (22.4) | $ (5.9) | $ 3.9 | $ 2.7 | $ (18.5) | $ (3.2) |

***Governmental Activities***

As reported in the *Statement of Activities* on page 19, the cost of all governmental activities in 2014-2015 was $259.9 million. The amount that our taxpayers ultimately financed for these activities through local taxes was $37.1 million. The remaining cost of was paid by those who benefited from the programs $10.5 million or by other governments and organizations who subsidized certain programs with $57.2 million in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with $100.0 million in Federal and State aid and $32.7 million with other General Fund revenue sources such as interest and general entitlements.

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

**Table 3**

| (Amounts in millions) | Total Cost of Services | | Total Net Cost of Services | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Instruction | $ 148.3 | $ 126.9 | $ 115.5 | $ 101.4 |
| Instruction-related activities | 27.0 | 23.5 | 20.1 | 16.7 |
| Pupil services | 31.2 | 25.9 | 8.0 | 10.1 |
| Administration | 13.6 | 10.7 | 11.4 | 8.8 |
| Plant services | 20.8 | 19.2 | 20.2 | 18.2 |
| Ancillary services | 1.9 | 1.2 | 1.9 | 1.2 |
| Other | 17.1 | 8.3 | 15.0 | 7.6 |
| **Total** | $ 259.9 | $ 215.7 | $ 192.1 | $ 164.0 |

***THE DISTRICT'S FUNDS***

Upon completion of the 2014-2015 fiscal year, the District's governmental funds reported a combined fund balance of $86.7 million, an increase of $8.6 million from 2013-2014 (Table 4).

**Table 4**

| (Amounts in millions) | Balances and Activity | | | |
|---|---|---|---|---|
| | July 1, 2014 | Revenues | Expenditures | June 30, 2015 |
| General Fund | $ 35.5 | $ 198.8 | $ 209.7 | $ 24.6 |
| Building Fund | 12.8 | 24.0 | 12.8 | 24.0 |
| Bond Interest and Redemption Fund | 9.6 | 138.9 | 135.6 | 12.9 |
| Non-Major Governmental Funds | 20.2 | 32.8 | 27.8 | 25.2 |
| **Total** | $ 78.1 | $ 394.5 | $ 385.9 | $ 86.7 |

***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 September 15, 2015. (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 84.)

### *CAPITAL ASSET AND DEBT ADMINISTRATION*

#### *Capital Assets*

At June 30, 2015, the District had $452.9 million in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $1.7 million, or 0.37 percent, over the prior year (Table 5).

**Table 5**

| (Amounts in millions) | Governmental Activities | | Business-Type Activities | | School District Activities | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land | $ 24.7 | $ 24.7 | $ - | $ - | $ 24.7 | $ 24.7 |
| Construction in progress | 31.0 | 24.2 | - | - | 31.0 | 24.2 |
| Buildings and improvements | 383.5 | 394.1 | - | - | 383.5 | 394.1 |
| Equipment | 6.5 | 7.2 | 7.2 | 4.4 | 13.7 | 11.6 |
| **Total** | $ 445.7 | $ 450.2 | $ 7.2 | $ 4.4 | $ 452.9 | $ 454.6 |

This year's additions totaled $14.1 million, with the majority of expenses related to the capital facilities improvement project at Acacia Middle and additional bus purchases. The District's capital assets additions, deletions, and balances are presented in Note 4 in these financial statements.

Capital projects planned for the 2015-2016 year include a modernization project at Acacia Middle school, preliminary planning for construction of a school to replace Hemet Elementary, and miscellaneous small projects at other district schools.

### *Long-Term Obligations*

At June 30, 2015, the District had $240.5 million in general obligation bonds, bond anticipation notes, and certificates of participation outstanding compared to $214.6 million in June 30, 2014, an increase of $25.9 million, or 12.1 percent. Other obligations consisted of those items listed in Table 6 below.

**Table 6**

| (Amounts in millions) | Governmental Activities | | Business-Type Activities | | School District Activities | |
|---|---|---|---|---|---|---|
| | 2015 | (As Restated) 2014 | 2015 | 2014 | 2015 | 2014 |
| General obligation bonds | $ 190.1 | $ 137.8 | $ - | $ - | $ 190.1 | $ 137.8 |
| Bond anticipation notes | - | 24.9 | - | - | - | 24.9 |
| Certificates of participation | 50.4 | 51.9 | - | - | 50.4 | 51.9 |
| Lease revenue bonds | 3.4 | 3.6 | - | - | 3.4 | 3.6 |
| Capital leases | 1.3 | 1.3 | 5.3 | 2.7 | 6.6 | 4.0 |
| Accumulated vacation | 1.0 | 1.0 | - | - | 1.0 | 1.0 |
| SERP | 1.3 | 2.7 | - | - | 1.3 | 2.7 |
| Claims liability | 4.4 | 4.1 | - | - | 4.4 | 4.1 |
| Net OPEB obligation | 19.5 | 18.7 | - | - | 19.5 | 18.7 |
| **Total** | $ 271.4 | $ 246.0 | $ 5.3 | $ 2.7 | $ 276.7 | $ 248.7 |

Other obligations include compensated absences payable, postemployment benefits (not including health benefits), capital leases, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

### *Net Pension Liability (NPL)*

At year-end, the District had a pension liability of $146.7 million, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

Table 7 lists the District's 2015-2016 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2015. 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 2015-2016 budget, which includes site and department allocations for both staffing and operating budgets.

**Table 7**

2015-2016 Budget Assumptions

| | |
|---|---|
| Cost of Living Adjustment (COLA) (applied to LCFF targeted base) | 1.02% |
| Enrollment (excluding charters) | 21,045 |
| Enrollment Growth (Decline) | 228 |
| ADA – Average Daily Attendance | 19,781 |
| ADA – Funded | 19,781 |
| ADA Percentage | 94.0% |
| Salary Increase | 2.0% |
| Step and Column Percent of Salaries | 1.00% |
| Deferred/Routine Maintenance - Percent of Total Expenditures | 3.00% |
| New Schools/(School Closures) | 1 |
| Reserve for Economic Uncertainties | 5.00% |

## *CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT*

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

## HEMET UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION
## JUNE 30, 2015

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Deposits and investments | $ 93,106,984 | $ 973,197 | $ 94,080,181 |
| Receivables | 10,537,501 | 5,748,966 | 16,286,467 |
| Internal balances | 1,823,548 | (1,823,548) | - |
| Stores inventories | 651,816 | - | 651,816 |
| Capital assets | | | |
| Land and construction in process | 55,657,498 | - | 55,657,498 |
| Other capital assets | 536,831,346 | 12,263,048 | 549,094,394 |
| Less: Accumulated depreciation | (146,842,367) | (5,016,076) | (151,858,443) |
| Total Capital Assets | 445,646,477 | 7,246,972 | 452,893,449 |
| **TOTAL ASSETS** | 551,766,326 | 12,145,587 | 563,911,913 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Net change in proportionate share of net pension liability | 3,745,378 | - | 3,745,378 |
| Current year pension contribution | 13,277,739 | - | 13,277,739 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | 17,023,117 | - | 17,023,117 |
| **LIABILITIES** | | | |
| Accounts payable | 6,750,071 | 197,353 | 6,947,424 |
| Accrued interest payable | 3,599,402 | - | 3,599,402 |
| Unearned revenue | 303,868 | - | 303,868 |
| Claims liabilities | 1,850,573 | - | 1,850,573 |
| Long-term obligations | | | |
| Current portion of long-term obligations other than pensions | 9,121,512 | 1,153,953 | 10,275,465 |
| Noncurrent portion of long-term obligations other than pensions | 262,314,919 | 4,157,184 | 266,472,103 |
| Total Long-Term Obligations | 271,436,431 | 5,311,137 | 276,747,568 |
| Aggregate net pension liability | 146,735,107 | - | 146,735,107 |
| **TOTAL LIABILITIES** | 430,675,452 | 5,508,490 | 436,183,942 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Difference between projected and actual earnings on pension plan investments | 40,031,645 | - | 40,031,645 |
| **NET POSITION** | | | |
| Net investment in capital assets | 229,465,458 | 1,935,835 | 231,401,293 |
| Restricted for: | | | |
| Debt service | 13,708,445 | - | 13,708,445 |
| Capital projects | 7,532,832 | - | 7,532,832 |
| Educational programs | 1,243,082 | - | 1,243,082 |
| Other activities | 5,327,158 | - | 5,327,158 |
| Unrestricted | (159,194,629) | 4,701,262 | (154,493,367) |
| **TOTAL NET POSITION** | $ 98,082,346 | $ 6,637,097 | $ 104,719,443 |

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

# HEMET UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2015

| Functions/Programs | Expenses | Program Revenues: Charges for Services and Sales | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Instruction | $ 148,293,809 | $ 66,960 | $ 20,201,199 | $ 12,547,740 |
| Instruction-related activities: | | | | |
| Supervision of instruction | 8,870,112 | 7,973 | 5,693,163 | - |
| Instructional library, media and technology | 1,514,539 | 79 | 796,979 | - |
| School site administration | 16,661,064 | 3,432 | 480,239 | - |
| Pupil services: | | | | |
| Home-to-school transportation | 4,967,080 | 8,377,365 | 1,728,141 | - |
| Food services | 12,169,119 | 869,203 | 8,330,721 | - |
| All other pupil services | 14,032,158 | 3,953 | 3,881,679 | - |
| Administration: | | | | |
| Data processing | 3,331,216 | 803 | 1,777 | - |
| All other administration | 10,280,939 | 542,093 | 1,696,742 | - |
| Plant services | 20,820,273 | 42,473 | 571,036 | - |
| Ancillary services | 1,949,523 | 46 | 14,829 | - |
| Community services | 116,917 | - | - | - |
| Enterprise services | 51,807 | - | - | - |
| Interest on long-term obligations | 16,348,742 | - | - | - |
| Other outgo | 491,010 | 625,257 | 1,274,592 | - |
| **Total Governmental Activities** | 259,898,308 | 10,539,637 | 44,671,097 | 12,547,740 |
| **Business-Type Activities** | | | | |
| Transportation | 12,773,781 | 16,718,248 | - | - |
| **Total School District** | $ 272,672,089 | $ 27,257,885 | $ 44,671,097 | $ 12,547,740 |

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

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

| Net (Expenses) Revenues and Changes in Net Position | | |
|---|---|---|
| **Governmental Activities** | **Business-Type Activities** | **Total** |
| $ (115,477,910) | $ - | $ (115,477,910) |
| (3,168,976) | - | (3,168,976) |
| (717,481) | - | (717,481) |
| (16,177,393) | - | (16,177,393) |
| 5,138,426 | - | 5,138,426 |
| (2,969,195) | - | (2,969,195) |
| (10,146,526) | - | (10,146,526) |
| (3,328,636) | - | (3,328,636) |
| (8,042,104) | - | (8,042,104) |
| (20,206,764) | - | (20,206,764) |
| (1,934,648) | - | (1,934,648) |
| (116,917) | - | (116,917) |
| (51,807) | - | (51,807) |
| (16,348,742) | - | (16,348,742) |
| 1,408,839 | - | 1,408,839 |
| (192,139,834) | - | (192,139,834) |
| - | 3,944,467 | 3,944,467 |
| (192,139,834) | 3,944,467 | (188,195,367) |
| 24,272,300 | - | 24,272,300 |
| 10,203,248 | - | 10,203,248 |
| 2,605,876 | - | 2,605,876 |
| 99,951,470 | - | 99,951,470 |
| 115,315 | 4,283 | 119,598 |
| 2,316,905 | - | 2,316,905 |
| 30,228,536 | - | 30,228,536 |
| 169,693,650 | 4,283 | 169,697,933 |
| (22,446,184) | 3,948,750 | (18,497,434) |
| 34,000 | (34,000) | - |
| (22,412,184) | 3,914,750 | (18,497,434) |
| 289,073,154 | 2,722,347 | 291,795,501 |
| (168,578,624) | - | (168,578,624) |
| 120,494,530 | 2,722,347 | 123,216,877 |
| $ 98,082,346 | $ 6,637,097 | $ 104,719,443 |

**HEMET UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS**
**BALANCE SHEET**
**JUNE 30, 2015**

| | General Fund | Building Fund | Bond Interest and Redemption Fund |
|---|---|---|---|
| **ASSETS** | | | |
| Deposits and investments | $ 20,941,650 | $ 23,999,587 | $ 12,862,289 |
| Receivables | 8,930,432 | 12,098 | - |
| Due from other funds | 813,072 | - | - |
| Stores inventories | 220,937 | - | - |
| **Total Assets** | $ 30,906,091 | $ 24,011,685 | $ 12,862,289 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **Liabilities:** | | | |
| Accounts payable | $ 5,067,715 | $ 7,774 | $ - |
| Due to other funds | 991,466 | 2,054 | - |
| Unearned revenue | 261,486 | - | - |
| **Total Liabilities** | 6,320,667 | 9,828 | - |
| **Fund Balances:** | | | |
| Nonspendable | 245,937 | - | - |
| Restricted | 1,164,301 | 24,001,857 | 12,862,289 |
| Committed | 1,509,391 | - | - |
| Assigned | 11,176,020 | - | - |
| Unassigned | 10,489,775 | - | - |
| **Total Fund Balances** | 24,585,424 | 24,001,857 | 12,862,289 |
| **Total Liabilities and Fund Balances** | $ 30,906,091 | $ 24,011,685 | $ 12,862,289 |

