HEMET UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

HEMET UNIFIED SCHOOL DISTRICT

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

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, 2017, 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 *2016-2017 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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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District, as of June 30, 2017, 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 – Correction of an Error

As discussed in Note 18 to the financial statements, the District has restated beginning net position of the government-wide and business-type activities financial statements to reflect furniture and equipment balances and corresponding depreciation. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 80, schedule of other postemployment benefits funding progress on page 81, schedule of the district's proportionate share of net pension liability on page 82, and the schedule of district contributions on page 83, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The accompanying supplementary information 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 15, 2017, on our consideration of the Hemet Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hemet Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hemet Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2017

HEMET UNIFIED SCHOOL DISTRICT

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Superintendent

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Vincent J. Christakos
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This section of Hemet Unified School District's (the District) (2016-2017) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017, with comparative information from 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

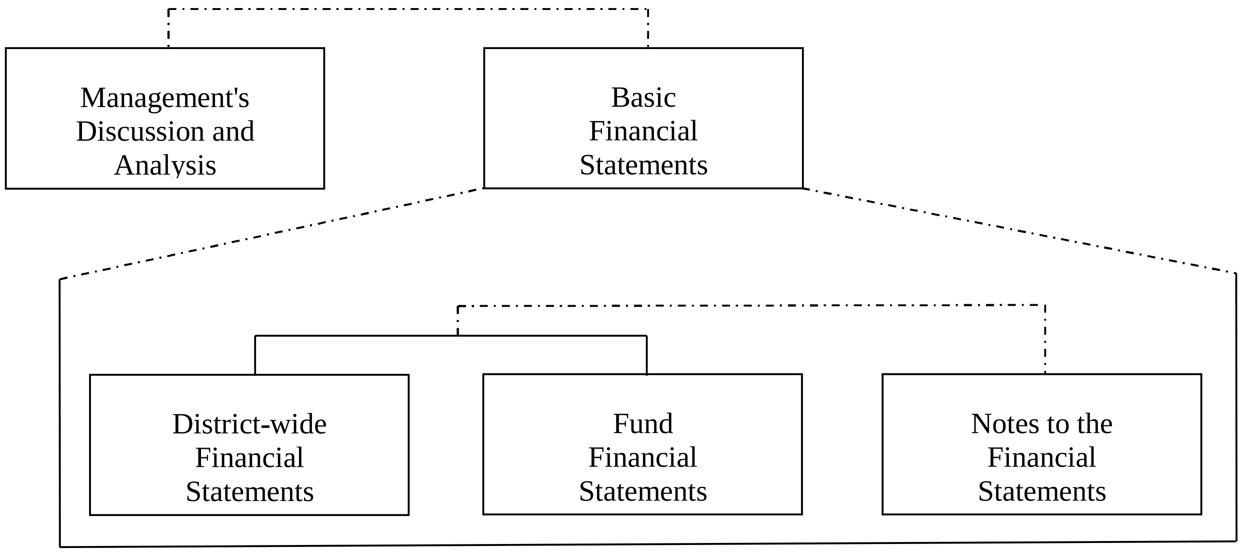
The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

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

Figure 1

Organization of Hemet Unified School District's Annual Financial Report



FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net position increased by $4.7 million over the prior year for a new net position of $121.7 million (page 15).
- Revenues, transfers in, and other financing sources for all funds, including bond issuances, totaled $343.7 million (page 20). Expenses, transfers out and other uses totaled $356.7 million.
- The General Fund audited ending balance, which includes $4.9 million in Fund 20 - Special Reserve for Post-Employment Benefits, totaled $39.4 million. This represents an increase of $0.8 million from the prior year.
- No new General Obligation Bonds or capital equipment leases were issued in 2016-17.
- The District's 2016-17 P-2 Average Daily Attendance (ADA), excluding charter schools and students in County programs, was reported at 20,545, an increase of 224 over the prior year.
- The District filed a positive status with both its First and Second Interim reports in 2016-17.

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 $112.9 million for the fiscal year ended June 30, 2017. 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	
	2017	(As Restated) 2016	2017	(As Restated) 2016	2017	(As Restated) 2016
Assets						
Current and other assets	$ 98.9	$ 110.3	$ 10.5	$ 6.1	$ 109.4	$ 116.4
Capital assets	454.0	442.5	8.6	13.2	462.6	455.7
Total Assets	552.9	552.8	19.1	19.3	572.0	572.1
Deferred Outflows of Resources	77.7	56.9	5.1	3.7	82.8	60.6
Liabilities						
Current liabilities	14.8	12.9	0.5	0.2	15.3	13.1
Long-term obligations	261.2	260.9	5.3	6.2	266.5	267.1
Aggregate net pension liability	235.6	183.9	9.3	8.8	244.9	192.7
Total Liabilities	511.6	457.7	15.1	15.2	526.7	472.9
Deferred Inflows of Resources	6.1	36.4	0.3	2.3	6.4	38.7
Net Position						
Net investment in capital assets	218.4	235.9	4.5	0.4	222.9	236.3
Restricted	28.5	28.2	-	-	28.5	28.2
Unrestricted (Deficit)	(134.0)	(148.5)	4.3	5.1	(129.7)	(143.4)
Total Net Position	$ 112.9	$ 115.6	$ 8.8	$ 5.5	$ 121.7	$ 121.1

Changes in Net Position

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

Table 2

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for services	$ 1.8	$ 1.6	$ 32.0	$ 17.0	$ 33.8	$ 18.6
Operating grants and contributions	56.2	51.8	0.7	-	56.9	51.8
Capital grants and contributions	6.0	-	-	-	6.0	-
General Revenues:						
Federal and State aid	179.7	172.0	-	-	179.7	172.0
Property taxes	47.4	45.0	-	-	47.4	45.0
Other general revenues	9.2	9.4	-	0.7	9.2	10.1
Total Revenues	300.3	279.8	32.7	17.7	333.0	297.5
Expenses						
Instruction-related	209.5	187.5	-	-	209.5	187.5
Pupil services	37.0	33.6	-	-	37.0	33.6
Administration	17.1	15.3	-	-	17.1	15.3
Plant services	22.9	23.0	-	-	22.9	23.0
Ancillary	2.1	2.0	-	-	2.1	2.0
Other	17.8	9.5	21.9	14.5	39.7	24.0
Total Expenses	306.4	270.9	21.9	14.5	328.3	285.4
Transfers	3.4	0.8	(3.4)	(0.8)	-	-
Change in Net Position	$ (2.7)	$ 9.7	$ 7.4	$ 2.4	$ 4.7	$ 12.1

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all governmental activities in 2016-2017 was $306.4 million. The amount that our taxpayers ultimately financed for these activities through local taxes was $47.4 million. The remaining cost was paid by those who benefited from the programs $1.8 million or by other governments and organizations who subsidized certain programs with $62.2 million in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with $179.7 million in Federal and State aid and $9.2 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	
	2017	2016	2017	2016
Instruction	$ 177.5	$ 158.2	$ 141.7	$ 132.1
Instruction-related activities	32.0	29.3	24.4	22.2
Pupil services	37.0	33.6	21.0	18.3
Administration	17.1	15.3	15.0	12.0
Plant services	22.9	23.0	22.0	22.2
Ancillary services	2.1	2.0	2.1	1.9
Other	17.8	9.5	16.3	8.8
Total	$ 306.4	$ 270.9	$ 242.5	$ 217.5

THE DISTRICT'S FUNDS

Upon completion of the 2016-2017 fiscal year, the District's governmental funds reported a combined fund balance of $77.2 million, a decrease of $13.0 million from 2015-2016 (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2016	Revenues	Expenditures	June 30, 2017
General Fund	$ 38.6	$ 259.8	$ 259.0	$ 39.4
Bond Interest and Redemption Fund	13.2	13.2	11.9	14.5
Debt Service Fund for Blended Component Unit	2.8	37.0	39.4	0.4
Non-Major Governmental Funds	35.6	33.8	46.5	22.9
Total	$ 90.2	$ 343.8	$ 356.8	$ 77.2

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 6, 2017. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in this annual financial report on page 80.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District had $454 million in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $10.9 million, or 2.4 percent, over the prior year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
		(As Restated)		(As Restated)		(As Restated)
	2017	2016	2017	2016	2017	2016
Land	$ 24.7	$ 24.7	$ -	$ -	$ 24.7	$ 24.7
Construction in progress	35.3	12.7	-	-	35.3	12.7
Buildings and improvements	386.2	397.2	-	-	386.2	397.2
Equipment	7.8	7.9	8.5	9.1	16.3	17.0
Total	$ 454.0	$ 442.5	$ 8.5	$ 9.1	$ 462.5	$ 451.6

This year's additions totaled $28.8 million, with the majority of expenses related to capital assets for 2016-2017 include Hemet Elementary, Valle Vista Preschool facilities and bus purchases. The District's capital assets additions, deletions, and balances are presented in Note 5 in these financial statements.