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

| Non-Major Governmental Funds | Total Governmental Funds |
|---|---|
| $ 24,380,256 | $ 82,183,782 |
| 1,585,232 | 10,527,762 |
| 978,383 | 1,791,455 |
| 430,879 | 651,816 |
| $ 27,374,750 | $ 95,154,815 |
| | |
| $ 1,445,531 | $ 6,521,020 |
| 671,269 | 1,664,789 |
| 42,382 | 303,868 |
| 2,159,182 | 8,489,677 |
| | |
| 434,369 | 680,306 |
| 22,403,316 | 60,431,763 |
| 1,353,139 | 2,862,530 |
| 1,024,744 | 12,200,764 |
| - | 10,489,775 |
| 25,215,568 | 86,665,138 |
| | |
| $ 27,374,750 | $ 95,154,815 |

## HEMET UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
## JUNE 30, 2015

| | | |
|---|---|---|
| **Total Fund Balance - Governmental Funds** | | **$ 86,665,138** |
| **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: | $ 592,488,844 | |
| Accumulated depreciation is: | (146,842,367) | |
| Net Capital Assets | | 445,646,477 |
| Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. | | 13,277,739 |
| 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. | | (3,599,402) |
| 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: | | 6,115,932 |
| The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits. | | 3,745,378 |
| The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. | | (40,031,645) |
| Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. | | (146,735,107) |

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

# RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED)
## JUNE 30, 2015

Long-term obligations, including general obligation bonds, certificates of participation, capital lease obligations, compensated absences, and postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

| | | |
|---|---|---|
| General obligation bonds | $ 181,095,000 | |
| Premium on issuance, net of amortization | 9,136,337 | |
| Discount on issuance, net of amortization | (96,846) | |
| Certificates of participation | 50,504,015 | |
| Discount on issuance, net of amortization | (102,812) | |
| Lease revenue bonds | 3,360,000 | |
| Discount on issuance, net of amortization | (6,476) | |
| Capital lease obligations | 1,312,645 | |
| Compensated absences - accumulated vacation | 1,004,238 | |
| Supplemental early retirement program | 1,274,884 | |
| Net OPEB obligation | 19,521,179 | |
| Total Long-Term Obligations | | (267,002,164) |
| **Total Net Position - Governmental Activities** | | **$ 98,082,346** |

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, 2015

| | General Fund | Building Fund | Bond Interest and Redemption Fund |
|---|---|---|---|
| **REVENUES** | | | |
| Local Control Funding Formula | $ 151,592,331 | $ - | $ - |
| Federal sources | 15,334,017 | - | - |
| Other State sources | 13,954,257 | - | 180,049 |
| Other local sources | 16,963,433 | 43,169 | 11,306,519 |
| **Total Revenues** | 197,844,038 | 43,169 | 11,486,568 |
| **EXPENDITURES** | | | |
| Current | | | |
| Instruction | 125,961,212 | - | - |
| Instruction-related activities: | | | |
| Supervision of instruction | 8,444,836 | - | - |
| Instructional library, media and technology | 1,497,915 | - | - |
| School site administration | 14,892,269 | - | - |
| Pupil services: | | | |
| Home-to-school transportation | 4,934,462 | - | - |
| Food services | 32,109 | - | - |
| All other pupil services | 13,395,881 | - | - |
| Administration: | | | |
| Data processing | 3,331,629 | - | - |
| All other administration | 9,707,091 | - | - |
| Plant services | 17,919,582 | - | - |
| Facility acquisition and construction | 1,486,283 | 7,344,587 | - |
| Ancillary services | 1,907,325 | - | - |
| Community services | 115,390 | - | - |
| Other outgo | 491,010 | - | - |
| Debt service | | | |
| Principal | 535,634 | - | 122,375,000 |
| Interest and other | 553,902 | 414 | 13,198,498 |
| **Total Expenditures** | 205,206,530 | 7,345,001 | 135,573,498 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (7,362,492) | (7,301,832) | (124,086,930) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers in | 585,172 | - | - |
| Other sources | 420,268 | 24,000,001 | 127,387,248 |
| Transfers out | (4,588,879) | (5,460,382) | - |
| **Net Financing Sources (Uses)** | (3,583,439) | 18,539,619 | 127,387,248 |
| **NET CHANGE IN FUND BALANCES** | (10,945,931) | 11,237,787 | 3,300,318 |
| **Fund Balance - Beginning** | 35,531,355 | 12,764,070 | 9,561,971 |
| **Fund Balances - Ending** | $ 24,585,424 | $ 24,001,857 | $ 12,862,289 |

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

| Non-Major Governmental Funds | Total Governmental Funds |
|---|---|
| $ 5,483,207 | $ 157,075,538 |
| 10,746,953 | 26,080,970 |
| 2,990,259 | 17,124,565 |
| 1,980,850 | 30,293,971 |
| 21,201,269 | 230,575,044 |
| | |
| 4,400,160 | 130,361,372 |
| 185,799 | 8,630,635 |
| - | 1,497,915 |
| 818,717 | 15,710,986 |
| - | 4,934,462 |
| 11,363,830 | 11,395,939 |
| 180,383 | 13,576,264 |
| 2,640 | 3,334,269 |
| 872,631 | 10,579,722 |
| 2,507,045 | 20,426,627 |
| 1,501,139 | 10,332,009 |
| 13,494 | 1,920,819 |
| 1,568 | 116,958 |
| - | 491,010 |
| 1,475,000 | 124,385,634 |
| 3,604,907 | 17,357,721 |
| 26,927,313 | 375,052,342 |
| (5,726,044) | (144,477,298) |
| 10,417,696 | 11,002,868 |
| 1,245,656 | 153,053,173 |
| (919,607) | (10,968,868) |
| 10,743,745 | 153,087,173 |
| 5,017,701 | 8,609,875 |
| 20,197,867 | 78,055,263 |
| $ 25,215,568 | $ 86,665,138 |

## 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, 2015

| | | |
|---|---|---|
| **Total Net Change in Fund Balances - Governmental Funds** | | **$ 8,609,875** |
| **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 | $ 10,624,610 | |
| Depreciation expense | (15,196,760) | |
| Net Expense Adjustment | | (4,572,150) |
| In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are 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). This year, special termination benefits used was more than amounts earned by $1,404,578. Vacation used was less than amounts earned by $50,798. | | 1,353,780 |
| 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. | | (1,165,011) |
| In the Statement of Activities Other Postemployment Benefit Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation were less than the ARC by $834,632. | | (834,632) |
| Proceeds received from issuance of debt 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: | | |
| Sale of general obligation refunding bonds | | (142,170,000) |
| Capital lease obligations | | (392,075) |
| 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 these related items: | | |
| Premium on issuance for general obligation refunding bonds | | (9,217,248) |

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, 2015

| | | |
|---|---|---|
| Repayment of principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities: | | |
| General obligation bonds and bond anticipation notes | | $ 122,375,000 |
| Certificates of participation | | 1,535,665 |
| Lease revenue bonds | | 215,000 |
| Capital lease obligations | | 423,319 |
| 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 | $ 1,723,764 | |
| Discount on issuance for general obligation bonds | (6,918) | |
| Discount on issuance for bond anticipation notes | (100,000) | |
| Discount on issuance for certificates of participation | (5,245) | |
| Discount on issuance for lease revenue bonds | (522) | |
| Combined Adjustment | | 1,611,079 |
| 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. | | (765,450) |
| 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. | | 580,664 |
| **Change in Net Position of Governmental Activities** | | **$ (22,412,184)** |

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

## HEMET UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUND
## STATEMENT OF NET POSITION
## JUNE 30, 2015

| | Business-Type Activities Enterprise Fund Transportation | Governmental Activities Internal Service Fund |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Deposits and investments | $ 973,197 | $ 10,923,202 |
| Receivables | 5,748,966 | 9,739 |
| Due from other funds | 493 | 1,726,765 |
| **Total Assets** | 6,722,656 | 12,659,706 |
| **Noncurrent Assets** | | |
| Capital assets | 12,263,048 | - |
| Less: accumulated depreciation | (5,016,076) | - |
| **Total Noncurrent Assets** | 7,246,972 | - |
| **Total Assets** | $ 13,969,628 | $ 12,659,706 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 197,353 | $ 229,051 |
| Due to other funds | 1,824,041 | 29,883 |
| Claims liability | - | 1,850,573 |
| **Total Current Liabilities** | 2,021,394 | 2,109,507 |
| **Noncurrent Liabilities** | | |
| Long-term claims liability | - | 4,434,267 |
| Capital lease | 5,311,137 | - |
| **Total Liabilities** | 7,332,531 | 6,543,774 |
| **NET POSITION** | | |
| Net investment in capital assets | 1,935,835 | - |
| Unrestricted | 4,701,262 | 6,115,932 |
| **Total Net Position** | $ 6,637,097 | $ 6,115,932 |

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, 2015

| | Business-Type Activities Enterprise Fund | Governmental Activities |
|---|---|---|
| | Transportation | Internal Service Fund |
| **OPERATING REVENUES** | | |
| Charges to other funds and miscellaneous revenues | $ 16,718,248 | $ 3,194,359 |
| **OPERATING EXPENSES** | | |
| Payroll costs | 8,170,391 | - |
| Professional and contract services | 1,035,795 | 2,639,620 |
| Supplies and materials | 2,247,862 | 15,157 |
| Facility rental | 712,020 | - |
| Depreciation | 607,715 | - |
| **Total Operating Expenses** | 12,773,783 | 2,654,777 |
| **Operating Income** | 3,944,465 | 539,582 |
| **NONOPERATING REVENUES** | | |
| Interest income | 4,285 | 41,082 |
| **Income Before Transfers** | 3,948,750 | 580,664 |
| Transfers out | (34,000) | - |
| **Change in Net Position** | 3,914,750 | 580,664 |
| **Total Net Position - Beginning** | 2,722,347 | 5,535,268 |
| **Total Net Position - Ending** | $ 6,637,097 | $ 6,115,932 |

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, 2015

| | Business-Type Activities Enterprise Fund | Governmental Activities |
|---|---|---|
| | Transportation | Internal Service Fund |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts from customers | $ 16,722,533 | $ 1,580,178 |
| Cash received from assessments made to other funds | (493) | - |
| Cash payments to employees for services | (8,170,391) | - |
| Cash payments to suppliers for goods and services | (3,995,677) | (15,157) |
| Other operating cash payments | (126,969) | (2,162,013) |
| Net Cash Provided by (Used in) Operating Activities | 4,429,003 | (596,992) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisition of capital assets | (3,514,025) | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest on investments | 4,285 | 41,082 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 919,263 | (555,910) |
| Cash and Cash Equivalents - Beginning | 53,934 | 11,479,112 |
| Cash and Cash Equivalents - Ending | $ 973,197 | $ 10,923,202 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:** | | |
| Operating income | $ 3,944,465 | $ 539,582 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | |
| Depreciation | 607,715 | - |
| Changes in assets and liabilities: | | |
| Receivables | (670,510) | (1,072) |
| Due from other funds | 39,790 | (1,614,181) |
| Accounts payable | (231,074) | 22,600 |
| Due to other funds | (1,866,858) | 29,883 |
| Capital leases | 2,605,475 | - |
| Claims liabilities | - | 426,196 |
| **NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES** | $ 4,429,003 | $ (596,992) |

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

## HEMET UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUNDS
## STATEMENT OF NET POSITION
## JUNE 30, 2015

| | Agency Funds | | |
|---|---|---|---|
| | **Debt Service Fund for Special Tax Bonds** | **Associated Student Body** | **Total Agency Funds** |
| **ASSETS** | | | |
| Deposits and investments | $ 4,616,624 | $ 1,055,409 | $ 5,672,033 |
| Stores inventories | - | 2,491 | 2,491 |
| **Total Assets** | $ 4,616,624 | $ 1,057,900 | $ 5,674,524 |
| | | | |
| **LIABILITIES** | | | |
| Due to student groups | $ - | $ 1,057,900 | $ 1,057,900 |
| Due to bond holders | 4,616,624 | - | 4,616,624 |
| **Total Liabilities** | $ 4,616,624 | $ 1,057,900 | $ 5,674,524 |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Financial Reporting Entity

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

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

### Component Units

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

The Golden West Schools Financing Authority (the Authority) and the Hemet Unified School District School Facilities Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. 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 College Prep High Charter School and the Western Center Academy Charter School pursuant to *Education Code* Section 47605. The Charter Schools are operated by the District, and their financial activities are presented in the Charter School Special Revenue Fund.

**Other Related Entity**

**Joint Powers Authority** The District is associated with one joint powers authority. This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 15 to the financial statements. This organization is:

Southern California Regional Liability Excess Fund (So Cal ReLiEF)

**Basis of Presentation - Fund Accounting**

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

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

**Major Governmental Funds**

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects and 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 $5,103,953.

**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 is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

**Non-Major Governmental Funds**

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. 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 activities of district-operated charter schools that would otherwise be reported in the authorizing district's General Fund.

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

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

**Capital Project Funds** The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to 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 approving a development (*Education Code* Sections 17620-17626). 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 lA), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

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

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

**Debt Service for Blended Component Units Fund** The Debt Service for Blended Component Units Fund 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.

**Basis of Accounting - Measurement Focus**

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

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

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

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

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

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

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

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

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

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

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

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

**Cash and Cash Equivalents**

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

**Investments**

Investments held at June 30, 2015, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

**Stores Inventories**

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

**Capital Assets and Depreciation**

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

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

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

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

**Interfund Balances**

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

**Compensated Absences**

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

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Debt Issuance Costs, Premiums and Discounts

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

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

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the current year pension contributions and for the unamortized amount on net change in proportionate share of net pension liability.

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 the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

### 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.

**Fund Balances - Governmental Funds**

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned -** all other spendable amounts.

**Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

**Minimum Fund Balance Policy**

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

**Net Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2015. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $27,811,517 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.

**Budgetary Data**

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

**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.

**Changes in Accounting Principles**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by $168,578,624. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows of resources, as this information was not available.

**New Accounting Pronouncements**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

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

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

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

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

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

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

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

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

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

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

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

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

## NOTE 2 - DEPOSITS AND INVESTMENTS

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

| | |
|---|---|
| Governmental activities | $ 93,106,984 |
| Business-type activities | 973,197 |
| Fiduciary funds | 5,672,033 |
| Total Deposits and Investments | $ 99,752,214 |

Deposits and investments as of June 30, 2015, consisted of the following:

| | |
|---|---|
| Cash on hand and in banks | $ 5,413,670 |
| Cash in revolving | 28,490 |
| Investments | 94,310,054 |
| Total Deposits and Investments | $ 99,752,214 |

**Policies and Practices**

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

**Investment in County Treasury -** The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**General Authorizations**

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

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds, Notes, Warrants | 5 years | None | None |
| Registered State Bonds, Notes, Warrants | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base | None |
| Medium-Term Corporate Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

**Authorized Under Debt Agreements**

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

**Interest Rate Risk**

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

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

| Investment Type | Fair Value | Maturity Date |
|---|---|---|
| Federal Home Loan Banks | $ 1,714,752 | 3/9/2018 |
| Certificates of Deposit | 3,256,595 | 9/26/2015 |
| Riverside County Investment Pool | 80,233,434 | 500* |
| Federal Home Loan Mortgage Corp. - MTN | 1,714,752 | 3/9/2018 |
| Federal National Mortgage Association - MTN | 1,380,357 | 3/16/2016 |
| Money Market Mutual Funds | 5,435,333 | 7/1/2015 |
| Private Export Funding Note | 1,063,580 | 11/15/2015 |
| Total | $ 94,798,803 | |

*Weighted-average days to maturity.

**Credit Risk**

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

| Investment Type | Minimum Legal Rating | Rating as of June 30, 2015 | Fair Value |
|---|---|---|---|
| Federal Home Loan Banks | AA | AAA | $ 1,714,752 |
| Certificates of Deposit | AA | AAA | 3,256,595 |
| Riverside County Investment Pool | Not Required | AAA/V1 | 80,233,434 |
| Federal Home Loan Mortgage Corp. - MTN | AA | AAA | 1,714,752 |
| Federal National Mortgage Association - MTN | AA | AAA | 1,380,357 |
| Money Market Mutual Funds | Not Required | Not Required | 5,435,333 |
| Private Export Funding Note | AA | AAA | 1,063,580 |
| Total | | | $ 94,798,803 |

**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, 2015, the District's bank balance was not exposed to custodial credit risk.

## NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, 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 | Total Governmental Activities | Transportation Enterprise Fund |
|---|---|---|---|---|---|---|
| Federal Government | | | | | | |
| Categorical aid | $ 4,120,026 | $ - | $ 1,116,247 | $ - | $ 5,236,273 | $ - |
| State Government | | | | | | |
| Categorical aid | 2,206,178 | - | 374,152 | - | 2,580,330 | - |
| Lottery | - | - | 49,077 | - | 49,077 | - |
| Local Government | | | | | | |
| Interest | 16,079 | 12,098 | 7,565 | 9,739 | 45,481 | 823 |
| Other local sources | 1,205,308 | - | 10,564 | - | 1,215,872 | 5,748,143 |
| Master Plan - Charter Schools | 1,382,841 | - | 27,627 | - | 1,410,468 | - |
| Total | $ 8,930,432 | $ 12,098 | $ 1,585,232 | $ 9,739 | $10,537,501 | $ 5,748,966 |

## NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 24,701,180 | $ - | $ - | $ 24,701,180 |
| Construction in progress | 24,184,887 | 6,771,431 | - | 30,956,318 |
| Total Capital Assets Not Being Depreciated | 48,886,067 | 6,771,431 | - | 55,657,498 |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 515,046,526 | 2,923,017 | - | 517,969,543 |
| Furniture and equipment | 18,436,797 | 930,162 | 505,156 | 18,861,803 |
| Total Capital Assets Being Depreciated | 533,483,323 | 3,853,179 | 505,156 | 536,831,346 |
| Total Capital Assets | 582,369,390 | 10,624,610 | 505,156 | 592,488,844 |
| Less Accumulated Depreciation | | | | |
| Buildings and improvements | 120,972,689 | 13,468,752 | - | 134,441,441 |
| Furniture and equipment | 11,178,074 | 1,728,008 | 505,156 | 12,400,926 |
| Total Accumulated Depreciation | 132,150,763 | 15,196,760 | 505,156 | 146,842,367 |
| Governmental Activities Capital Assets, Net | $ 450,218,627 | $ (4,572,150) | $ - | $ 445,646,477 |
| **Business-Type Activities** | | | | |
| Furniture and equipment | $ 8,783,023 | $ 3,480,025 | $ - | $ 12,263,048 |
| Less Accumulated Depreciation | 4,408,361 | 607,715 | - | 5,016,076 |
| Business-Type Activities Capital Assets, Net | $ 4,374,662 | $ 2,872,310 | $ - | $ 7,246,972 |

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

| | |
|---|---|
| **Governmental Activities** | |
| Instruction | $ 12,552,502 |
| School site administration | 410,313 |
| Food services | 714,247 |
| All other administration | 896,608 |
| Plant services | 623,090 |
| Total Depreciation Expenses Governmental Activities | $ 15,196,760 |
| **Business-Type Activities** | |
| Home-to-school transportation | 607,715 |
| Total Depreciation Expenses All Activities | $ 15,804,475 |

## NOTE 5 - INTERFUND TRANSACTIONS

### Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2015, between major and non-major governmental funds, and internal service funds are as follows:

| | Due From | | | | | |
|---|---|---|---|---|---|---|
| Due To | General Fund | Building Fund | Non-Major Governmental Funds | Transportation Enterprise Fund | Internal Service Fund | Total |
| General Fund | $ - | $ - | $ 459,148 | $ 324,041 | $ 29,883 | $ 813,072 |
| Non-Major Governmental Funds | 964,211 | 2,054 | 12,118 | - | - | 978,383 |
| Transportation Enterprise Fund | 493 | - | - | - | - | 493 |
| Internal Service Fund | 26,762 | - | 200,003 | 1,500,000 | - | 1,726,765 |
| Total | $ 991,466 | $ 2,054 | $ 671,269 | $ 1,824,041 | $ 29,883 | $ 3,518,713 |

A balance of $121,507 is due to the Child Development Non-Major Governmental Fund from the General Fund to reverse fund transfer for costs intended to cover Title I.

A balance of $517,805 is due to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects from the General Fund for the First 5 facility.

A balance of $207,000 is due to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects from the General Fund for Prop 39 Clean Energy Expenditures.

A balance of $225,311 is due to the General Fund from the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for Prop 39 clean energy expenditures.

A balance of $153,452 is due to the General Fund from the Transportation Enterprise Fund for bus insurance.

A balance of $34,000 is due to the General Fund from the Transportation Enterprise Fund to cover transportation expenses.

A balance of $135,009 is due to the General Fund from the Transportation Enterprise Fund to cover transportation substitute costs.

A balance of $29,883 is due to the General Fund from the Internal Service Fund for workers compensation vouchers.

A balance of $200,000 is due to the Internal Service Fund from the Child Development Non-Major Governmental Fund for a temporary loan.

A balance of $1,500,000 is due to the Internal Service Fund from the Transportation Enterprise Fund for a temporary loan.

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

### Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

| | Transfer From | | | | |
|---|---|---|---|---|---|
| Transfer To | General Fund | Building Fund | Non-Major Governmental Funds | Transportation Enterprise Fund | Total |
| General Fund | $ - | $ - | $ 551,172 | $ 34,000 | $ 585,172 |
| Non-Major Governmental Funds | 4,588,879 | 5,460,382 | 368,435 | - | 10,417,696 |
| Total | $ 4,588,879 | $ 5,460,382 | $ 919,607 | $ 34,000 | $ 11,002,868 |

| | |
|---|---|
| The Transportation Enterprise Fund transferred to the General Fund to move all non enterprise transportation related activities. | $ 34,000 |
| The Charter School Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment. | 317,755 |
| The General Fund transferred to the Charter School Non-Major Governmental Fund to support excess costs. | 100,000 |
| The General Fund transferred to the Cafeteria Non-Major Governmental Fund to cover costs for unpaid student meals. | 28,591 |
| The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for pending construction of pre-school facility. | 517,805 |
| The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for future capital equipment. | 476,700 |
| The General Fund transferred to the Debt Service for Blended Component Units Non-Major Governmental Fund for debt service payments. | 3,465,783 |
| The Cafeteria Non-Major Governmental Fund transferred to the Debt Service for Blended Component Units Non-Major Governmental Fund for debt service payments. | 368,435 |
| The Building Fund transferred to the County School Facilities Non-Major Governmental Fund for unspent balance in GO bonds related to OPSC reimbursements. | 5,460,382 |
| The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the General Fund for donations of school site constructions of shade structure. | 8,106 |
| The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the General Fund for Prop 39 energy. | 225,311 |
| Total | $ 11,002,868 |

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2015, consisted of the following:

| | General Fund | Building Fund | Non-Major Governmental Funds | Internal Service Fund | Total Governmental Activities | Transportation Enterprise Fund |
|---|---|---|---|---|---|---|
| Vendor payables | $ 2,506,541 | $ - | $ 941,993 | $ 229,051 | $ 3,677,585 | $ 197,353 |
| State principle apportionment | 2,359,021 | - | 54,898 | - | 2,413,919 | - |
| Salaries and benefits | 58,150 | - | 133 | - | 58,283 | - |
| Construction | 144,003 | 7,774 | 448,507 | - | 600,284 | - |
| Claims liability | - | - | - | 1,850,573 | 1,850,573 | - |
| Total | $ 5,067,715 | $ 7,774 | $ 1,445,531 | $ 2,079,624 | $ 8,600,644 | $ 197,353 |

**NOTE 7 - UNEARNED REVENUE**

Unearned revenue at June 30, 2015, consisted of the following:

| | General Fund | Non-Major Governmental Funds | Total Governmental Activities |
|---|---|---|---|
| Federal financial assistance | $ 159,953 | $ - | $ 159,953 |
| State categorical aid | 101,533 | - | 101,533 |
| Other local | - | 42,382 | 42,382 |
| Total | $ 261,486 | $ 42,382 | $ 303,868 |

## NOTE 8 - LONG-TERM OBLIGATIONS

### Summary

A schedule of changes in long-term obligations for the year ended June 30, 2015, is shown below:

| | (As Restated) Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 | Due in One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| General Obligation Bonds | $136,300,000 | $ 142,170,000 | $ 97,375,000 | $ 181,095,000 | $ 6,227,000 |
| Premium on issuance | 1,642,853 | 9,217,248 | 1,723,764 | 9,136,337 | - |
| Discount on issuance | (103,764) | - | (6,918) | (96,846) | - |
| Bond Anticipation Notes | 25,000,000 | - | 25,000,000 | - | - |
| Discount on issuance | (100,000) | - | (100,000) | - | - |
| Certificates of Participation | 52,039,680 | - | 1,535,665 | 50,504,015 | 1,600,665 |
| Discount on issuance | (108,057) | - | (5,245) | (102,812) | - |
| Lease Revenue Bonds | 3,575,000 | - | 215,000 | 3,360,000 | 225,000 |
| Discount on issuance | (6,998) | - | (522) | (6,476) | - |
| Capital Leases | 1,343,889 | 392,075 | 423,319 | 1,312,645 | 431,405 |
| Accumulated Vacation - net | 953,440 | 50,798 | - | 1,004,238 | - |
| Supplemental Early Retirement Program | 2,679,462 | - | 1,404,578 | 1,274,884 | 637,442 |
| Claims Liability | 4,117,748 | 316,519 | - | 4,434,267 | - |
| Net OPEB Obligation | 18,686,547 | 2,236,999 | 1,402,367 | 19,521,179 | - |
| Total Governmental Activities | $ 246,019,800 | $ 154,383,639 | $ 128,967,008 | $ 271,436,431 | $ 9,121,512 |
| **Business-Type Activities** | | | | | |
| Capital Leases | $ 2,705,662 | $ 3,605,516 | $ 1,000,041 | $ 5,311,137 | $ 1,153,953 |