Capital projects planned for the 2017-2018 year include completion of the Valle Vista Preschool facility and other miscellaneous projects.

Long-Term Obligations

At June 30, 2017, the District had $233.4 million in general obligation bonds and certificates of participation outstanding compared to $234.1 million in June 30, 2016, a decrease of $0.7 million, or 0.3 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	
	2017	2016	2017	2016	2017	2016
General obligation bonds	$ 178.1	$ 183.5	$ -	$ -	$ 178.1	$ 183.5
Certificates of participation	55.3	50.6	-	-	55.3	50.6
Capital leases	0.6	1.1	4.0	5.1	4.6	6.2
Accumulated vacation	1.1	1.1	-	-	1.1	1.1
SERP	-	0.6	-	-	-	0.6
Claims liability	5.2	4.7	-	-	5.2	4.7
Net OPEB obligation	20.8	19.3	1.3	1.1	22.1	20.4
Total	$ 261.1	$ 260.9	$ 5.3	$ 6.2	$ 266.4	$ 267.1

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

Net Pension Liability (NPL)

At year-end, the District had a pension liability of $244.8 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 2017-2016 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2017. 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 2017-2018 budget, which includes site and department allocations for both staffing and operating budgets.

Table 7

2017-2018 Budget Assumptions

Cost of Living Adjustment (COLA) (applied to LCFF targeted base)	1.56%
Enrollment (excluding Charters)	21,221
Enrollment Growth (Decline)	150
ADA - Average Daily Attendance	20,028
ADA - Funded	20,028
ADA Percentage	94.4%
Salary Increase	2.0%
Step and Column Percent of Salaries	1.25%
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, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	$ 86,653,243	$ 4,742,966	$ 91,396,209
Receivables	10,883,659	6,361,567	17,245,226
Internal balances	653,278	(653,278)	-
Stores inventories	744,570	-	744,570
Capital assets			
Land and construction in process	60,000,127	-	60,000,127
Other capital assets	573,629,444	20,082,282	593,711,726
Less: Accumulated depreciation	(179,668,093)	(11,558,312)	(191,226,405)
Total Capital Assets	453,961,478	8,523,970	462,485,448
TOTAL ASSETS	552,896,228	18,975,225	571,871,453
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	77,671,612	5,148,182	82,819,794
LIABILITIES			
Accounts payable	8,746,627	477,281	9,223,908
Accrued interest payable	3,316,191	-	3,316,191
Unearned revenue	619,258	-	619,258
Claims liabilities	2,162,626	-	2,162,626
Long-term obligations			
Current portion of long-term obligations other than pensions	7,800,376	521,372	8,321,748
Noncurrent portion of long-term obligations other than pensions	253,297,236	4,787,183	258,084,419
Total Long-Term Obligations	261,097,612	5,308,555	266,406,167
Aggregate net pension liability	235,572,652	9,252,343	244,824,995
TOTAL LIABILITIES	511,514,966	15,038,179	526,553,145
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	6,126,535	277,978	6,404,513
NET POSITION			
Net investment in capital assets	218,387,210	4,500,496	222,887,706
Restricted for:			
Debt service	11,650,926	-	11,650,926
Capital projects	9,648,097	-	9,648,097
Educational programs	4,124,451	-	4,124,451
Other restrictions	3,120,290	-	3,120,290
Unrestricted (Deficit)	(134,004,635)	4,306,754	(129,697,881)
TOTAL NET POSITION	$ 112,926,339	$ 8,807,250	$ 121,733,589

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

HEMET UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Governmental Activities:				
Instruction	$ 177,514,074	$ 20,223	$ 29,796,861	$ 6,015,788
Instruction-related activities:				
Supervision of instruction	11,081,963	137	5,829,252	-
Instructional library, media and technology	2,405,806	151	629,336	-
School site administration	18,561,304	5,972	1,214,564	-
Pupil services:				
Home-to-school transportation	6,067,755	-	308,015	-
Food services	13,714,312	778,020	10,755,567	-
All other pupil services	17,243,076	109	4,209,974	-
Administration:				
Data processing	3,291,446	-	-	-
All other administration	13,820,020	43,561	2,072,016	-
Plant services	22,860,777	12,425	809,671	-
Ancillary services	2,119,601	204	39,890	-
Community services	124,258	-	-	-
Enterprise services	232,027	-	-	-
Interest on long-term obligations	8,870,571	-	-	-
Other outgo	8,548,826	930,774	539,496	-
Total Governmental Activities	306,455,816	1,791,576	56,204,642	6,015,788
Business-Type Activities				
Transportation	22,006,591	32,045,137	743,134	-
Total School District	$ 328,462,407	$ 33,836,713	$ 56,947,776	$ 6,015,788

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
$ (141,681,202)	$ -	$ (141,681,202)
(5,252,574)	-	(5,252,574)
(1,776,319)	-	(1,776,319)
(17,340,768)	-	(17,340,768)
(5,759,740)	-	(5,759,740)
(2,180,725)	-	(2,180,725)
(13,032,993)	-	(13,032,993)
(3,291,446)	-	(3,291,446)
(11,704,443)	-	(11,704,443)
(22,038,681)	-	(22,038,681)
(2,079,507)	-	(2,079,507)
(124,258)	-	(124,258)
(232,027)	-	(232,027)
(8,870,571)	-	(8,870,571)
(7,078,556)	-	(7,078,556)
(242,443,810)	-	(242,443,810)
-	10,781,680	10,781,680
(242,443,810)	10,781,680	(231,662,130)
30,726,159	-	30,726,159
13,141,771	-	13,141,771
3,545,683	-	3,545,683
179,722,129	-	179,722,129
293,498	-	293,498
369,364	-	369,364
8,497,104	-	8,497,104
236,295,708	-	236,295,708
(6,148,102)	10,781,680	4,633,578
3,411,523	(3,411,523)	-
(2,736,579)	7,370,157	4,633,578
119,322,775	(2,222,764)	117,100,011
(3,659,857)	3,659,857	-
115,662,918	1,437,093	117,100,011
$ 112,926,339	$ 8,807,250	$ 121,733,589

HEMET UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units
ASSETS			
Deposits and investments	$ 37,964,444	$ 14,567,554	$ 399,563
Receivables	9,112,307	-	-
Due from other funds	1,419,904	-	-
Stores inventories	207,286	-	-
Total Assets	$ 48,703,941	$ 14,567,554	$ 399,563
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 6,915,268	$ -	$ -
Due to other funds	1,907,424	-	-
Unearned revenue	527,990	-	-
Total Liabilities	9,350,682	-	-
Fund Balances:			
Nonspendable	232,286	-	-
Restricted	4,124,451	14,567,554	399,563
Committed	4,848,373	-	-
Assigned	17,133,149	-	-
Unassigned	13,015,000	-	-
Total Fund Balances	39,353,259	14,567,554	399,563
Total Liabilities and Fund Balances	$ 48,703,941	$ 14,567,554	$ 399,563

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

	Non-Major Governmental Funds	Total Governmental Funds
	$ 21,423,721	$ 74,355,282
	1,739,103	10,851,410
	1,830,833	3,250,737
	537,284	744,570
	$ 25,530,941	$ 89,201,999
	$ 1,743,909	$ 8,659,177
	789,326	2,696,750
	91,268	619,258
	2,624,503	11,975,185
	542,354	774,640
	19,709,036	38,800,604
	396,408	5,244,781
	2,258,640	19,391,789
	-	13,015,000
	22,906,438	77,226,814
	$ 25,530,941	$ 89,201,999

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balance - Governmental Funds		**$ 77,226,814**
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:	$ 633,629,571	
Accumulated depreciation is:	(179,668,093)	
Net Capital Assets		453,961,478
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.		(3,316,191)
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:		4,905,873
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:		
Pension contributions subsequent to measurement date	27,653,232	
Net change in proportionate share of net pension liability	23,308,661	
Differences between projected and actual earnings on pension plan investments	23,817,064	
Differences between expected and actual experience in the measurement of the total pension liability	2,892,655	
Total Deferred Outflows of Resources Related to Pensions		77,671,612

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, 2017

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:		
Differences between expected and actual experience in the measurement of the total pension liability	(4,105,892)	
Changes in assumptions	(2,020,643)	
Total Deferred Inflows of Resources Related to Pensions		(6,126,535)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		$ (235,572,652)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	$ (169,720,000)	
Premium on issuance, net of amortization	(8,441,026)	
Discount on issuance, net of amortization	83,016	
Certificates of participation	(50,832,297)	
Premium on issuance, net of amortization	(4,582,751)	
Discount on issuance, net of amortization	66,495	
Capital lease obligations	(564,384)	
Compensated absences - accumulated vacation	(1,054,556)	
Net OPEB obligation	(20,778,557)	
Total Long-Term Obligations		(255,824,060)
Total Net Position - Governmental Activities		**$ 112,926,339**

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, 2017

	General Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units
REVENUES			
Local Control Funding Formula	$ 195,739,591	$ -	$ -
Federal sources	17,980,848	-	-
Other State sources	24,427,422	180,251	-
Other local sources	16,811,558	13,022,749	1,046
Total Revenues	254,959,419	13,203,000	1,046
EXPENDITURES			
Current			
Instruction	155,310,942	-	-
Instruction-related activities:			
Supervision of instruction	10,718,844	-	-
Instructional library, media, and technology	2,369,770	-	-
School site administration	16,764,082	-	-
Pupil services:			
Home-to-school transportation	5,957,052	-	-
Food services	19,557	-	-
All other pupil services	16,910,380	-	-
Administration:			
Data processing	3,240,325	-	-
All other administration	12,280,853	-	-
Plant services	20,465,317	-	-
Facility acquisition and construction	5,847,455	-	-
Ancillary services	2,041,090	-	-
Community services	117,973	-	-
Other outgo	28,826	-	8,520,000
Enterprise services	86	-	-
Debt service			
Principal	932,430	4,950,000	28,285,000
Interest and other	51,575	6,921,073	2,437,014
Total Expenditures	253,056,557	11,871,073	39,242,014
Excess (Deficiency) of Revenues Over Expenditures	1,902,862	1,331,927	(39,240,968)
OTHER FINANCING SOURCES (USES)			
Transfers in	4,796,007	-	3,326,441
Other sources	-	-	33,663,772
Transfers out	(5,986,066)	-	(91,459)
Net Financing Sources (Uses)	(1,190,059)	-	36,898,754
NET CHANGE IN FUND BALANCES	712,803	1,331,927	(2,342,214)
Fund Balance - Beginning	38,640,456	13,235,627	2,741,777
Fund Balances - Ending	$ 39,353,259	$ 14,567,554	$ 399,563

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

Non-Major Governmental Funds	Total Governmental Funds
$ 4,930,002	$ 200,669,593
11,613,442	29,594,290
10,619,667	35,227,340
3,747,121	33,582,474
30,910,232	299,073,697
5,754,213	161,065,155
213,920	10,932,764
8,070	2,377,840
1,063,904	17,827,986
-	5,957,052
12,801,695	12,821,252
191,311	17,101,691
476	3,240,801
1,041,951	13,322,804
2,626,618	23,091,935
21,211,877	27,059,332
64,084	2,105,174
5,851	123,824
-	8,548,826
-	86
-	34,167,430
-	9,409,662
44,983,970	349,153,614
(14,073,738)	(50,079,917)
2,882,048	11,004,496
-	33,663,772
(1,515,448)	(7,592,973)
1,366,600	37,075,295
(12,707,138)	(13,004,622)
35,613,576	90,231,436
$ 22,906,438	$ 77,226,814

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, 2017

Total Net Change in Fund Balances - Governmental Funds		**$ (13,004,622)**
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	$ 28,102,847	
Depreciation expense	(16,655,325)	
Net Expense Adjustment		11,447,522
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 $637,442. Vacation used was more than amounts earned by $1,170.		636,272
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.		(657,092)
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 annual OPEB cost by $1,449,172.		(1,449,172)
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 certificates of participation		(30,190,000)

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, 2017

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 certificates of participation		$ (3,473,772)
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		4,950,000
Certificates of participation		28,648,048
Capital lease obligations		569,382
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	$ 417,891	
Discount on issuance for general obligation bonds	(6,918)	
Premium on issuance for certificates of participation	201,321	
Discount on issuance for certificates of participation	(3,410)	
Combined Adjustment		608,884
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.		(69,793)
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.		(752,236)
Change in Net Position of Governmental Activities		**$ (2,736,579)**

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

	Business-Type Activities Enterprise Fund Transportation	Governmental Activities Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$ 4,742,966	$ 12,297,961
Receivables	6,361,567	32,249
Due from other funds	522,977	100,842
Total Assets	11,627,510	12,431,052
Noncurrent Assets		
Capital assets	20,082,282	-
Less: accumulated depreciation	(11,558,312)	-
Total Noncurrent Assets	8,523,970	-
Total Assets	20,151,480	12,431,052
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	5,148,182	-
LIABILITIES		
Current Liabilities		
Accounts payable	477,281	87,450
Due to other funds	1,176,255	1,551
Claims liability	-	2,162,626
Total Current Liabilities	1,653,536	2,251,627
Noncurrent Liabilities		
Long-term claims liability	-	5,273,552
Capital lease	4,023,474	-
Net OPEB Obligation	1,285,081	-
Aggregate net pension liability	9,252,343	-
Total Liabilities	16,214,434	7,525,179
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	277,978	-
NET POSITION		
Net investment in capital assets	4,500,496	-
Unrestricted	4,306,754	4,905,873
Total Net Position	$ 8,807,250	$ 4,905,873

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, 2017

	Business-Type Activities Enterprise Fund	Governmental Activities
	Transportation	Internal Service Fund
OPERATING REVENUES		
Charges to other funds and miscellaneous revenues	$ 32,768,122	$ 2,348,225
OPERATING EXPENSES		
Payroll costs	15,229,991	-
Professional and contract services	1,543,294	3,185,837
Supplies and materials	3,097,544	4,744
Facility rental	859,693	-
Depreciation	1,276,069	-
Total Operating Expenses	22,006,591	3,190,581
Operating Income	10,761,531	(842,356)
NONOPERATING REVENUES		
Interest income	15,719	90,120
Grants	4,430	-
Total Nonoperating Revenues	20,149	90,120
Income Before Transfers	10,781,680	(752,236)
Transfers out	(3,411,523)	-
Change in Net Position	7,370,157	(752,236)
Net Position - Beginning	(2,222,764)	5,658,109
Restatement	3,659,857	-
Net Position - Beginning (as Restated)	1,437,093	5,658,109
Total Net Position - Ending	$ 8,807,250	$ 4,905,873

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, 2017

	Business-Type Activities Enterprise Fund	Governmental Activities
	Transportation	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 32,783,841	$ 3,748,815
Cash received from assessments made to other funds	(522,977)	-
Cash payments to employees for services	(15,229,991)	-
Cash payments to suppliers for goods and services	(2,402,987)	-
Cash payments for administrative expense	(3,097,544)	(4,744)
Other operating cash payments	678,565	(2,643,507)
Net Cash Provided by Operating Activities	12,208,907	1,100,564
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	4,430	-
Transfers to other funds	3,411,523	-
Net Cash Provided by Noncapital Financing Activities	3,415,953	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(12,235,290)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	15,719	90,120
Net Increase in Cash and Cash Equivalents	3,405,289	1,190,684
Cash and Cash Equivalents - Beginning	1,337,677	11,107,277
Cash and Cash Equivalents - Ending	$ 4,742,966	$ 12,297,961

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 10,761,531	$ (842,356)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,276,069	-
Changes in assets and liabilities:		
Receivables	96,118	(11,024)
Due from other funds	(519,184)	1,400,590
Capital assets	279,751	-
Deferred outflows	(1,447,877)	-
Accounts payable	(292,944)	(53,474)
Due to other funds	(528,419)	(4,361)
Capital leases	(1,075,738)	-
Net OPEB Obligation	140,926	-
Aggregate net pension liability	5,523,836	-
Claims liabilities	-	611,189
Deferred inflows	(2,005,162)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 12,208,907	$ 1,100,564

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

HEMET UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Agency Funds			
	Associated Student Body	Debt Service Fund for Special Tax Bonds	Funds Held On Behalf of Other Agencies	Total Agency Funds
ASSETS				
Deposits and investments	$ 1,401,605	$ 4,634,636	$ 458,881	$ 6,495,122
Stores inventories	3,403	-	-	3,403
Total Assets	$ 1,405,008	$ 4,634,636	$ 458,881	$ 6,498,525
LIABILITIES				
Due to bond holders	$ -	$ 4,634,636	$ -	$ 4,634,636
Due to other agencies	-	-	458,881	458,881
Due to student groups	1,405,008	-	-	1,405,008
Total Liabilities	$ 1,405,008	$ 4,634,636	$ 458,881	$ 6,498,525

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 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 $4,848,373.

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

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

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.

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

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

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

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

Capital Project Funds The Capital Project funds are used to account for financial resources 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).

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of 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 1A), 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).

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

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

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

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB), debt service fund for special tax bonds, and funds held on behalf of other agencies.

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2017, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2017, 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, 2017. 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 $28,543,764 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.