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

### General Obligation Bonds Summary

The outstanding general obligation bonded debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2014 | Issued | Redeemed | Bonds Outstanding June 30, 2015 |
|---|---|---|---|---|---|---|---|
| 5/18/05 | 8/1/15 | 3.50% - 5.00% | $ 6,000,000 | $ 2,555,000 | $ - | $ 2,335,000 | $ 220,000 |
| 1/17/06 | 8/1/15 | 4.00% - 6.50% | 6,000,000 | 4,930,000 | - | 4,725,000 | 205,000 |
| 3/1/07 | 8/1/15 | 4.00% - 5.75% | 60,000,000 | 54,410,000 | - | 53,025,000 | 1,385,000 |
| 3/4/08 | 8/1/16 | 4.50% - 5.25% | 40,000,000 | 36,920,000 | - | 35,355,000 | 1,565,000 |
| 7/28/10 | 8/1/26 | 4.00% - 4.50% | 18,740,000 | 16,405,000 | - | 860,000 | 15,545,000 |
| 7/18/12 | 8/1/28 | 2.00% - 4.00% | 21,260,000 | 21,080,000 | - | 1,075,000 | 20,005,000 |
| 12/16/14 | 8/1/38 | 3.00% - 5.00% | 93,170,000 | - | 93,170,000 | - | 93,170,000 |
| 5/19/15 | 8/1/40 | 3.00% - 5.00% | 49,000,000 | - | 49,000,000 | - | 49,000,000 |
| | | | $ 294,170,000 | $ 136,300,000 | $ 142,170,000 | $ 97,375,000 | $ 181,095,000 |

### 2002 General Obligation Bonds, Series D

In May 2005, the District issued $6,000,000 of the 2002 General Obligation Bonds, Series D. The bonds mature on August 1, 2015, with interest yields ranging from 3.50 to 5.00 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms and facilities, and to repair existing schools. At June 30, 2015, the principal balance outstanding was $220,000 and unamortized premium was $3,073.

The bonds mature through 2016 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 220,000 | $ 4,400 | $ 224,400 |

### 2002 General Obligation Bonds, Series E

In January 2006, the District issued $6,000,000 of the 2002 General Obligation Bonds, Series E. The bonds mature on August 1, 2015, with interest yields ranging from 4.00 to 6.50 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2015, the principal balance outstanding was $205,000 and unamortized premium was $4,033.

The bonds mature through 2016 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 205,000 | $ 4,100 | $ 209,100 |

**2006 General Obligation Bonds, Series A**

In March 2007, the District issued $60,000,000 of the 2006 General Obligation Bonds, Series A. The bonds mature on August 1, 2015, with interest yields ranging from 4.00 to 5.75 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2015, the principal balance outstanding was $1,385,000 and unamortized premium was $34,544.

The bonds mature through 2016 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 1,385,000 | $ 38,953 | $ 1,423,953 |

**2006 General Obligation Bonds, Series B**

In March 2008, the District issued $40,000,000 of the 2006 General Obligation Bonds, Series B. The bonds mature on August 1, 2016, with interest yields ranging from 4.50 to 5.25 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2015, the principal balance outstanding was $1,565,000 and unamortized premium was $43,722.

The bonds mature through 2017 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 760,000 | $ 60,774 | $ 820,774 |
| 2017 | 805,000 | 20,643 | 825,643 |
| Total | $ 1,565,000 | $ 81,417 | $ 1,646,417 |

### 2010 General Obligation Refunding Bonds

In July 2010, the District issued $18,740,000 of the 2010 General Obligation Refunding Bonds. The bonds mature on August 1, 2026, with interest yields ranging from 4.00 to 4.50 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series A. At June 30, 2015, the principal balance outstanding was $15,545,000 and unamortized premium was $199,944.

The bonds mature through 2027 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 900,000 | $ 609,182 | $ 1,509,182 |
| 2017 | 1,090,000 | 569,351 | 1,659,351 |
| 2018 | 1,135,000 | 527,705 | 1,662,705 |
| 2019 | 1,170,000 | 484,413 | 1,654,413 |
| 2020 | 1,225,000 | 436,504 | 1,661,504 |
| 2021-2025 | 6,870,000 | 1,421,025 | 8,291,025 |
| 2026-2027 | 3,155,000 | 141,893 | 3,296,893 |
| Total | $ 15,545,000 | $ 4,190,073 | $ 19,735,073 |

### 2012 General Obligation Refunding Bonds

In July 2012, the District issued $21,260,000 of the 2012 General Obligation Refunding Bonds. The bonds mature on August 1, 2028, with interest yields ranging from 2.00 to 4.00 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series B, and C. At June 30, 2015, the principal balance outstanding was $20,005,000 and unamortized discount was $96,846.

The bonds mature through 2029 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 1,110,000 | $ 566,875 | $ 1,676,875 |
| 2017 | 1,370,000 | 537,975 | 1,907,975 |
| 2018 | 1,395,000 | 506,300 | 1,901,300 |
| 2019 | 1,450,000 | 456,375 | 1,906,375 |
| 2020 | 1,510,000 | 403,388 | 1,913,388 |
| 2021-2025 | 7,900,000 | 1,437,463 | 9,337,463 |
| 2026-2029 | 5,270,000 | 328,350 | 5,598,350 |
| Total | $ 20,005,000 | $ 4,236,726 | $ 24,241,726 |

**2014 General Obligation Refunding Bonds**

In December 2014, the District issued $93,170,000 of the 2014 General Obligation Refunding Bonds. The bonds mature on August 1, 2038, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds were used to refund a portion of the outstanding 2002 General Obligation Bonds, Series D and E and the 2006 General Obligation Bonds, Series A and B. The additional proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2015, the principal balance outstanding was $93,170,000 and unamortized premium was $7,311,995.

The bonds mature through 2039 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 1,845,000 | $ 3,905,206 | $ 5,750,206 |
| 2017 | 1,685,000 | 3,816,956 | 5,501,956 |
| 2018 | 2,630,000 | 3,709,081 | 6,339,081 |
| 2019 | 2,770,000 | 3,574,081 | 6,344,081 |
| 2020 | 2,915,000 | 3,431,956 | 6,346,956 |
| 2021-2025 | 17,170,000 | 14,780,231 | 31,950,231 |
| 2026-2030 | 22,435,000 | 10,829,131 | 33,264,131 |
| 2031-2035 | 23,315,000 | 6,274,241 | 29,589,241 |
| 2036-2039 | 18,405,000 | 1,291,419 | 19,696,419 |
| Total | $ 93,170,000 | $ 51,612,302 | $ 144,782,302 |

**2012 General Obligation Bonds, Series A**

In May 2015, the District issued $49,000,000 of the 2012 General Obligation Bonds, Series A. The bonds mature on August 1, 2040, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2015, the principal balance outstanding was $49,000,000 and unamortized premium was $1,539,026.

The bonds mature through 2041 as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ - | $ 1,183,901 | $ 1,183,901 |
| 2017 | - | 2,170,486 | 2,170,486 |
| 2018 | 265,000 | 1,966,544 | 2,231,544 |
| 2019 | 355,000 | 1,951,044 | 2,306,044 |
| 2020 | 455,000 | 1,930,794 | 2,385,794 |
| 2021-2025 | 4,015,000 | 9,158,469 | 13,173,469 |
| 2026-2030 | 7,830,000 | 7,859,394 | 15,689,394 |
| 2031-2035 | 12,620,000 | 6,073,247 | 18,693,247 |
| 2036-2039 | 18,785,000 | 2,943,725 | 21,728,725 |
| 2040-2041 | 4,675,000 | 93,500 | 4,768,500 |
| Total | $ 49,000,000 | $ 35,331,104 | $ 84,331,104 |

**Certificates of Participation Summary**

The outstanding certificates of participation are as follows:

| Issue Date | Maturity Date | Original Issue | COP Outstanding July 1, 2014 | Issued | Redeemed | COP Outstanding June 30, 2015 |
|---|---|---|---|---|---|---|
| 10/14/04 | 10/01/32 | $ 23,425,000 | $ 17,495,000 | $ - | $ 790,000 | $ 16,705,000 |
| 12/13/05 | 12/27/20 | 5,000,000 | 2,794,680 | - | 275,665 | 2,519,015 |
| 06/13/06 | 10/01/36 | 29,445,000 | 28,215,000 | - | 470,000 | 27,745,000 |
| 11/21/07 | 10/01/36 | 4,610,000 | 3,535,000 | - | - | 3,535,000 |
| | | $ 62,480,000 | $ 52,039,680 | $ - | $ 1,535,665 | $ 50,504,015 |

**2004 Certificates of Participation**

On October 14, 2004, the Hemet Unified School District School Facilities Corporation issued the 2004 Certificates of Participation in the amount of $23,425,000. The certificates were issued at an aggregate price of $22,833,528 (representing the principal amount of $23,425,000 less an original issue discount of $51,382 less underwriter's discount and cost of issuance of $540,090). The bonds mature October 1, 2032.

A portion of the certificates of participation are being issued to prepay $6,945,000 of the outstanding Hemet Unified School District School Facilities Corporation 1993 Certificates of Participation. The certificates associated with the $6,945,000 of 1993 Certificates of Participation were prepaid December 2004. The remaining portion of the 2004 Certificates of Participation were used to acquire, construct, deliver, and install school facilities, buildings, land and capital projects, fund a reserve fund, and pay the cost related to the execution and delivery of the issuance. As of June 30, 2015, the principal balance outstanding was $16,705,000 and unamortized discount was $31,197.

The certificates mature through 2033 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2016 | $ 805,000 | $ 729,939 | $ 1,534,939 |
| 2017 | 835,000 | 696,721 | 1,531,721 |
| 2018 | 870,000 | 661,334 | 1,531,334 |
| 2019 | 905,000 | 623,606 | 1,528,606 |
| 2020 | 945,000 | 583,359 | 1,528,359 |
| 2021-2025 | 5,400,000 | 2,243,075 | 7,643,075 |
| 2026-2030 | 5,990,000 | 890,663 | 6,880,663 |
| 2031-2033 | 955,000 | 42,666 | 997,666 |
| Total | $ 16,705,000 | $ 6,471,363 | $ 23,176,363 |

**2005 Qualified Zone Academy Bond Certificates of Participation**

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

The District began making annual deposits of $275,665 on December 27, 2006, into an investment account with US Bank for payment of the QZAB at maturity. Fifteen payments will be made from December 27, 2006 to December 27, 2020, which will total $4,134,975. The total expected interest to be earned in the investment account is $865,025. As of June 30, 2015, US Bank held $2,806,017 for payment of principal.

The certificates mature through 2021 as follows:

| Year Ending June 30, | District Payment | Expected Earned Interest | Total |
|---|---|---|---|
| 2016 | $ 275,665 | $ 120,017 | $ 395,682 |
| 2017 | 275,665 | 137,379 | 413,044 |
| 2018 | 275,665 | 157,033 | 432,698 |
| 2019 | 275,665 | 166,934 | 442,599 |
| 2020 | 275,665 | 187,096 | 462,761 |
| 2021 | 275,665 | 96,566 | 372,231 |
| Total | $ 1,653,990 | $ 865,025 | $ 2,519,015 |

**2006 Certificates of Participation**

On June 13, 2006, the District, pursuant to a lease agreement with the Hemet Unified School District Facilities Corporation, issued certificates of participation in the amount of $29,445,000 with variable interest rate (weekly). The certificates were issued to finance the acquisition and construction of school facilities, fund a reserve account, and pay issuance costs associated with the execution and delivery of the certificates. At June 30, 2015, the principal balance outstanding was $27,745,000.

The certificates mature through 2037 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2016 | $ 520,000 | $ 1,221,546 | $ 1,741,546 |
| 2017 | 565,000 | 1,192,533 | 1,757,533 |
| 2018 | 695,000 | 1,167,067 | 1,862,067 |
| 2019 | 745,000 | 1,135,137 | 1,880,137 |
| 2020 | 795,000 | 1,103,218 | 1,898,218 |
| 2021-2025 | 4,855,000 | 4,905,618 | 9,760,618 |
| 2026-2030 | 7,400,000 | 3,618,771 | 11,018,771 |
| 2031-2035 | 10,460,000 | 1,281,862 | 11,741,862 |
| 2036-2037 | 1,710,000 | 76,195 | 1,786,195 |
| Total | $ 27,745,000 | $ 15,701,947 | $ 43,446,947 |

### 2007 Certificates of Participation

On November 21, 2007, the District, pursuant to a lease agreement with the Hemet Unified School District Facilities Corporation, issued certificates of participation in the amount of $4,610,000. The certificates were issued to finance the acquisition and construction of school facilities, fund a reserve account, and pay issuance costs associated with the execution and delivery of the certificates. At June 30, 2015, the principal balance outstanding was $3,535,000 and unamortized discount was $71,615.