Change in Accounting Principles

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*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The District has implemented the provisions of this Statement as of June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The District has implemented the provisions of this Statement as of June 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

The District has implemented the provisions of this Statement as of June 30, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements

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

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

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

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

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

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

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

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

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

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

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;

- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental activities	$ 86,653,243
Business-type activities	4,742,966
Fiduciary funds	6,495,122
Total Deposits and Investments	$ 97,891,331

Deposits and investments as of June 30, 2017, consisted of the following:

Cash on hand and in banks	$ 7,227,818
Cash in revolving	30,070
Investments	90,633,443
Total Deposits and Investments	$ 97,891,331

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	Reported Amount	Maturity Date
Federal Farm Credit Banks	$ 2,299,715	3/12/2018
Certificates of Deposit	941,624	10/5/2018
Federal Home Loan Mortgage Corp. - MTN	453,765	5/30/2019
Federal National Mortgate Association	989,199	5/6/2021
Federal Home Loan Banks	740,235	6/27/2018
Private Export Funding Note	561,116	7/15/2018
Commercial Paper	1,044,917	8/30/2016
Riverside County Investment Pool	83,602,872	412*
Total	$ 90,633,443	

*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, 2017	Fair Value
Federal Farm Credit Banks	Not Required	AAA	$ 2,299,715
Certificates of Deposit	Not Required	Not Rated	941,624
Federal Home Loan Mortgage Corp. - MTN	Not Required	AAA	453,765
Federal National Mortgage Association	Not Required	Aaa	989,199
Federal Home Loan Banks	Not Required	Aaa	740,235
Private Export Funding Note	A	Aaa	561,116
Commercial Paper	P-1	Aaa	1,044,917
Riverside County Investment Pool	Not Required	Aaa-bf	83,602,872
Total			$ 90,633,443

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, 2017, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2017:

Investment Type	Reported Amount	Fair Value Measurements Using Level 2 Inputs	Uncategorized
Federal Farm Credit Banks	$ 2,299,715	$ 2,299,715	$ -
Certificates of Deposit	941,624	941,624	-
Federal Home Loan Mortgage Corp. - MTN	453,765	453,765	-
Federal National Mortgate Association	989,199	989,199	-
Federal Home Loan Banks	740,235	740,235	-
Private Export Funding Note	561,116	561,116	-
Commercial Paper	1,044,917	1,044,917	-
Riverside County Investment Pool	83,602,872	-	83,602,872
Total	$ 90,633,443	$ 7,030,571	$ 83,602,872

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Transportation Enterprise Fund
Federal Government					
Categorical aid	$ 5,109,040	$ 1,363,142	$ -	$ 6,472,182	$ -
State Government					
Categorical aid	1,655,485	274,150	-	1,929,635	-
Lottery	863,697	25,650	-	889,347	-
Local Government					
Interest	78,396	40,797	32,249	151,442	-
Other local sources	1,405,689	35,364	-	1,441,053	6,361,567
Total	$ 9,112,307	$ 1,739,103	$ 32,249	$10,883,659	$ 6,361,567

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	(As Restated) Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 24,701,180	$ -	$ -	$ 24,701,180
Construction in progress	12,689,808	22,609,139	-	35,298,947
Total Capital Assets Not Being Depreciated	37,390,988	22,609,139	-	60,000,127
Capital Assets Being Depreciated				
Buildings and improvements	546,751,537	4,375,257	-	551,126,794
Furniture and equipment	21,384,199	1,118,451	-	22,502,650
Total Capital Assets Being Depreciated	568,135,736	5,493,708	-	573,629,444
Total Capital Assets	605,526,724	28,102,847	-	633,629,571
Less Accumulated Depreciation				
Buildings and improvements	149,589,657	15,354,568		164,944,225
Furniture and equipment	13,423,111	1,300,757	-	14,723,868
Total Accumulated Depreciation	163,012,768	16,655,325	-	179,668,093
Governmental Activities Capital Assets, Net	442,513,956	11,447,522	-	453,961,478
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture and equipment	19,802,531	741,651	461,900	20,082,282
Less Accumulated Depreciation				
Furniture and equipment	10,665,472	1,276,069	383,229	11,558,312
Business-Type Activities Capital Assets, Net	9,137,059	(534,418)	78,671	8,523,970
School District Totals	$ 451,651,015	$ 10,913,104	$ 78,671	$ 462,485,448

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

Governmental Activities	
Instruction	$ 13,757,275
School site administration	449,695
Food services	782,800
All other administration	982,663
Plant services	682,892
Total Depreciation Expenses Governmental Activities	16,655,325
Business-Type Activities	
Home-to-school transportation	1,276,069
School District Totals	$ 17,931,394

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds, and internal service funds are as follows:

	Due From				
Due To	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	Internal Service Fund	Total
General Fund	$ -	$ 242,098	$ 1,176,255	$ 1,551	$ 1,419,904
Non-Major Governmental Funds	1,383,605	447,228	-	-	1,830,833
Transportation Enterprise Fund	522,977	-	-	-	522,977
Internal Service Fund	842	100,000	-	-	100,842
Total	$ 1,907,424	$ 789,326	$ 1,176,255	$ 1,551	$ 3,874,556

A balance of $1,088,312 is due to the County School Facilities Non-Major Governmental Fund from the General Fund for construction costs at Hemet Elementary.

A balance of $177,904 is due to the Charter School Non-Major Governmental Fund from the General Fund for final in-lieu adjustment.

A balance of $284,492 is due to the Charter School Non-Major Governmental Fund from the General Fund for expenses.

The balance of $1,176,255 is due to the General Fund from the Transportation Enterprise Fund for administration costs and field trip charge backs.

A balance of $222,423 is due to the Cafeteria Non-Major Governmental Fund from the County School Facility Non-Major Governmental for equipment costs.

The balance of $522,977 is due to the Transportation Enterprise Fund from the General Fund to cover the District and Special Education direct costs.

The balance of $100,000 is due to the Internal Service Fund from the Child Development Non-Major Governmental 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, 2017, consisted of the following:

	Transfer From				
Transfer To	General Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Transportation Enterprise Fund	Total
General Fund	$ -	$ 91,459	$ 1,293,025	$ 3,411,523	$ 4,796,007
Debt Service Fund for Blended Component	3,326,441	-	-	-	3,326,441
Non-Major Governmental Funds	2,659,625	-	222,423	-	2,882,048
Total	$ 5,986,066	$ 91,459	$ 1,515,448	$ 3,411,523	$ 11,004,496

The General Fund transferred to the Debt Service Fund for Blended Component Units for debt service payments.	$ 3,326,441
The General Fund transferred to the Charter School Non-Major Governmental Fund to support excess costs.	154,925
The General Fund transferred to the Child Development Non-Major Governmental Fund to support excess costs.	9,100
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund to cover costs.	2,000,000
The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for construction of pre-school facility.	495,600
The Debt Service Fund for Blended Component Units Non-Major Governmental Fund transferred to the General Fund for excess debt service payments.	91,459
The Charter School Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment.	339,025
The Cafeteria Non-Major Governmental Fundtransferred to the County School Facilities Non-Major Governmental Fund for equipment costs.	222,423
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the General Fund for Prop 39 expenses.	954,000
The Transportation Enterprise Fund transferred to the General Fund for admin fees and to cover District transportation costs.	3,411,523
Total	$ 11,004,496

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Transportation Enterprise Fund
Vendor payables	$ 3,677,930	$ 1,034,542	$ 87,450	$ 4,799,922	$ 477,281
State principal apportionment	2,306,148	182,309	-	2,488,457	-
Salaries and benefits	887,761	41,580	-	929,341	-
Construction	43,429	485,478	-	528,907	-
Total	$ 6,915,268	$ 1,743,909	$ 87,450	$ 8,746,627	$ 477,281

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	$ -	$ 91,268	$ 91,268
State categorical aid	527,990	-	527,990
Total	$ 527,990	$ 91,268	$ 619,258

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 14, 2016, the District issued $10,690,000 of Tax and Revenue Anticipation Notes bearing interest at 2 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 30, 2017. By April, 2017, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2016	Additions	Payments	Outstanding June 30, 2017
7/14/2016	2.00%	6/30/2017	$ -	$ 10,690,000	$ 10,690,000	$ -

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2017, is shown below:

	(as Restated) Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
Governmental Activities					
General Obligation Bonds	$ 174,670,000	$ -	$ 4,950,000	$ 169,720,000	$ 5,425,000
Premium on issuance	8,858,917	-	417,891	8,441,026	-
Discount on issuance	(89,934)	-	(6,918)	(83,016)	-
Certificates of Participation	49,290,345	30,190,000	28,648,048	50,832,297	2,212,955
Premium on issuance	1,310,300	3,473,772	201,321	4,582,751	-
Discount on issuance	(69,905)	-	(3,410)	(66,495)	-
Capital Leases	1,133,766	-	569,382	564,384	162,421
Accumulated Vacation - net	1,053,386	1,170	-	1,054,556	-
Supplemental Early Retirement Program	637,442	-	637,442	-	-
Claims Liability	4,744,758	528,794	-	5,273,552	-
Net OPEB Obligation	19,329,385	2,755,564	1,306,392	20,778,557	-
Total Governmental Activities	$ 260,868,460	$ 36,949,300	$ 36,720,148	$ 261,097,612	$ 7,800,376
Business-Type Activities					
Capital Leases	$ 5,099,212	$ -	$ 1,075,738	$ 4,023,474	$ 521,372
Net OPEB Obligation	1,144,155	267,967	127,041	1,285,081	-
Total Business-Type Activities	$ 6,243,367	$ 267,967	$ 1,202,779	$ 5,308,555	$ 521,372