The certificates mature through 2037 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2016 | $ - | $ 159,075 | $ 159,075 |
| 2017 | - | 159,075 | 159,075 |
| 2018 | - | 159,075 | 159,075 |
| 2019 | - | 159,075 | 159,075 |
| 2020 | - | 159,075 | 159,075 |
| 2021-2025 | - | 795,375 | 795,375 |
| 2026-2030 | 485,000 | 761,063 | 1,246,063 |
| 2031-2035 | 1,590,000 | 525,375 | 2,115,375 |
| 2036-2037 | 1,460,000 | 78,075 | 1,538,075 |
| Total | $ 3,535,000 | $ 2,955,263 | $ 6,490,263 |

### 2005 Refunding Lease Revenue Bonds

On November 22, 2005, the Hemet Unified School District issued the 2005 Refunding Lease Revenue Bonds in the amount of $5,205,000. The bonds were issued at an aggregate price of $4,907,466 (representing the principal amount of $5,205,000 less discount of $11,478, underwriter's discount of $71,281 and cost of issuance of $214,775). The bonds mature April 1, 2027, and yield interest rates of 3.40 to 4.50 percent.

The bonds were issued to refund the outstanding Hemet Unified School District School Facilities Corporation 1997 Certificates of Participation (COP). The 1997 COP were redeemed April 1, 2007. As this advance refunding has met the requirements of an in-substance defeasance, debt obligations outstanding of the 1997 COP has been removed as long-term obligations of the District. As of June 30, 2015, the principal balance of $3,360,000 remains outstanding and unamortized discount was $6,476.

The bonds mature through 2027 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2016 | $ 225,000 | $ 145,373 | $ 370,373 |
| 2017 | 230,000 | 136,598 | 366,598 |
| 2018 | 235,000 | 127,398 | 362,398 |
| 2019 | 250,000 | 117,763 | 367,763 |
| 2020 | 260,000 | 107,138 | 367,138 |
| 2021-2025 | 1,475,000 | 355,656 | 1,830,656 |
| 2026-2027 | 685,000 | 46,575 | 731,575 |
| Total | $ 3,360,000 | $ 1,036,501 | $ 4,396,501 |

**Capital Leases – Governmental Activities**

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

| | Vehicles | Energy Management Equipment | Total |
|---|---|---|---|
| Balance, July 1, 2014 | $ 23,728 | $ 1,468,934 | $ 1,492,662 |
| Additions | 431,844 | - | 431,844 |
| Payments | 54,574 | 438,492 | 493,066 |
| Balance, June 30, 2015 | $ 400,998 | $ 1,030,442 | $ 1,431,440 |

The capital leases have minimum lease payments as follows:

| Year Ending June 30, | Lease Payment |
|---|---|
| 2016 | $ 486,185 |
| 2017 | 474,185 |
| 2018 | 158,420 |
| 2019 | 158,420 |
| 2020 | 61,692 |
| 2021-2025 | 92,538 |
| Total | 1,431,440 |
| Less: Amount Representing Interest | 118,795 |
| Present Value of Minimum Lease Payments | $ 1,312,645 |

**Capital Leases – Business-Type Activities**

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

| | Buses |
|---|---|
| Balance, July 1, 2014 | $ 2,870,244 |
| Additions | 4,133,343 |
| Payments | 1,125,709 |
| Balance, June 30, 2015 | $ 5,877,878 |

The capital leases have minimum lease payments as follows:

| Year Ending June 30, | Lease Payment |
|---|---|
| 2016 | $ 1,302,807 |
| 2017 | 1,153,063 |
| 2018 | 953,548 |
| 2019 | 475,681 |
| 2020 | 475,681 |
| 2021-2025 | 1,517,098 |
| Total | 5,877,878 |
| Less: Amount Representing Interest | 566,741 |
| Present Value of Minimum Lease Payments | $ 5,311,137 |

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to $1,004,238.

**Supplemental Employee Retirement Plan (SERP)**

The District offered an early retirement incentive to qualified employees under a qualified plan of Section 401A of the Internal Revenue Code. Eligibility requirements are that the employees attain age 50 with at least ten years of service with the District. The retiree receives an annual benefit payment equal to five percent of their final annual salary on the salary schedule. This benefit is paid out annually to the retiree in equal installments. Currently, there are 248 employees participating in this plan and the District's obligation to those retirees as of June 30, 2015, is $1,274,884.

Future payments are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2016 | $ 672,502 |
| 2017 | 672,502 |
| Total | 1,345,004 |
| Less: Amount Representing Interest | 70,120 |
| Total | $ 1,274,884 |

### Claims Liability

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of $4,434,267.

### Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was $1,396,104, and contributions made by the District during the year were $532,316. Interest on the net OPEB obligation and adjustments to the annual required contribution were $840,895 and $(870,051), respectively, which resulted in an increase to the net OPEB obligation of $834,632. As of June 30, 2015, the net OPEB obligation was $19,521,179. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

## NOTE 9 - 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 $31,620,000 as of June 30, 2015, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

### NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

| | General Fund | Building Fund | Bond Interest and Redemption Fund |
|---|---|---|---|
| Nonspendable | | | |
| Revolving cash | $ 25,000 | $ - | $ - |
| Stores inventories | 220,937 | - | - |
| Total Nonspendable | 245,937 | - | - |
| Restricted | | | |
| Legally restricted programs | 1,164,301 | - | - |
| Capital projects | - | 24,001,857 | - |
| Debt services | - | - | 12,862,289 |
| Total Restricted | 1,164,301 | 24,001,857 | 12,862,289 |
| Committed | | | |
| Deferred maintenance program | - | - | - |
| OPEB reserves | 1,509,391 | - | - |
| First 5 preschool facility | - | - | - |
| Capital equipment and improvements | - | - | - |
| Total Committed | 1,509,391 | - | - |
| Assigned | | | |
| Site discretionary - instructional materials | 774,454 | - | - |
| Implementation of 2015-2016 LCAP initiatives | 1,711,779 | - | - |
| HTA Health and Welfare | 637,331 | - | - |
| CSEA Health and Welfare | 474,778 | - | - |
| Capital equipment and improvements | 274,389 | - | - |
| Network infrastructure | 349,112 | - | - |
| Donations - instructional materials and field trips | 401,154 | - | - |
| ROTC program | 13,463 | - | - |
| Instructional intervention materials | 50,962 | - | - |
| Unclaimed property | 35,912 | - | - |
| Adult Education program | 30,150 | - | - |
| 2016-2017 LCFF gap funding reserve | 6,225,451 | - | - |
| Instructional materials and services | 197,085 | - | - |
| CPHS | - | - | - |
| CPHS donations | - | - | - |
| CPHS - LCFF supplemental | - | - | - |
| WCA | - | - | - |
| WCA donations | - | - | - |
| WCA - LCFF supplemental | - | - | - |
| CPHS lottery | - | - | - |
| WCA lottery | - | - | - |
| Total Assigned | 11,176,020 | - | - |
| Unassigned | | | |
| Economic uncertainties | 10,489,775 | - | - |
| Total | $ 24,585,424 | $ 24,001,857 | $ 12,862,289 |

| Non-Major Governmental Funds | Total |
|---|---|
| | |
| $ 3,490 | $ 28,490 |
| 430,879 | 651,816 |
| 434,369 | 680,306 |
| | |
| 5,405,939 | 6,570,240 |
| 12,551,819 | 36,553,676 |
| 4,445,558 | 17,307,847 |
| 22,403,316 | 60,431,763 |
| | |
| 443,794 | 443,794 |
| - | 1,509,391 |
| 517,805 | 517,805 |
| 391,540 | 391,540 |
| 1,353,139 | 2,862,530 |
| | |
| - | 774,454 |
| - | 1,711,779 |
| - | 637,331 |
| - | 474,778 |
| - | 274,389 |
| - | 349,112 |
| - | 401,154 |
| - | 13,463 |
| - | 50,962 |
| - | 35,912 |
| - | 30,150 |
| - | 6,225,451 |
| - | 197,085 |
| 22,946 | 22,946 |
| 4,258 | 4,258 |
| 24,638 | 24,638 |
| 809,372 | 809,372 |
| 54,396 | 54,396 |
| 43,591 | 43,591 |
| 18,069 | 18,069 |
| 47,474 | 47,474 |
| 1,024,744 | 12,200,764 |
| | |
| - | 10,489,775 |
| $ 25,215,568 | $ 86,665,138 |

## NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

### Plan Description

The Postemployment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Hemet Unified School District. The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 113 retirees and beneficiaries currently receiving benefits and 2201 active Plan members.

### Contribution Information

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 Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014-2015, the District contributed $532,316 to the Plan, all of which was used for current premiums.

### Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

| | |
|---|---|
| Annual required contribution | $ 1,396,104 |
| Interest on net OPEB obligation | 840,895 |
| Adjustment to annual required contribution | (870,051) |
| Annual OPEB cost (expense) | 1,366,948 |
| Contributions made | (532,316) |
| Increase in net OPEB obligation | 834,632 |
| Net OPEB obligation, beginning of year | 18,686,547 |
| Net OPEB obligation, end of year | $ 19,521,179 |

### Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Employer Contribution | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2013 | $ 4,104,392 | $ 1,351,690 | 32.93% | $ 16,194,324 |
| 2014 | 4,089,774 | 1,597,551 | 39.06% | 18,686,547 |
| 2015 | 1,366,948 | 532,316 | 38.94% | 19,521,179 |

### Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age Normal (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|---|---|---|---|---|---|
| March 1, 2015 | $ - | $ 13,325,446 | $ 13,325,446 | 0% | $ 106,594,016 | 13% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 1, 2015, actuarial valuation, the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 4.0 percent investment rate of return, based on assumed long-term return on plan assets or employer assets, as appropriate. Healthcare cost trend rates were assumed at four percent for the plan year beginning July 1, 2014.

## 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, 2013 to June 30, 2015:

| | Health Care | Workers' Compensation | Total |
|---|---|---|---|
| Liability Balance, July 1, 2013 | $ 68,000 | $ 5,601,279 | $ 5,669,279 |
| Claims provision | 634,367 | 2,106,028 | 2,740,395 |
| Claims paid | (632,367) | (1,918,663) | (2,551,030) |
| Liability Balance, June 30, 2014 | 70,000 | 5,788,644 | 5,858,644 |
| Claims provision | 462,316 | 2,465,764 | 2,928,080 |
| Claims paid | (532,316) | (1,969,568) | (2,501,884) |
| Liability Balance, June 30, 2015 | $ - | $ 6,284,840 | $ 6,284,840 |
| Amount available to pay claims | $ - | $ 12,659,706 | $ 12,659,706 |

**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).

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense, and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

| Pension Plan | Proportionate Share of Net Pension Liability | Deferred Outflow of Resources | Proportionate Share of Deferred Inflow of Resources | Proportionate Share of Pension Expense |
|---|---|---|---|---|
| CalSTRS | $ 106,695,256 | $ 8,384,699 | $ 26,273,504 | $ 9,246,982 |
| CalPERS | 40,039,851 | 4,893,040 | 13,758,141 | 8,941,146 |
| Total | $ 146,735,107 | $ 13,277,739 | $ 40,031,645 | $ 18,188,128 |

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, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

**Benefits Provided**

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

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

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

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | STRP Defined Benefit Program | |
|---|---|---|
| Hire date | On or before December 31, 2012 | On or after 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 | 8.15% | 8.15% |
| Required employer contribution rate | 8.88% | 8.88% |
| Required state contribution rate | 5.95% | 5.95% |

**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, 2015, are presented above and the District's total contributions were $8,384,699.

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

At June 30, 2015, 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 | $ 106,695,256 |
| State's proportionate share of the net pension liability associated with the District | 64,427,202 |
| Total | $ 171,122,458 |

The net pension liability was measured as of June 30, 2014. 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. At June 30, 2015, the District's proportion was 0.1826 percent.