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

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2016	Issued	Redeemed	Bonds Outstanding June 30, 2017
3/4/08	8/1/16	4.50% - 5.25%	40,000,000	805,000	-	805,000	-
7/28/10	8/1/26	4.00% - 4.50%	18,740,000	14,645,000	-	1,090,000	13,555,000
7/18/12	8/1/28	2.00% - 4.00%	21,260,000	18,895,000	-	1,370,000	17,525,000
12/16/14	8/1/38	3.00% - 5.00%	93,170,000	91,325,000	-	1,685,000	89,640,000
5/19/15	8/1/40	3.00% - 5.00%	49,000,000	49,000,000	-	-	49,000,000
			$ 222,170,000	$ 174,670,000	$ -	$ 4,950,000	$ 169,720,000

Debt Service Requirements to Maturity

The bonds mature through 2041 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2018	$ 5,425,000	$ 6,709,630	$ 12,134,630
2019	5,745,000	6,465,913	12,210,913
2020	6,105,000	6,202,642	12,307,642
2021	6,450,000	5,941,448	12,391,448
2022	6,790,000	5,671,788	12,461,788
2023-2027	40,010,000	23,672,827	63,682,827
2028-2032	34,800,000	16,498,163	51,298,163
2033-2037	39,775,000	9,197,463	48,972,463
2038-2041	24,620,000	1,650,400	26,270,400
Total	$ 169,720,000	$ 82,010,274	$ 251,730,274

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. The 2006 General Obligation Bonds, Series B at June 30, 2017, had no balance remaining.

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, 2017, the principal balance outstanding was $13,555,000 and unamortized premium was $171,080.

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, 2017, the principal balance outstanding was $17,525,000 and unamortized discount was $83,016.

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, 2017, the principal balance outstanding was $89,640,000 and unamortized premium was $6,823,262.

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, 2017, the principal balance outstanding was $49,000,000 and unamortized premium was $1,446,684.

Certificates of Participation Summary

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Original Issue	COP Outstanding July 1, 2016	Issued	Redeemed	COP Outstanding June 30, 2017
12/13/05	12/27/20	$ 5,000,000	$ 1,840,345	$ -	$ 363,048	$ 1,477,297
06/13/06	10/01/36	29,445,000	27,225,000	-	27,225,000	-
11/21/07	10/01/36	4,610,000	3,535,000	-	-	3,535,000
09/30/15	10/01/28	16,690,000	16,690,000	-	1,060,000	15,630,000
09/27/16	10/01/34	23,965,000	-	23,965,000	-	23,965,000
09/27/16	10/01/23	6,225,000	-	6,225,000	-	6,225,000
		$ 85,935,000	$ 49,290,345	$ 30,190,000	$ 28,648,048	$ 50,832,297

Debt Service Requirements to Maturity

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	$ 2,212,955	$ 1,878,430	$ 4,091,385
2019	2,315,912	1,827,024	4,142,936
2020	2,449,087	1,765,886	4,214,973
2021	2,524,343	1,711,166	4,235,509
2022	2,285,000	1,651,692	3,936,692
2023-2027	13,845,000	6,764,231	20,609,231
2028-2032	14,225,000	3,528,569	17,753,569
2033-2037	10,975,000	797,425	11,772,425
Total	$ 50,832,297	$ 19,924,423	$ 70,756,720

2005 Qualified Zone Academy Bond Certificates of Participation

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

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

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

Fiscal Year	Required Payments
2018	$ 275,665
2019	275,665
2020	275,665
2021	275,665
Total Remaining Payments	1,102,660
Cumulative payments made by County Office of Education	3,032,315
Projected cumulative interest earnings	865,025
Total obligation	$ 5,000,000
Remaining obligation to be funded with required payments and interest earnings	$ 1,477,297

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. The 2006 Certificates of Participation was refunded with the 2016 Refunding Certificates of Participation, Series A and B, at June 30, 2017, and had no remaining balance.

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, 2017, the principal balance outstanding was $3,535,000 and unamortized discount was $66,495.

2015 Refunding Certificates of Participation

In September 2015, the District issued $16,690,000 of the 2015 Refunding Certificates of Participation. The certificates mature on October 1, 2028, with interest yields ranging from 2.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2004 Certificates of Participation and the 2005 Lease Revenue Bonds. At June 30, 2017, the principal balance outstanding was $15,630,000 and unamortized premium was $1,205,476.

2016 Refunding Certificates of Participation, Series A

In September 2016, the District issued $23,965,000 of the 2016 Refunding Certificates of Participation, Series A. The certificates mature on October 1, 2034, with interest yields ranging from 3.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2017, the principal balance outstanding was $23,965,000 and unamortized premium was $3,377,275.

2016 Refunding Certificates of Participation, Series B

In September 2016, the District issued $6,225,000 of the 2016 Refunding Certificates of Participation, Series B. The certificates mature on October 1, 2023, with interest yields ranging from 1.59 to 2.72 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2017, the principal balance outstanding was $6,225,000.

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, 2016	$ 594,978	$ 605,949	$ 1,200,927
Additions	-	-	-
Payments	194,753	412,493	607,246
Balance, June 30, 2017	$ 400,225	$ 193,456	$ 593,681

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2018	$ 176,773
2019	176,773
2020	80,045
2021	80,045
2022	80,045
Total	593,681
Less: Amount Representing Interest	29,297
Present Value of Minimum Lease Payments	$ 564,384

Capital Leases - Business-Type Activities

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

	Buses
Balance, July 1, 2016	$ 5,608,717
Payments	1,178,928
Balance, June 30, 2017	$ 4,429,789

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2018	$ 639,367
2019	841,906
2020	841,909
2021	841,909
2022	461,120
2023-2025	803,578
Total	4,429,789
Less: Amount Representing Interest	406,315
Present Value of Minimum Lease Payments	$ 4,023,474

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to $1,054,556.

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, 2017, had no remaining balance.

Claims Liability

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of $5,273,552.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2017, was $1,915,908, and contributions made by the District during the year were $437,622. Interest on the net OPEB obligation and adjustments to the annual required contribution were $839,656 and $(868,770), respectively, which resulted in an increase to the net OPEB obligation of $1,449,172. As of June 30, 2017, the net OPEB obligation was $20,778,557. See Note 13 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Other Postemployment Benefits (OPEB) Obligation - Business-Type Activities

The District's annual required contribution for the year ended June 30, 2017, was $186,314, and contributions made by the District during the year were $42,557. Interest on the net OPEB obligation and adjustments to the annual required contribution were $81,653 and $(84,484), respectively, which resulted in an increase to the net OPEB obligation of $140,926. As of June 30, 2017, the net OPEB obligation was $1,285,081. See Note 13 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 11 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $30,215,000 as of June 30, 2017, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 12 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 25,000	$ -	$ -	$ 5,070	$ 30,070
Stores inventories	207,286	-	-	537,284	744,570
Total Nonspendable	232,286	-	-	542,354	774,640
Restricted					
Legally restricted programs	4,124,451	-	-	3,120,290	7,244,741
Capital projects	-	-	-	16,588,746	16,588,746
Debt services	-	14,567,554	399,563	-	14,967,117
Total Restricted	4,124,451	14,567,554	399,563	19,709,036	38,800,604
Committed					
Deferred maintenance program	-	-	-	396,408	396,408
OPEB reserves	4,848,373	-	-	-	4,848,373
Total Committed	4,848,373	-	-	396,408	5,244,781
Assigned					
LCAP initiatives	2,736,195	-	-	-	2,736,195
LCFF Gap Funding Reserve	4,898,783	-	-	-	4,898,783
Instructional Materials and Services	426,357	-	-	-	426,357
E-Rate/IT Infrastructure Projects	1,111,664	-	-	-	1,111,664
H&W Holding Account - HTA	443,932	-	-	-	443,932
H&A Holding Account - Others	64,260	-	-	-	64,260
Medi-Cal Reimbursement Activities	428,730	-	-	-	428,730
2017-18 Texbook Acoptions	6,000,000	-	-	-	6,000,000
2017-18 STRS/PERS Rate Increases	1,023,228	-	-	-	1,023,228
WCA Base LCFF	-	-	-	1,218,634	1,218,634
WCA Donations	-	-	-	153,493	153,493
WCA Supplemental	-	-	-	20,632	20,632
WCA Unrestricted Lottery	-	-	-	76,473	76,473
Capital Equipment and Improvements	-	-	-	789,408	789,408
Total Assigned	17,133,149	-	-	2,258,640	19,391,789
Unassigned					
Remaining unassigned	13,015,000	-	-	-	13,015,000
Total	$ 39,353,259	$ 14,567,554	$ 399,563	$ 22,906,438	$ 77,226,814