For the year ended June 30, 2015, the District recognized pension expense of $9,246,982. In addition, the District recognized revenue and pension expense of $5,562,148 for support provided by the State. At June 30, 2015, 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 | $ 8,384,699 | $ - |
| Difference between projected and actual earnings on pension plan investments | - | 26,273,504 |
| Total | $ 8,384,699 | $ 26,273,504 |

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Amortization |
|---|---|
| 2016 | $ 6,568,376 |
| 2017 | 6,568,376 |
| 2018 | 6,568,376 |
| 2019 | 6,568,376 |
| Total | $ 26,273,504 |

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2013 |
| Measurement date | June 30, 2014 |
| Experience study | July 1, 2006 through June 30, 2010 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.60% |
| Investment rate of return | 7.60% |
| Consumer price inflation | 3.00% |
| Wage growth | 3.75% |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined be assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Global equity | 47% | 4.50% |
| Private equity | 12% | 6.20% |
| Real estate | 15% | 4.35% |
| Inflation sensitive | 5% | 3.20% |
| Fixed income | 20% | 0.20% |
| Cash/liquidity | 1% | 0.00% |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.60 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 (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.60%) | $ 166,310,001 |
| Current discount rate (7.60%) | 106,695,256 |
| 1% increase (8.60%) | 56,987,394 |

**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, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

**Benefits Provided**

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, 2015, are summarized as follows:

| | School Employer Pool (CalPERS) | |
|---|---|---|
| | On or before | On or after |
| Hire date | December 31, 2012 | January 1, 2013 |
| Benefit formula | 2% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 Years of Service | 5 Years of Service |
| Benefit payments | Monthly for Life | Monthly for Life |
| Retirement age | 55 | 62 |
| Monthly benefits as a percentage of eligible compensation | 1.1% - 2.5% | 1.0% - 2.5% |
| Required employee contribution rate | 7.000% | 6.000% |
| Required employer contribution rate | 11.771% | 11.771% |

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. 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, 2015, are presented above and the total District contributions were $4,893,040.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $40,039,851. The net pension liability was measured as of June 30, 2014. 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, 2014 and June 30, 2013, respectively was 0.3527 percent and 0.3178 percent, resulting in a net increase in the proportionate share of 0.0349 percent.

For the year ended June 30, 2015, the District recognized pension expense of $8,941,146. At June 30, 2015, 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 | $ 4,893,040 | $ - |
| Net change in proportionate share of net pension liability | 3,745,378 | - |
| Difference between projected and actual earnings on pension plan investments | - | 13,758,141 |
| Total | $ 8,638,418 | $ 13,758,141 |

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred outflows of resources related to the net change in proportionate share of net pension liability will be amortized over the expected average remaining service lives (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2013-2014 measurement period is 3.9 years and the pension expense will be recognized as follows:

| Year Ended June 30, | Amortization |
|---|---|
| 2016 | $ 1,248,459 |
| 2017 | 1,248,459 |
| 2018 | 1,248,460 |
| Total | $ 3,745,378 |

The deferred inflow 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, | Amortization |
|---|---|
| 2016 | $ 3,439,535 |
| 2017 | 3,439,535 |
| 2018 | 3,439,535 |
| 2019 | 3,439,536 |
| Total | $ 13,758,141 |

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2013 |
| Measurement date | June 30, 2014 |
| Experience study | July 1, 1997 through June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.50% |
| Investment rate of return | 7.50% |
| Consumer price inflation | 2.75% |
| Wage growth | 3.00% |

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 47% | 5.25% |
| Global fixed income | 19% | 0.99% |
| Private equity | 12% | 6.83% |
| Real estate | 11% | 4.50% |
| Inflation sensitive | 6% | 0.45% |
| Infrastructure and Forestland | 3% | 4.50% |
| Liquidity | 2% | -0.55% |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50 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 (6.50%) | $ 70,239,038 |
| Current discount rate (7.50%) | 40,039,851 |
| 1% increase (8.50%) | 14,805,385 |

**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 $4,419,047 (5.679 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS). No contributions were made to CalPERS for the year ended June 30, 2015. 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. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General 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, 2015.

### 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, 2015.

### Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

| Capital Projects | Remaining Construction Commitments | Expected Date of Completion |
|---|---|---|
| Hemet El. - Reconstruction | $ 27,500,000 | December 1, 2017 |
| Nutrition Freezer (3 sites) | 600,000 | December 31, 2016 |
| HVAC Design | 2,002,000 | December 31, 2015 |
| | $ 30,102,000 | |

## NOTE 15 - PARTICIPATION JOINT POWERS AUTHORITY

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

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

During the year ended June 30, 2015, the District made payments of $820,492 to SoCal ReLiEF, for services received.

## NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

| | |
|---|---|
| **Statement of Net Position** | |
| Net Position - Beginning | $ 289,073,154 |
| Inclusion of net pension liability from the adoption of GASB Statement No. 68 | (179,524,068) |
| Inclusion of deferred outflow of resources from the adoption of GASB Statement No. 68 | 10,945,444 |
| Net Position - Beginning as Restated | $ 120,494,530 |

# *REQUIRED SUPPLEMENTARY INFORMATION*

# HEMET UNIFIED SCHOOL DISTRICT

## GENERAL FUND
## BUDGETARY COMPARISON SCHEDULE
## FOR THE YEAR ENDED JUNE 30, 2015

| | Budgeted Amounts | | Actual | Variances - Positive (Negative) Final |
|---|---|---|---|---|
| | Original | Final | (GAAP Basis) | to Actual |
| **REVENUES** | | | | |
| Local Control Funding Formula | $ 152,350,511 | $ 150,863,008 | $ 151,592,331 | $ 729,323 |
| Federal sources | 14,213,652 | 15,969,704 | 15,334,017 | (635,687) |
| Other State sources | 7,912,931 | 9,627,480 | 13,954,257 | 4,326,777 |
| Other local sources | 14,104,578 | 15,526,810 | 16,963,433 | 1,436,623 |
| **Total Revenues** [1] | 188,581,672 | 191,987,002 | 197,844,038 | 5,857,036 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| Certificated salaries | 93,634,726 | 95,479,041 | 95,295,350 | 183,691 |
| Classified salaries | 33,931,333 | 33,587,685 | 33,951,271 | (363,586) |
| Employee benefits | 37,837,807 | 36,855,454 | 39,944,851 | (3,089,397) |
| Books and supplies | 11,472,499 | 11,882,565 | 11,919,463 | (36,898) |
| Services and operating expenditures | 22,686,276 | 21,514,538 | 20,644,974 | 869,564 |
| Capital outlay | 550,189 | 2,431,977 | 2,735,025 | (303,048) |
| Other outgo | (691,554) | (195,572) | (373,940) | 178,368 |
| Debt service | | | | |
| Principal | 2,412,084 | 1,639,894 | 535,634 | 1,104,260 |
| Interest | 1,600,148 | 2,575,335 | 553,902 | 2,021,433 |
| **Total Expenditures** [1] | 203,433,508 | 205,770,917 | 205,206,530 | 564,387 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (14,851,836) | (13,783,915) | (7,362,492) | 6,421,423 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 347,552 | 3,928,691 | 585,172 | (3,343,519) |
| Other sources | - | 419,757 | 420,268 | 511 |
| Transfers out | (2,198,227) | (605,221) | (4,588,879) | (3,983,658) |
| **Net Financing Sources (Uses)** | (1,850,675) | 3,743,227 | (3,583,439) | (7,326,666) |
| **NET CHANGE IN FUND BALANCES** | (16,702,511) | (10,040,688) | (10,945,931) | (905,243) |
| **Fund Balance - Beginning** | 35,531,355 | 35,531,355 | 35,531,355 | - |
| **Fund Balance - Ending** | $ 18,828,844 | $ 25,490,667 | $ 24,585,424 | $ (905,243) |

[1] On behalf payments of $4,419,047 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
## FOR THE YEAR ENDED JUNE 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age Normal (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|---|---|---|---|---|---|
| July 1, 2010 | $ - | $ 34,505,420 | $ 34,505,420 | 0% | $ 100,578,069 | 34% |
| July 1, 2012 | - | 38,183,794 | 38,183,794 | 0% | 103,466,098 | 37% |
| March 1, 2015 | - | 13,325,446 | 13,325,446 | 0% | 106,594,016 | 13% |

HEMET UNIFIED SCHOOL DISTRICT

# SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
## FOR THE YEAR ENDED JUNE 30, 2015

| | 2015 |
|---|---|
| **CalSTRS** | |
| District's proportion of the net pension liability (asset) | 0.1826% |
| District's proportionate share of the net pension liability (asset) | $ 106,695,256 |
| State's proportionate share of the net pension liability (asset) associated with the District | 64,427,202 |
| Total | $ 171,122,458 |
| District's covered - employee payroll | $ 82,033,055 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll | 130.06% |
| Plan fiduciary net position as a percentage of the total pension liability | 77% |
| **CalPERS** | |
| District's proportion of the net pension liability (asset) | 0.3178% |
| District's proportionate share of the net pension liability (asset) | $ 40,039,851 |
| District's covered - employee payroll | $ 37,090,893 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll | 107.95% |
| Plan fiduciary net position as a percentage of the total pension liability | 83% |

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

## HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS
## FOR THE YEAR ENDED JUNE 30, 2015

| | 2015 |
|---|---|
| **CalSTRS** | |
| Contractually required contribution | $ 8,384,699 |
| Contributions in relation to the contractually required contribution | 8,384,699 |
| Contribution deficiency (excess) | $ - |
| District's covered - employee payroll | $ 94,422,286 |
| Contributions as a percentage of covered - employee payroll | 8.88% |
| **CalPERS** | |
| Contractually required contribution | $ 4,893,040 |
| Contributions in relation to the contractually required contribution | 4,893,040 |
| Contribution deficiency (excess) | $ - |
| District's covered - employee payroll | $ 41,572,133 |
| Contributions as a percentage of covered - employee payroll | 11.77% |

*Note*: In the future, as data become 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, 2015

| Federal Grantor/Pass-Through Grantor/Program | CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Indian Education - Grants to Local Educational Agencies | 84.060 | 10011 | $ 8,790 |
| Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education | 84.048 | 14894 | 231,850 |
| Passed through Riverside County Special Education Local Plan Area: | | | |
| Individuals with Disabilities Act (IDEA) | | | |
| Special Education (IDEA) Cluster: | | | |
| Basic Local Assistance Entitlement, Part B, Section 611 | 84.027 | 13379 | 4,482,410 |
| Local Assistance, Part B, Section 611, Private School ISPs | 84.027 | 10115 | 4,281 |
| Preschool Grants, Part B, Section 619 (Age 3-4-5) | 84.173 | 13430 | 63,330 |
| Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5) | 84.027A | 13682 | 154,773 |
| IDEA Mental Health Allocation Plan, Part B, Section 611 | 84.027A | 14468 | 167,989 |
| IDEA, Quality Assurance and Focused Monitoring, Part B, Section 611 | 84.027 | 13693 | 725 |
| Preschool Staff Development, Part B, Section 619 | 84.173A | 13431 | 674 |
| Total Special Education (IDEA) Cluster | | | 4,874,182 |
| Passed through Napa County Office of Education Local Plan Area: | | | |
| Special Education: Project Read | 84.323 | 14913 | 15,820 |
| Passed through California Department of Education (CDE): | | | |
| No Child Left Behind Act (NCLB): | | | |
| Title I, Part A, Basic Grants Low Income and Neglected | 84.010 | 14981 | 5,939,926 |
| Title II, Part A, Improving Teacher Quality Local Grants | 84.367 | 14341 | 868,949 |
| Title III Cluster: | | | |
| Title III, Limited English Proficient (LEP) Student Program | 84.365 | 14346 | 175,541 |
| Title III, Immigrant Education Program | 84.365 | 15146 | 12,009 |
| Title III Cluster | | | 187,550 |
| Title I, Part G: Advanced Placement (AP) Test Fee | 84.330 | 14831 | 52,849 |
| Title IV, Part B, 21st Century Community Learning Centers Program | 84.287 | 14349 | 775,800 |
| Elementary and Secondary School Counseling Discretionary Grants | 84.215E | [1] | 226,659 |
| ARRA - Investing in Innovation (i3) Fund | 84.411 | 10130 | 191,704 |
| Total U.S. Department of Education | | | 13,374,079 |

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

See accompanying note to supplementary information.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
## FOR THE YEAR ENDED JUNE 30, 2015

| Federal Grantor/Pass-Through Grantor/Program | CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Forest Reserve | 10.665 | 10044 | $ 63,131 |
| Passed through California Department of Education (CDE): | | | |
| Child Nutrition Cluster: | | | |
| School Basic Breakfast | 10.553 | 13390 | 9,173 |
| Especially Needy Breakfast | 10.553 | 13526 | 2,190,168 |
| National School Lunch Program | 10.555 | 13524 | 7,351,982 |
| Meal Supplement | 10.555 | 13396 | 286,228 |
| Food Distribution | 10.555 | 13524 | 645,951 |
| Total Child Nutrition Cluster | | | 10,483,502 |
| CCFP Claims - Centers and Family Day Care | 10.558 | 13393 | 198,099 |
| Equipment Assistance Grants | 10.579 | [1] | 64,000 |
| Total U.S. Department of Agriculture | | | 10,808,732 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through California Department of Health Services: | | | |
| Medicaid Cluster: | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 1,181,187 |
| Medical Administrative Activities Program | 93.778 | 10060 | 175,965 |
| Total Medicaid Cluster | | | 1,357,152 |
| Passed through Riverside County Office of Education (RCOE): | | | |
| Head Start | 93.600 | 10016 | 1,016,177 |
| Total U.S. Department of Health and Human Services | | | 2,373,329 |
| Total Federal Programs | | | $ 26,556,140 |

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

See accompanying note to supplementary information.

# LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
# JUNE 30, 2015

## ORGANIZATION

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

## GOVERNING BOARD

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| Ross Valenzuela | President | 2018 |
| Jim Smith | Vice President | 2016 |
| Megan Haley | Member | 2018 |
| Vic Scavarda | Member | 2018 |
| Patrick Searl | Member | 2016 |
| Marilyn Forst | Member | 2016 |
| Joe Wojcik | Member | 2018 |

## ADMINISTRATION

| | |
|---|---|
| Dr. Barry Kayrell | Superintendent |
| Vincent Christakos | Assistant Superintendent, Business Services |
| Dr. David Horton | Assistant Superintendent, Educational Services |
| Dr. LaFaye Platter | Deputy Superintendent, Human Resources |
| Pam Buckhout | Director of Fiscal Services |

See accompanying note to supplementary information.

## SCHEDULE OF AVERAGE DAILY ATTENDANCE
## FOR THE YEAR ENDED JUNE 30, 2015

| | Final Report | |
|---|---|---|
| | Second Period Report | Annual Report |
| Regular ADA | | |
| Transitional kindergarten through third | 6,071.84 | 6,082.79 |
| Fourth through sixth | 4,494.35 | 4,501.49 |
| Seventh and eighth | 2,809.46 | 2,812.89 |
| Ninth through twelfth | 6,220.09 | 6,174.62 |
| Total Regular ADA | 19,595.74 | 19,571.79 |
| Extended Year Special Education | | |
| Transitional kindergarten through third | 4.62 | 4.62 |
| Fourth through sixth | 3.71 | 3.71 |
| Seventh and eighth | 2.39 | 2.39 |
| Ninth through twelfth | 9.57 | 9.57 |
| Total Extended Year Special Education | 20.29 | 20.29 |
| Special Education, Nonpublic, Nonsectarian Schools | | |
| Transitional kindergarten through third | 1.40 | 1.54 |
| Fourth through sixth | 5.21 | 5.39 |
| Seventh and eighth | 5.04 | 5.39 |
| Ninth through twelfth | 24.58 | 23.26 |
| Total Special Education, Nonpublic, Nonsectarian Schools | 36.23 | 35.58 |
| Extended Year Special Education, Nonpublic, Nonsectarian Schools | | |
| Transitional kindergarten through third | 0.10 | 0.10 |
| Fourth through sixth | 0.58 | 0.58 |
| Ninth through twelfth | 2.77 | 2.77 |
| Total Extended Year Special Education, Nonpublic, Nonsectarian Schools | 3.45 | 3.45 |
| Total ADA | 19,655.71 | 19,631.11 |

See accompanying note to supplementary information.

## SCHEDULE OF AVERAGE DAILY ATTENDANCE (Continued)
## FOR THE YEAR ENDED JUNE 30, 2015

| | Final Report | |
|---|---|---|
| | Second Period Report | Annual Report |
| **COLLEGE PREP HIGH CHARTER** | | |
| Regular ADA | | |
| Ninth through twelfth | 113.01 | 110.41 |
| **Classroom based ADA** | | |
| Regular ADA | | |
| Ninth through twelfth | 113.01 | 110.41 |
| **WESTERN CENTER ACADEMY CHARTER** | | |
| Regular ADA | | |
| Fourth through sixth | 125.09 | 124.90 |
| Seventh and eighth | 249.77 | 250.26 |
| Total Regular ADA | 374.86 | 375.16 |
| **Classroom based ADA** | | |
| Regular ADA | | |
| Fourth through sixth | 125.09 | 124.90 |
| Seventh and eighth | 249.77 | 250.26 |
| Total Regular ADA | 374.86 | 375.16 |

See accompanying note to supplementary information.

## HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME
## FOR THE YEAR ENDED JUNE 30, 2015

| Grade Level | 1986-87 Minutes Requirement | Reduced 1986-87 Minutes Requirement | 2014-15 Actual Minutes | Number of Days Traditional Calendar | Number of Days Multitrack Calendar | Status |
|---|---|---|---|---|---|---|
| Kindergarten | 36,000 | 35,000 | 36,000 | 180 | N/A | Complied |
| Grades 1 - 3 | 50,400 | 49,000 | | | | |
| Grade 1 | | | 51,990 | 180 | N/A | Complied |
| Grade 2 | | | 51,990 | 180 | N/A | Complied |
| Grade 3 | | | 51,990 | 180 | N/A | Complied |
| Grades 4 - 6 | 54,000 | 52,500 | | | | |
| Grade 4 | | | 54,130 | 180 | N/A | Complied |
| Grade 5 | | | 54,130 | 180 | N/A | Complied |
| Grade 6 | | | 57,950 | 180 | N/A | Complied |
| Grades 7 - 8 | 54,000 | 52,500 | | | | |
| Grade 7 | | | 57,950 | 180 | N/A | Complied |
| Grade 8 | | | 57,950 | 180 | N/A | Complied |
| Grades 9 - 12 | 64,800 | 63,000 | | | | |
| Grade 9 | | | 64,840 | 180 | N/A | Complied |
| Grade 10 | | | 64,840 | 180 | N/A | Complied |
| Grade 11 | | | 64,840 | 180 | N/A | Complied |
| Grade 12 | | | 64,840 | 180 | N/A | Complied |

See accompanying note to supplementary information.

# SCHEDULE OF INSTRUCTIONAL TIME (Continued)
# FOR THE YEAR ENDED JUNE 30, 2015

## College Prep High School & Western Center Academy

| Grade Level | 1986-87 Minutes Requirement | Reduced 1986-87 Minutes Requirement | 2014-15 Actual Minutes | Number of Days Traditional Calendar | Number of Days Multitrack Calendar | Status |
|---|---|---|---|---|---|---|
| Grades 6 - 8 | 54,000 | 52,547 | | | | |
| Grade 6 | | | 57,950 | 180 | N/A | Complied |
| Grade 7 | | | 57,950 | 180 | N/A | Complied |
| Grade 8 | | | 57,950 | 180 | N/A | Complied |
| Grades 9 - 12 | 64,800 | 62,949 | | | | |
| Grade 9 | | | 65,587 | 180 | N/A | Complied |
| Grade 10 | | | 65,587 | 180 | N/A | Complied |
| Grade 11 | | | 65,587 | 180 | N/A | Complied |
| Grade 12 | | | 65,587 | 180 | N/A | Complied |

See accompanying note to supplementary information.

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

| | Transportation Enterprise Fund |
|---|---|
| FUND BALANCE | |
| Balance, June 30, 2015, Unaudited Actuals | $ 6,988,279 |
| Increase in: | |
| Capital assets | 3,502,311 |
| Accumulated depreciation | (607,715) |
| Capital lease obligations | (3,878,300) |
| Cash with fiscal agent | 632,522 |
| Balance, June 30, 2015, Audited Financial Statement | $ 6,637,097 |

See accompanying note to supplementary information.

## HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
## FOR THE YEAR ENDED JUNE 30, 2015

| | (Budget) 2016 [1] | 2015 | (as restated) 2014 | 2013 |
|---|---|---|---|---|
| GENERAL FUND [5] | | | | |
| Revenues | $ 230,995,156 | $ 197,844,038 | $ 179,319,718 | $ 178,926,157 |
| Other sources and transfers in | 1,078,175 | 1,005,440 | 1,502,778 | 1,707,303 |
| Total Revenues and Other Sources | 232,073,331 | 198,849,478 | 180,822,496 | 180,633,460 |
| Expenditures | 226,746,442 | 205,206,530 | 181,974,484 | 177,148,467 |
| Other uses and transfers out | 2,495,600 | 4,588,879 | 4,387,145 | 2,980,162 |
| Total Expenditures and Other Uses | 229,242,042 | 209,795,409 | 186,361,629 | 180,128,629 |
| INCREASE (DECREASE) IN FUND BALANCE | $ 2,831,289 | $ (10,945,931) | $ (5,539,133) | $ 504,831 |
| ENDING FUND BALANCE | $ 22,312,760 | $ 19,481,471 | $ 30,427,402 | $ 35,966,535 |
| AVAILABLE RESERVES [2] | $ 16,637,577 | $ 10,489,775 | $ 9,110,000 | $ 8,800,000 |
| AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3] | 7.26% | 5.11% | 5.00% | 5.00% |
| LONG-TERM OBLIGATIONS | N/A | $ 271,436,431 | $ 246,019,800 | $ 253,615,102 |
| K-12 AVERAGE DAILY ATTENDANCE AT P-2 [4] | 19,781 | 19,656 | 19,824 | 19,823 |

The General Fund balance has decreased by $16,485,064 over the past two years. The fiscal year 2015-2016 budget projects an increase of $2,831,289 (14.53 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 but anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have increased by $17,821,329 over the past two years.

Average daily attendance has decreased by 167 over the past two years. Growth of 125 ADA is anticipated during fiscal year 2015-2016.

[1] Budget 2016 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances contained within the General Fund.
[3] On behalf payments of $4,419,047, $4,181,629, and $4,157,888, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015, 2014, and 2013.
[4] Excludes Charter School ADA.
[5] General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

See accompanying note to supplementary information.

## SCHEDULE OF CHARTER SCHOOLS
## FOR THE YEAR ENDED JUNE 30, 2015

| Name of Charter School | Included in Audit Report |
|---|---|
| College Prep High (#1564) | Yes |
| Western Center Academy (#1144) | Yes |

See accompanying note to supplementary information.

## NON-MAJOR GOVERNMENTAL FUNDS
## COMBINING BALANCE SHEET
## JUNE 30, 2015

| | Charter Schools Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments | $ 967,701 | $ 55,352 | $ 4,305,863 | $ 1,287,990 |
| Receivables | 226,396 | 156,644 | 1,195,715 | 1,266 |
| Due from other funds | 118,555 | 123,656 | 9,313 | - |
| Stores inventories | - | - | 430,879 | - |
| **Total Assets** | $ 1,312,652 | $ 335,652 | $ 5,941,770 | $ 1,289,256 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **Liabilities:** | | | | |
| Accounts payable | $ 122,370 | $ 12,214 | $ 114,216 | $ 833,344 |
| Due to other funds | 86,757 | 323,438 | 23,645 | 12,118 |
| Unearned revenue | - | - | 42,382 | - |
| **Total Liabilities** | 209,127 | 335,652 | 180,243 | 845,462 |
| **Fund Balances:** | | | | |
| Nonspendable | - | - | 434,369 | - |
| Restricted | 78,781 | - | 5,327,158 | - |
| Committed | - | - | - | 443,794 |
| Assigned | 1,024,744 | - | - | - |
| **Total Fund Balances** | 1,103,525 | - | 5,761,527 | 443,794 |
| **Total Liabilities and Fund Balances** | $ 1,312,652 | $ 335,652 | $ 5,941,770 | $ 1,289,256 |

See accompanying note to supplementary information.

| Capital Facilities Fund | County School Facilities Fund | Special Reserve Fund for Capital Outlay Projects | Capital Projects for Blended Component Units Fund | Debt Service for Blended Component Units Fund | Non-Major Governmental Funds |
|---|---|---|---|---|---|
| $ 2,497,933 | $ 5,129,879 | $ 668,723 | $ 5,021,257 | $ 4,445,558 | $ 24,380,256 |
| 2,197 | 2,753 | 261 | - | - | 1,585,232 |
| - | 2,054 | 724,805 | - | - | 978,383 |
| - | - | - | - | - | 430,879 |
| $ 2,500,130 | $ 5,134,686 | $ 1,393,789 | $ 5,021,257 | $ 4,445,558 | $ 27,374,750 |
| | | | | | |
| $ 947 | $ 147,600 | $ 214,840 | $ - | $ - | $ 1,445,531 |
| - | - | 225,311 | - | - | 671,269 |
| - | - | - | - | - | 42,382 |
| 947 | 147,600 | 440,151 | - | - | 2,159,182 |
| | | | | | |
| - | - | - | - | - | 434,369 |
| 2,499,183 | 4,987,086 | 44,293 | 5,021,257 | 4,445,558 | 22,403,316 |
| - | - | 909,345 | - | - | 1,353,139 |
| - | - | - | - | - | 1,024,744 |
| 2,499,183 | 4,987,086 | 953,638 | 5,021,257 | 4,445,558 | 25,215,568 |
| | | | | | |
| $ 2,500,130 | $ 5,134,686 | $ 1,393,789 | $ 5,021,257 | $ 4,445,558 | $ 27,374,750 |