NOTE 13 - 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 92 retirees and beneficiaries currently receiving benefits and 2,408 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 2016-2017, the District contributed $480,179 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:

	Governmental Activities	Business-Type Activities
Annual required contribution	$ 1,915,908	$ 186,314
Interest on net OPEB obligation	839,656	81,653
Adjustment to annual required contribution	(868,770)	(84,484)
Annual OPEB cost (expense)	1,886,794	183,483
Contributions made	(437,622)	(42,557)
Increase in net OPEB obligation	1,449,172	140,926
Net OPEB obligation, beginning of year	19,329,385	1,144,155
Net OPEB obligation, end of year	$ 20,778,557	$ 1,285,081

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:

Governmental Activities

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2015	$ 1,366,948	$ 532,316	38.94%	$ 18,430,246
2016	1,289,327	390,188	30.26%	19,329,385
2017	1,886,794	437,622	23.19%	20,778,557

Business-Type Activities

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2016	$ 76,319	$ 23,097	30.26%	$ 1,144,155
2017	183,483	42,557	23.19%	1,285,081

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)
July 1, 2017	$ -	$ 31,470,775	$ 31,470,775	0%	$ 109,791,836	29%

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 July 1, 2017, 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, 2017. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2017, was 22 years. The actual value of assets was not determined in this actuarial valuation.

NOTE 14 - 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, 2015 to June 30, 2017:

	Workers' Compensation
Liability Balance, July 1, 2015	$ 6,284,840
Claims provision	2,685,498
Claims paid	(2,145,349)
Liability Balance, June 30, 2016	6,824,989
Claims provision	2,562,483
Claims paid	(1,951,294)
Liability Balance, June 30, 2017	$ 7,436,178
Amount available to pay claims	$ 12,431,052

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
Governmental Activities				
CalSTRS	$ 168,316,604	$ 49,138,530	$ 4,105,892	$ 19,079,959
CalPERS	76,508,391	33,681,264	2,298,621	8,120,955
Total Governmental	$ 244,824,995	$ 82,819,794	$ 6,404,513	$ 27,200,914

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, 2015, 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, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the District's total contributions were $22,019,816.

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

At June 30, 2017, 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	$ 168,316,604
State's proportionate share of the net pension liability associated with the District	95,819,640
Total	$ 264,136,244

The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively, was 0.2081 percent and 0.2040 percent, resulting in a net increase in the proportionate share of 0.0041 percent.

For the year ended June 30, 2017, the District recognized pension expense of $19,079,959. In addition, the District recognized pension expense and revenue of $9,261,977 for support provided by the State. At June 30, 2017, 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	$ 22,019,816	$ -
Net change in proportionate share of net pension liability	13,737,626	-
Differences between projected and actual earnings on pension plan investments	13,381,088	-
Differences between expected and actual experience in the measurement of the total pension liability	-	4,105,892
Total	$ 49,138,530	$ 4,105,892

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

Year Ended June 30,	Deferred Outflows of Resources
2018	$ 291,930
2019	291,931
2020	7,778,473
2021	5,018,754
Total	$ 13,381,088

The deferred outflows of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	$ 1,912,397
2019	1,912,397
2020	1,912,397
2021	1,912,397
2022	1,912,397
Thereafter	69,749
Total	$ 9,631,734

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (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%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 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%)	$ 242,245,553
Current discount rate (7.60%)	168,316,604
1% increase (8.60%)	106,915,516

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) 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, 2015, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2017, 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	13.888%	13.888%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were $7,508,610.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $76,508,391. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively, was 0.3874 percent and 0.3753 percent, resulting in a net increase in the proportionate share of 0.0121 percent.

For the year ended June 30, 2017, the District recognized pension expense of $8,120,955. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Governmental Activities

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 7,508,610	
Net change in proportionate share of net pension liability	11,010,418	-
Difference between projected and actual earnings on pension plan investments	11,871,642	-
Differences between expected and actual experience in the measurement of the total pension liability	3,290,594	-
Changes of assumptions	-	2,298,621
Total	$ 33,681,264	$ 2,298,621

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

Governmental Activities

Year Ended June 30,	Deferred Outflows of Resources
2018	$ 1,665,154
2019	1,665,155
2020	5,442,938
2021	3,098,395
Total	$ 11,871,642

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

Governmental Activities

Year Ended June 30,	Deferred Outflows of Resources
2018	$ 5,201,212
2019	3,910,608
2020	2,890,571
Total	$ 12,002,391

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7. 65%
Investment rate of return	7. 65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 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:

Governmental Activities

Discount rate	Net Pension Liability
1% decrease (6.65%)	$ 114,150,945
Current discount rate (7.65%)	76,508,391
1% increase (8.65%)	45,163,557

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 $8,118,080 (8.828 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, 2017. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 16 - 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, 2017.

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, 2017.

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Alessandro Continuation Fire Alarm Project	$ 135,000	2019
DSA Closeout Projects	10,000	2018
Gibble Elementary School Project	35,000,000	2022
Hemet Elementary School Renovation Project	250,000	2018
Hemet Hight School Phase 3	1,500,000	2018
Transportation Relocation Project	100,000	2019
Valle Vista Elementary Annex	100,000	2018
Winchester Elementary Relocation Project	300,000	2019
Parent Center Project	2,000,000	2019
	$ 39,395,000	

NOTE 17 - 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, 2017, the District made payments of $1,184,293 to SoCal ReLiEF, for services received.

NOTE 18 – RESTATEMENT OF PRIOR YEAR NET POSITION

Certain items that occur in the prior year net position have been restated as of June 30, 2016, to more accurately reflect the substance of the underlying transactions. The following table summarizes the reason for the restatement. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position - Governmental Activities	
Net Position - Beginning	$ 119,322,775
Overstatement of furniture and equipment related to capital assets	(11,955,539)
Overstatement of furniture and equipment depreciation related to capital assets	8,295,682
Net Position - Beginning as restated	$ 115,662,918

Statement of Net Position - Business-Type Activities	
Net Position - Beginning	$ (2,222,764)
Undestatement of furniture and equipment related to capital assets	11,955,539
Understatement of furniture and equipment depreciation related to capital assets	(8,295,682)
Net Position - Beginning as restated	$ 1,437,093

NOTE 19 - SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

The District issued $7,900,000 of Tax and Revenue Anticipation Notes dated July 6, 2017. The notes mature on June 30, 2018, and yield 3.0 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January 2018, until 100 percent of principal and interest due is on account in April 2018.

REQUIRED SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 192,983,005	$ 195,539,467	$ 195,739,591	$ 200,124
Federal sources	15,788,863	18,468,304	17,980,848	(487,456)
Other State sources	23,783,513	26,033,133	24,427,422	(1,605,711)
Other local sources	15,571,360	16,490,702	16,811,558	320,856
Total Revenues [1]	248,126,741	256,531,606	254,959,419	(1,572,187)
EXPENDITURES				
Current				
Certificated salaries	111,001,338	109,579,404	110,287,416	(708,012)
Classified salaries	41,963,932	36,736,230	36,486,747	249,483
Employee benefits	54,069,643	52,535,109	51,793,483	741,626
Books and supplies	14,482,330	14,815,271	15,117,849	(302,578)
Services and operating expenditures	23,418,795	31,959,518	32,924,806	(965,288)
Capital outlay	3,250,760	7,614,963	6,527,579	1,087,384
Other outgo	3,473,123	3,241,839	(1,065,328)	4,307,167
Debt service				
Principal	-	-	932,430	(932,430)
Interest	-	-	51,575	(51,575)
Total Expenditures [1]	251,659,921	256,482,334	253,056,557	3,425,777
Excess (Deficiency) of Revenues Over Expenditures	(3,533,180)	49,272	1,902,862	1,853,590
Other Financing Sources (Uses)				
Transfers in	2,041,023	4,108,998	4,796,007	687,009
Transfers out	(643,747)	(3,968,259)	(5,986,066)	(2,017,807)
Net Financing Sources (Uses)	1,397,276	140,739	(1,190,059)	(1,330,798)
NET CHANGE IN FUND BALANCES	(2,135,904)	190,011	712,803	522,792
Fund Balance - Beginning	38,640,456	38,640,456	38,640,456	-
Fund Balance - Ending	$ 36,504,552	$ 38,830,467	$ 39,353,259	$ 522,792

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

See accompanying note to required supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2012	$ -	$ 38,183,794	$ 38,183,794	0%	$ 103,466,098	37%
March 1, 2015	-	33,926,156	33,926,156	0%	106,594,016	32%
July 1, 2017	-	31,470,775	31,470,775	0%	109,791,836	29%

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
CalSTRS			
District's proportion of the net pension liability	0.2081%	0.2040%	0.1826%
District's proportionate share of the net pension liability	$ 168,316,604	$ 137,370,181	$ 106,695,256
State's proportionate share of the net pension liability associated with the District	95,819,640	72,653,682	64,427,202
Total	$ 264,136,244	$ 210,023,863	$ 171,122,458
District's covered - employee payroll	$ 104,777,884	$ 94,422,286	$ 101,632,715
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	160.64%	145.48%	104.98%
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.3874%	0.3753%	0.3178%
District's proportionate share of the net pension liability	$ 76,508,391	$ 55,315,901	$ 40,039,851
District's covered - employee payroll	$ 66,483,861	$ 41,568,601	$ 42,763,852
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	115.08%	133.07%	93.63%
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	74%	79%	83%

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

See accompanying note to required supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 22,019,816	$ 11,242,667	$ 8,384,699
Contributions in relation to the contractually required contribution	22,019,816	11,242,667	8,384,699
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - employee payroll	$ 175,038,283	$ 104,777,884	$ 94,422,286
Contributions as a percentage of covered - employee payroll	12.58%	10.73%	8.88%
CalPERS			
Contractually required contribution	$ 7,508,610	$ 7,876,343	$ 4,893,040
Contributions in relation to the contractually required contribution	7,508,610	7,876,343	4,893,040
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - employee payroll	$ 54,065,452	$ 66,483,861	$ 41,568,601
Contributions as a percentage of covered - employee payroll	13.89%	11.85%	11.77%

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

See accompanying note to required supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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

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

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for both CalSTRS or CalPERS.

Changes in Assumptions

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Indian Education - Grants to Local Educational Agencies	84.060	10011	$ 13,965	$ -
Carl D. Perkins Vocational and Technical Education	84.048	14894	224,567	-
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14981	7,780,899	7,853
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	427,598	-
Title III - English Learner Student Program	84.365	14346	383,366	-
Title IV, Part B - 21st Century Community Learning Centers Program	84.287	14349	786,055	-
Elementary and Secondary School Counseling Grant	84.215E	[1]	346,985	-
Building Assets Reducing Risk (BARR) Investing in Innovation (i3) Fund	84.411	10130	213,827	-
Passed through Riverside County Special Education Local Plan Area:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,227,728	-
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	2,901	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	74,394	-
(Age 3-4-5)	84.027A	13682	280,903	-
Mental Health Allocation Plan, Part B, Section 611	84.027	15197	201,620	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	761	-
Total Special Education Cluster			4,788,307	-
Special Education: Project Read	84.323	14913	83,620	-
Total U.S. Department of Education			15,049,189	7,853

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

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
Basic School Breakfast Program	10.553	13390	$ 7,139	$ -
Especially Needy Breakfast	10.553	13526	2,351,871	-
National School Lunch Program	10.555	13524	7,804,178	-
Summer Food Service Program	10.559	13004	287,053	
Food Distribution	10.555	13524	881,284	-
Total Child Nutrition Cluster			11,331,525	-
Equipment Assistance Grants	10.579	14906	71,862	-
Fresh Fruit and Vegetable Program	10.582	14968	43,033	-
Child Care Food Program (CCFP) Claims-Centers and Family Day Care Homes (Meal Reimbursements)	10.558	13393	124,608	-
Forest Reserve	10.665	10044	65,470	-
Total U.S. Department of Agriculture			11,636,498	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Medi-Cal Assistance Program				
Medi-Cal Billing Option	93.778	10013	431,233	-
Medi-Cal Administrative Activities Program	93.778	10060	109,998	-
Total Medi-Cal Assistance Program			541,231	-
Child Care Initiative Project (CCIP) and Resource & Referral (CRRP) contracts	93.575	13942	42,414	-
Passed through Riverside County Office of Education (RCOE):				
Head Start	93.600	10016	2,110,537	-
Total U.S. Department of Health and Human Services			2,694,182	-
Total Federal Programs			$ 29,379,869	$ 7,853

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

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2017

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
Vic Scavarda	President	2018
Joe Wojcik	Vice President	2018
Megan Haley	Member	2020
Stacey Bailey	Member	2020
Gene Hikel	Member	2020
Horacio Valenzuela	Member	2018
Patrick Searl	Member	2020

ADMINISTRATION

Christi Barrett	Superintendent
Vincent Christakos	Assistant Superintendent, Business Services
Tracy Chambers	Assistant Superintendent, Educational Services
Dr. LaFaye Platter	Deputy Superintendent, Human Resources
Pam Buckhout	Director of Fiscal Services

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2017

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	5,884.29	5,887.58
Fourth through sixth	4,637.68	4,631.80
Seventh and eighth	2,967.67	2,963.89
Ninth through twelfth	6,339.82	6,237.81
Total Regular ADA	19,829.46	19,721.08
Extended Year Special Education		
Transitional kindergarten through third	6.43	6.43
Fourth through sixth	4.86	4.86
Seventh and eighth	2.52	2.52
Ninth through twelfth	9.16	9.16
Total Extended Year Special Education	22.97	22.97
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.89	1.01
Fourth through sixth	7.77	7.30
Seventh and eighth	7.23	5.16
Ninth through twelfth	14.58	13.91
Total Special Education, Nonpublic, Nonsectarian Schools	30.47	27.38
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.03	0.03
Seventh and eighth	0.47	0.47
Ninth through twelfth	1.79	1.79
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	2.29	2.29
Community Day School		
Ninth through twelfth	40.98	42.86
Total ADA	19,926.17	19,816.58

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

	Final Report	
	Second Period Report	Annual Report
COLLEGE PREP HIGH CHARTER		
Regular ADA		
Ninth through twelfth	19.20	18.52
Classroom based ADA		
Regular ADA		
Ninth through twelfth	19.20	18.52
WESTERN CENTER ACADEMY CHARTER		
Regular ADA		
Fourth through sixth	125.32	124.78
Seventh and eighth	260.62	259.50
Ninth through twelfth	214.03	213.55
Total Regular ADA	599.97	597.83
Classroom based ADA		
Regular ADA		
Fourth through sixth	125.32	124.78
Seventh and eighth	260.62	259.50
Ninth through twelfth	214.03	213.55
Total Regular ADA	599.97	597.83

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017

Grade Level	1986-87 Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	38,160	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,210	180	N/A	Complied
Grade 2		52,210	180	N/A	Complied
Grade 3		52,210	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,336	180	N/A	Complied
Grade 5		54,336	180	N/A	Complied
Grade 6		61,440	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		61,440	180	N/A	Complied
Grade 8		61,440	180	N/A	Complied
Grades 9 - 12	64,800				
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.

SCHEDULE OF INSTRUCTIONAL TIME (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

College Prep High School & Western Center Academy

Grade Level	1986-87 Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		60,540	180	N/A	Complied
Grade 7		60,540	180	N/A	Complied
Grade 8		60,540	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,920	180	N/A	Complied
Grade 10		64,920	180	N/A	Complied
Grade 11		64,920	180	N/A	Complied
Grade 12		64,920	180	N/A	Complied

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, Unaudited Actuals	$ 11,680,118
Increase in:	
Aggregate net pension liability	(6,826,577)
Deferred outflows of resources related to pensions	2,819,618
Deferred inflows of resources related to pensions	(179,567)
Capital lease obligations	(504,797)
Net OPEB Obligation	(1,229,847)
Furniture and equipment	11,493,640
Accumulated depreciation	(8,445,338)
Balance, June 30, 2017, Audited Financial Statement	$ 8,807,250

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

	(Budget) 2018 [1]	2017	2016	2015
GENERAL FUND [4]				
Revenues	$ 252,621,532	$ 254,930,891	$ 242,096,929	$ 197,844,038
Other sources and transfers in	4,298,285	4,704,548	1,669,730	1,005,440
Total Revenues and Other Sources	256,919,817	259,635,439	243,766,659	198,849,478
Expenditures	266,321,216	256,291,539	225,737,870	205,206,530
Other uses and transfers out	1,995,000	3,959,625	3,973,757	4,588,879
Total Expenditures and Other Uses	268,316,216	260,251,164	229,711,627	209,795,409
INCREASE (DECREASE) IN FUND BALANCE	$ (11,396,399)	$ (615,725)	$ 14,055,032	$ (10,945,931)
ENDING FUND BALANCE	$ 23,108,487	$ 34,504,886	$ 35,120,611	$ 21,065,579
AVAILABLE RESERVES [2]	$ 13,014,204	$ 13,015,000	$ 16,637,577	$ 10,489,775
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	4.85%	5.00%	7.43%	5.11%
LONG-TERM OBLIGATIONS	N/A	$ 261,097,612	$ 260,868,460	$ 270,345,498
K-12 AVERAGE DAILY ATTENDANCE AT P-2 [3]	20,028	19,926	19,735	19,656

The General Fund balance has increased by $13,439,307 over the past two years. The fiscal year 2017-2018 budget projects a decrease of $11,396,399 (33.03 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 all of the past three years and anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have decreased by $9,247,886 over the past two years.