# HEMET UNIFIED SCHOOL DISTRICT

# NON-MAJOR GOVERNMENTAL FUNDS
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## FOR THE YEAR ENDED JUNE 30, 2015

| | Charter Schools Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Local Control Funding Formula | $ 3,983,207 | $ - | $ - | $ 1,500,000 |
| Federal sources | 1,353 | 198,099 | 10,547,501 | - |
| Other State sources | 639,976 | 1,518,975 | 831,308 | - |
| Other local sources | 372,135 | 560 | 928,986 | 4,978 |
| **Total Revenues** | 4,996,671 | 1,717,634 | 12,307,795 | 1,504,978 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| Instruction | 3,308,770 | 1,091,390 | - | - |
| Instruction-related activities: | | | | |
| Supervision of instruction | 3,526 | 182,273 | - | - |
| School site administration | 680,045 | 138,672 | - | - |
| Pupil services: | | | | |
| Food services | 49 | 213,266 | 11,150,515 | - |
| All other pupil services | 177,926 | 2,457 | - | - |
| Administration: | | | | |
| Data processing | 2,640 | - | - | - |
| All other administration | 175,106 | 76,220 | 590,944 | - |
| Plant services | 733,920 | 13,432 | 231,160 | 1,528,533 |
| Facility acquisition and construction | - | - | - | 379,584 |
| Ancillary services | 13,494 | - | - | - |
| Community services | 1,568 | - | - | - |
| Debt service | | | | |
| Principal | - | - | - | - |
| Interest and other | - | - | - | - |
| **Total Expenditures** | 5,097,044 | 1,717,710 | 11,972,619 | 1,908,117 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (100,373) | (76) | 335,176 | (403,139) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | 100,000 | - | 28,591 | - |
| Other sources | - | - | - | - |
| Transfers out | (317,755) | - | (368,435) | - |
| **Net Financing Sources (Uses)** | (217,755) | - | (339,844) | - |
| **NET CHANGE IN FUND BALANCES** | (318,128) | (76) | (4,668) | (403,139) |
| **Fund Balances - Beginning** | 1,421,653 | 76 | 5,766,195 | 846,933 |
| **Fund Balances - Ending** | $ 1,103,525 | $ - | $ 5,761,527 | $ 443,794 |

See accompanying note to supplementary information.

| Capital Facilities Fund | County School Facilities Fund | Special Reserve Fund for Capital Outlay Projects | Capital Projects for Blended Component Units Fund | Debt Service For Blended Component Units Fund | Non-Major Governmental Funds |
|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ 5,483,207 |
| - | - | - | - | - | 10,746,953 |
| - | - | - | - | - | 2,990,259 |
| 404,832 | 2,752 | 1,294 | 199,212 | 66,101 | 1,980,850 |
| 404,832 | 2,752 | 1,294 | 199,212 | 66,101 | 21,201,269 |
| | | | | | |
| - | - | - | - | - | 4,400,160 |
| | | | | | |
| - | - | - | - | - | 185,799 |
| - | - | - | - | - | 818,717 |
| | | | | | |
| - | - | - | - | - | 11,363,830 |
| - | - | - | - | - | 180,383 |
| | | | | | |
| - | - | - | - | - | 2,640 |
| 30,361 | - | - | - | - | 872,631 |
| - | - | - | - | - | 2,507,045 |
| 558,949 | 476,048 | 86,558 | - | - | 1,501,139 |
| - | - | - | - | - | 13,494 |
| - | - | - | - | - | 1,568 |
| | | | | | |
| - | - | - | - | 1,475,000 | 1,475,000 |
| - | - | 1,245,656 | - | 2,359,251 | 3,604,907 |
| 589,310 | 476,048 | 1,332,214 | - | 3,834,251 | 26,927,313 |
| | | | | | |
| (184,478) | (473,296) | (1,330,920) | 199,212 | (3,768,150) | (5,726,044) |
| | | | | | |
| - | 5,460,382 | 994,505 | - | 3,834,218 | 10,417,696 |
| - | - | 1,245,656 | - | - | 1,245,656 |
| - | - | (233,417) | - | - | (919,607) |
| - | 5,460,382 | 2,006,744 | - | 3,834,218 | 10,743,745 |
| (184,478) | 4,987,086 | 675,824 | 199,212 | 66,068 | 5,017,701 |
| 2,683,661 | - | 277,814 | 4,822,045 | 4,379,490 | 20,197,867 |
| $ 2,499,183 | $ 4,987,086 | $ 953,638 | $ 5,021,257 | $ 4,445,558 | $ 25,215,568 |

# NOTE TO SUPPLEMENTARY INFORMATION
# JUNE 30, 2015

## 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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

| Description | CFDA Number | Amount |
|---|---|---|
| Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances: | | $ 26,080,970 |
| Medi-Cal Billing Option | 93.778 | 299,205 |
| Medi-Cal Administrative Activities Program | 93.778 | 175,965 |
| Total Schedule of Expenditures of Federal Awards | | $ 26,556,140 |

### 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 neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

### Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

### Schedule of Financial Trends and Analysis

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

### Schedule of Charter Schools

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

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

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

# *INDEPENDENT AUDITOR'S REPORTS*

**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, 2015, 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 11, 2015.

**Emphasis of Matter - Change in Accounting Principles**

As discussed in Notes 1 and 16 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

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.



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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 11, 2015.

**Purpose of This Report**

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2015

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Hemet Unified School District
Hemet, California

**Report on Compliance for Each Major Federal Program**

We have audited Hemet Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hemet Unified School District's (the District) major Federal programs for the year ended June 30, 2015. 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 requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Hemet Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Hemet Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



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***Opinion on Each Major Federal Program***

In our opinion, Hemet Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

**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 OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2015

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



**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 compliance with the types of compliance requirements as identified in the *2014-2015 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, 2015.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's 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 *2014-2015 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, 2015.



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***Other Matters***

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 |
|---|---|
| Attendance Accounting: | |
| Attendance Reporting | 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 |
| Regional Occupational Centers or Programs Maintenance of Effort | No, see below |
| Adult Education Maintenance of Effort | Yes |
| California Clean Energy Jobs Act | Yes |
| After School Education and Safety Program: | |
| General Requirements | Yes |
| After School | Yes |
| Before School | No, see below |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Common Core Implementation Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control Accountability Plan | Yes |
| Charter Schools: | |
| Attendance | Yes |
| Mode of Instruction | Yes |
| Non Classroom-Based Instruction/Independent Study | No, see below |
| Determination of Funding for Non Classroom-Based Instruction | No, see below |
| Annual Instruction Minutes Classroom-Based | Yes |
| Charter School Facility Grant Program | Yes |

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

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

The District does not have a 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 have a Regional Occupational Center or Program; therefore, we did not perform procedures related to the Regional Occupational Centers or Programs Maintenance of Effort.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2015

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

# HEMET UNIFIED SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS
## FOR THE YEAR ENDED JUNE 30, 2015

| | |
|---|---|
| **FINANCIAL STATEMENTS** | |
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness identified? | No |
| Significant deficiency identified? | None reported |
| Noncompliance material to financial statements noted? | No |
| **FEDERAL AWARDS** | |
| Internal control over major Federal programs: | |
| Material weakness identified? | No |
| Significant deficiency identified? | None reported |
| Type of auditor's report issued on compliance for major Federal programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? | No |

Identification of major Federal programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 10.553 and 10.555 | Child Nutrition Cluster |
| 84.367 | Title II, Part A, Improving Teacher Quality Local Grants |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 796,684 |
| Auditee qualified as low-risk auditee? | Yes |
| **STATE AWARDS** | |
| Type of auditor's report issued on compliance for programs: | Unmodified |

## FINANCIAL STATEMENT FINDINGS
## FOR THE YEAR ENDED JUNE 30, 2015

None reported.

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2015

None reported.

## STATE AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2015

None reported.

## HEMET UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

Governing Board
Hemet Unified School District
Hemet, California

In planning and performing our audit of the basic financial statements of Hemet Unified School District (the District) for the year ending June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 11, 2015, on the financial statements of Hemet Unified School District.

***ASSOCIATED STUDENT BODY (ASB)***

***Rancho Viejo Middle School - Stale Dated Checks***

**Observation**

In reviewing the sites outstanding check listing for the December 2014 reconciliation, we noted that numerous checks were over 12 months old making the probability of them clearing the account quite low.

**Recommendation**

Outstanding checks over 12 months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation's. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

***Rancho Viejo Middle School - Timely Deposits***

**Observation**

Deposits are not being made timely by the site bookkeeper. This results in large cash balances being maintained at the site which severely decreases the safeguarding of the asset.



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**Recommendation**

At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure, including the maximum cash on hand that should be maintained at the site. The ultimate responsibility however, will reside with the site bookkeeper to make the deposits timely.

***Rancho Viejo Middle School - Uncleared Deposits***

**Observation**

In reviewing the bank reconciliation's outstanding items listing for October, November, and December 2014, auditor noted several uncleared deposits totaling $1,013.25.

**Recommendation**

Outstanding items should be investigated and credited/debited back to the appropriate account and taken off the subsequent bank reconciliation's. The review of the bank reconciliation should be performed by an individual independent of ASB accounting responsibilities to ensure accuracy and accountability of the reconciliation as a whole.

***Rancho Viejo Middle School - Inventory***

**Observation**

The controls and procedures for the student store physical inventory count and P.E. clothes are not in place.

**Recommendation**

At least semi-annually, students should take a physical inventory of all items in the student store and compare the physical number remaining to the calculated number remaining. Two students should count the inventory and record their counts on separate inventory forms. The students should then compare the two counts and recount any that do not agree.

***Rancho Viejo Middle School - Pre-numbered Receipts***

**Observation**

It appears that the site does not provide adequate controls over cash receipts. Although cash count forms are maintained as backup documentation for deposits, pre-numbered receipts are not used by the ASB Bookkeeper to account for cash collections and therefore, there is no reconciliation between issued receipts and bank deposits.

**Recommendation**

Pre-numbered receipts should be issued for all cash collections by teacher, advisors, and the site bookkeeper that would include a specific description of the source of the funds.

***Helen Hunt Jackson - Timely Deposits***

**Observation**

Deposits are not being made timely by the site bookkeeper. Auditor noted that cash collected was being held for over 130 days.

**Recommendation**

At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure, including the maximum cash on hand that should be maintained at the site. The ultimate responsibility however, will reside with the site bookkeeper to make the deposits timely.

***Helen Hunt Jackson - Uncleared Deposits***

**Observation**

In reviewing the bank reconciliation's outstanding items listing for September, October, and November 2014, auditor noted that several uncleared deposits totaling $291.25.

**Recommendation**

Outstanding items should be investigated and credited/debited back to the appropriate account and taken off the subsequent bank reconciliation's. The review of the bank reconciliation should be performed by an individual independent of ASB accounting responsibilities to ensure accuracy and accountability of the reconciliation as a whole.

***Helen Hunt Jackson - Disbursements Missing Invoice***

**Observation**

Student body disbursements are not adequately supported by proper documentation.

**Recommendation**

All disbursements should be accompanied by invoices and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received.

***Helen Hunt Jackson - Revenue Potentials***

**Observation**

The revenue potential forms are not completed at the site.

**Recommendation**

Revenue earned in the Student Body fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. Increased internal control procedures over these activities will assist the District in decreasing the risk of potential losses of the student body funds. One important internal control feature is the Revenue Potential Form. The revenue potential form is important because it shows whether or not all the monies that should have been raised and turned in actually were based on the price of the item and number sold. The form is also used to document overages and shortages or losses of merchandise. A secondary tool that the form accomplishes is to allow the bookkeeper to compare the advisors log of the deposits made for the fundraiser to the financial records of the appropriate account to ensure that all entries were correctly posted. The site administrator should ensure that these forms are completed and turned in to the bookkeeper at the conclusion of the fundraiser.

***Helen Hunt Jackson - Bank Reconciliations***

**Observation**

Through bank statement reconciliation testing, auditor noted that bank reconciliations and financial statements are not being reviewed or prepared on a timely basis. The bank reconciliation for the months of September 2014 through November 2014 was not completed until April 14, 2015.

**Recommendation**

Monthly bank reconciliation's must be done in order to ensure that the cash balances reported on the books are accurate and that the financial institution has not made a mistake. Reconciling the cash accounts, the balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are equal. The ASB Bookkeeper should prepare the bank reconciliations on a monthly basis and have them reviewed and signed by the appropriate personnel.

***SITE CASH COLLECTIONS***

***Helen Hunt Jackson - Library***

**Observation**

Deposits are not being made timely by the office manager. This results in large cash balances being maintained at the site which severely decreases the safeguarding of the asset. Auditor noted that monies collected on September 17, 2014 have not been deposited.

**Recommendation**

At a minimum, deposits should be made monthly to minimize the amount of cash held at the site. During months of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the office manager to make the deposits timely.

Governing Board
Hemet Unified School District

***Helen Hunt Jackson – Petty Cash Reimbursement Authorization***

**Observation**

In reviewing the petty cash reimbursements, auditor noted that the reimbursements did not have evidence of proper approvals from the site administrator indicated by signature on the "Report of Income and Abatement Form".

**Recommendation**

All petty cash reimbursements to the site staff and teachers should be approved by the site administrator to ensure that they are proper. In addition the site administrator should sign the "Report of Income and Abatement Form" to indicate that the petty cash reimbursement has been approved.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2015