Average daily attendance has increased by 270 over the past two years. Additional growth of 102 ADA is anticipated during fiscal year 2017-2018.

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[1] Budget 2018 is included for analytical purposes only and has not been subjected to audit.

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

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

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017

Name of Charter School	Included in Audit Report
College Prep High (Charter No. 1564)	Yes
Western Center Academy (Charter No. 1144)	Yes

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	$ 1,651,159	$ 55,363	$ 76,717	$ 1,866,026	$ 891,110
Receivables	159,482	498	82,718	1,459,014	3,645
Due from other funds	284,492	-	9,929	225,677	-
Stores inventories	-	-	-	537,284	-
Total Assets	$ 2,095,133	$ 55,861	$ 169,364	$ 4,088,001	$ 894,755
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 270,305	$ 20,583	$ 28,749	$ 298,675	$ 498,347
Due to other funds	177,904	2,004	101,122	285,873	-
Unearned revenue	-	-	30,838	60,430	-
Total Liabilities	448,209	22,587	160,709	644,978	498,347
Fund Balances:					
Nonspendable	-	-	-	542,354	-
Restricted	177,692	33,274	8,655	2,900,669	-
Committed	-	-	-	-	396,408
Assigned	1,469,232	-	-	-	-
Total Fund Balances	1,646,924	33,274	8,655	3,443,023	396,408
Total Liabilities and Fund Balances	$ 2,095,133	$ 55,861	$ 169,364	$ 4,088,001	$ 894,755

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Total Non-Major Governmental Funds
$ 1,339,069	$ 4,029,855	$ 5,126,693	$ 786,149	$ 5,601,580	$ 21,423,721
7,165	20,883	2,439	3,259	-	1,739,103
-	-	1,310,735	-	-	1,830,833
-	-	-	-	-	537,284
$ 1,346,234	$ 4,050,738	$ 6,439,867	$ 789,408	$ 5,601,580	$ 25,530,941
$ 185,738	$ 34,253	$ 407,259	$ -	$ -	$ 1,743,909
-	-	222,423	-	-	789,326
-	-	-	-	-	91,268
185,738	34,253	629,682	-	-	2,624,503
-	-	-	-	-	542,354
1,160,496	4,016,485	5,810,185	-	5,601,580	19,709,036
-	-	-	-	-	396,408
-	-	-	789,408	-	2,258,640
1,160,496	4,016,485	5,810,185	789,408	5,601,580	22,906,438
$ 1,346,234	$ 4,050,738	$ 6,439,867	$ 789,408	$ 5,601,580	$ 25,530,941

HEMET UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES					
Local Control Funding Formula	$ 4,930,002	$ -	$ -	$ -	$ -
Federal sources	-	-	167,022	11,446,420	-
Other State sources	1,005,121	902,419	1,891,310	808,486	-
Other local sources	454,256	22,129	1,998	909,240	12,441
Total Revenues	6,389,379	924,548	2,060,330	13,164,146	12,441
EXPENDITURES					
Current					
Instruction	3,760,703	568,716	1,424,794	-	-
Instruction-related activities:					
Supervision of instruction	531	-	213,389	-	-
Instructional library, media and technology	1,697	6,373	-	-	-
School site administration	668,776	255,913	139,215	-	-
Pupil services:					
Food services	-	-	127,704	12,673,991	-
All other pupil services	185,060	4,687	1,564	-	-
Administration:					
Data processing	476	-	-	-	-
All other administration	197,808	54,229	114,371	584,454	-
Plant services	983,805	1,448	40,547	200,052	1,400,766
Facility acquisition and construction	-	-	-	956,454	336,563
Ancillary services	64,084	-	-	-	-
Community services	5,851	-	-	-	-
Other outgo	-	-	-	-	-
Total Expenditures	5,868,791	891,366	2,061,584	14,414,951	1,737,329
Excess (Deficiency) of Revenues Over Expenditures	520,588	33,182	(1,254)	(1,250,805)	(1,724,888)
OTHER FINANCING SOURCES (USES)					
Transfers in	154,925	-	9,100	-	2,000,000
Transfers out	(339,025)	-	-	(222,423)	-
Net Financing Sources (Uses)	(184,100)	-	9,100	(222,423)	2,000,000
NET CHANGE IN FUND BALANCES	336,488	33,182	7,846	(1,473,228)	275,112
Fund Balances - Beginning	1,310,436	92	809	4,916,251	121,296
Fund Balances - Ending	$ 1,646,924	$ 33,274	$ 8,655	$ 3,443,023	$ 396,408

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 4,930,002
-	-	-	-	-	11,613,442
-	-	6,012,331	-	-	10,619,667
73,757	1,745,147	29,945	11,363	486,845	3,747,121
73,757	1,745,147	6,042,276	11,363	486,845	30,910,232
-	-	-	-	-	5,754,213
-	-	-	-	-	213,920
-	-	-	-	-	8,070
-	-	-	-	-	1,063,904
-	-	-	-	-	12,801,695
-	-	-	-	-	191,311
-	-	-	-	-	476
-	91,089	-	-	-	1,041,951
-	-	-	-	-	2,626,618
17,496,266	1,021,431	1,401,163	-	-	21,211,877
-	-	-	-	-	64,084
-	-	-	-	-	5,851
-	-	-	-	-	8,520,000
17,496,266	1,112,520	1,401,163	-	-	53,503,970
(17,422,509)	632,627	4,641,113	11,363	486,845	(22,593,738)
-	-	222,423	495,600	-	2,882,048
-	-	-	(954,000)	-	(1,515,448)
-	-	222,423	(458,400)	-	1,366,600
(17,422,509)	632,627	4,863,536	(447,037)	486,845	(12,707,138)
18,583,005	3,383,858	946,649	1,236,445	5,114,735	35,613,576
$ 1,160,496	$ 4,016,485	$ 5,810,185	$ 789,408	$ 5,601,580	$ 22,906,438

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Administrative Activities funds have been recorded in the current period as revenues that have not been expended as of June 30, 2017. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 29,594,290
Medi-Cal Billing Option	93.778	271,868
Medi-Cal Administrative Activities Program	93.778	(486,289)
Total Schedule of Expenditures of Federal Awards		$ 29,379,869

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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, 2017, 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 15, 2017.

Emphasis of Matter – Correction of an Error

As discussed in Note 18 to the financial statements, the District has restated beginning net position of the government-wide and business-type activities financial statements to reflect furniture and equipment balances and corresponding depreciation. 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.

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 15, 2017.

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
December15, 2017

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

VALUE THE *difference*

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

Governing Board
Hemet Unified School District
Hemet, California

Report on Compliance for Each Major Federal Program

We have audited Hemet Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hemet Unified School District's (the District) major Federal programs for the year ended June 30, 2017. Hemet Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, Hemet Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2017

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 *2016-2017 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, 2017.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Hemet Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 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.

Basis for Qualified Opinion on After School Education and Safety Program

As described in the accompanying schedule of findings and questioned costs, Hemet Unified School District did not comply with the requirements regarding After School Education and Safety Program, as identified in finding 2017-001. Compliance with such requirements is necessary, in our opinion, for Hemet Unified School District to comply with the requirements applicable to that program.

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Qualified Opinion on After School Education and Safety Program

In our opinion, except for noncompliance described in the Basis for Qualified Opinion paragraph, Hemet Unified School District complied, in all material respects, with the types of compliance requirements refereed to above for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Programs

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, 2017.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS:	
Attendance	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes, See Below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See Below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See Below
Middle or Early College High Schools	No, See Below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:	
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
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, See Below
Immunizations	Yes, See Below
CHARTER SCHOOLS:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, See Below
Determination of Funding for Non Classroom-Based Instruction	No, See Below

	Procedures Performed
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

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

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

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

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

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

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform the remaining procedures.

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 15, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HEMET UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	$ 881,396
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

Unmodified for all programs except for the following program which was qualified:

Name of Program
After School Education and Safety Program

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

HEMET UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2017-001 40000 – After School Education and Safety Program

Criteria or Specific Requirements

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

Condition

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

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

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

Effect

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

Cause

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

Recommendation

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

Corrective Action Plan

HEMET UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

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

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

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, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

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

HAMILTON HIGH SCHOOL

Associated Student Body – Prohibited Expenditures

Observation

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

Recommendation

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

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

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

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Associated Student Body – Student Store

Observation

Daily sales reports are not generated by the student store.

Recommendation

Daily sales reports should be maintained and reconciled to deposits.

DIAMOND VALLEY MIDDLE SCHOOL

Associated Student Body – Negative Balances

Observation

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

Recommendation

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

Associated Student Body – Inventory

Observation

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

Recommendation

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2017