

HAWTHORNE SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

HAWTHORNE SCHOOL DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Hawthorne School District
Hawthorne, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Opinions

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

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedules on pages 73 through 74, schedule of changes in the District's total OPEB liability and related ratios on page 75, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 76, schedule of the District's proportionate share of the net pension liability on page 77, and the schedule of District contributions on page 78, 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 District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

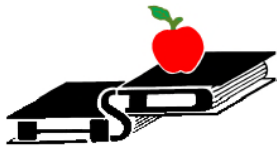
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the 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 the 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 the District's internal control over financial reporting and compliance.

Vavinek, Tunc, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2018



Hawthorne School District

Educational Excellence

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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net position of \$(43,446,742) decreased \$10,846,430 in 2017-2018 school year mainly from the increasing pension liability, along with depreciation on capital assets.
- In accordance with overall targeted projections, the Local Control Funding Formula increased revenues by approximately \$1.6 million over the previous fiscal year.
- The District successfully offered a retirement incentive plan, effectively allowing it to maximize its financial resources. The District also started to expand its Special Education program to serve an increased percentage of its special needs population in-house.

Basic Fiscal Values

The District is a public educational organization based on fundamental human values of honesty, commitment, responsibility, respect, integrity, and professional ethics. Our priority is service to students, district employees and the community who look to us for support and educational leadership. We believe that the public deserves our complete candor and objectivity in our delivery of all services.

We strive to provide a safe, caring, courteous, professional environment, and a climate that fosters collaborative work with individual development for our employees. We hold each other and ourselves accountable for the highest level of performance, efficiency, resource management, and professionalism.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

We prioritize the District and school site budgets to meet the needs of our students while maintaining fiscal solvency. We strive to efficiently allocate resources to support student learning; this is accomplished by conducting periodic budget review workshops with staff; labor organizations, our community and the School Board. We also continually monitor all district staffing levels, enrollment, revenues and expenditures. These steps are taken to comply with our fiscal responsibility to ensure all alignment with local, state and federal spending plans, as well as to minimize deficit spending and maintain the legally required reserve level.

Basic Fiscal Mission

Fiscal Responsibility - Prioritize the District and site budgets to meet the needs of students while maintaining fiscal solvency.

- The District provides 8,000 students with a world-class education that emphasizes standards-based skills in a safe and orderly learning environment.
- We serve as a connecting agency with other districts, local, State and Federal governmental agencies, and community agencies.
- We respond to District and community requests for staff development, administrative, business, educational and support services.
- We partner with parents, businesses, and the community for student success in the District.

Enrollment

The primary source of revenue for the District is generated by the average daily attendance (ADA) of students in the District. The growth or decline of ADA can have a significant impact on the financial stability of the District. The District K-8 ADA has been declining since 2002-2003. The District has projected no growth in ADA for the next few years. Furthermore, the declining trend appears to be accelerating based on enrollment figures for the 2018-2019 school year. The community has undergone major residential developments during the last few years, adding dwellings for approximately 345 occupants, in three separate development projects. A demographic study conducted showed that these developments should have added 186 new pupils to our enrollment over the period of three years, 2016, 2017, and 2018, however these increases have not materialized.

Solvency

The District must maintain a three percent Reserve for Economic Uncertainties. In 2017-2018, we met our goal of a three percent Reserve for Economic Uncertainties.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Hawthorne School District and its component units using the integrated approach as prescribed by Governmental 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.

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

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

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

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

REPORTING THE DISTRICT AS A WHOLE

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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

In the *Statement of Net Position* and the *Statement of Activities*, the District activities are presented as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight 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 general obligation bonds, finance these activities.

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 - All of 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.

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 the *Statement 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.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(43,446,742) for the fiscal year ended June 30, 2018. Of this amount, \$(132,489,672) was unrestricted deficit. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use that net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
		(as restated)
	2018	2017
Assets		
Current and other assets	\$ 28,157,833	\$ 27,885,895
Capital assets	125,729,102	128,868,201
Total Assets	<u>153,886,935</u>	<u>156,754,096</u>
Deferred Outflows of Resources	<u>35,009,987</u>	<u>24,269,894</u>
Liabilities		
Current liabilities	7,517,472	9,482,744
Long-term obligations	116,453,192	110,811,584
Aggregate net pension liability	101,958,956	90,993,391
Total Liabilities	<u>225,929,620</u>	<u>211,287,719</u>
Deferred Inflows of Resources	<u>6,414,044</u>	<u>2,336,583</u>
Net Position		
Net investment in capital assets	79,640,740	80,273,851
Restricted	9,402,190	8,790,803
Unrestricted deficit	<u>(132,489,672)</u>	<u>(121,664,966)</u>
Total Net Position (Deficit)	<u><u>\$ (43,446,742)</u></u>	<u><u>\$ (32,600,312)</u></u>

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 356,676	\$ 348,334
Operating grants and contributions	21,719,735	23,523,229
General revenues:		
Federal and State aid not restricted	75,699,764	75,604,937
Property taxes	18,150,627	17,029,197
Other general revenues	3,030,643	1,337,231
Total Revenues	<u>118,957,445</u>	<u>117,842,928</u>
Expenses		
Instruction-related activities	82,107,007	82,176,410
Pupil services	16,114,538	16,159,276
Administration	8,759,975	5,131,386
Plant services	13,110,770	13,060,763
All other services	9,711,585	9,058,428
Total Expenses	<u>129,803,875</u>	<u>125,586,263</u>
Change in Net Position	<u>\$ (10,846,430)</u>	<u>\$ (7,743,335)</u>

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$129,803,875. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$18,150,627.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

In Table 3, we have presented the cost of each of the District's largest functions including; instruction including, instruction-related activities, pupil services, administration, plant services, and all other services, 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 they believe are provided by that function.

Table 3

	Total Cost of Services		Net Cost (Revenue) of Services	
	2018	2017	2018	2017
Instruction	\$ 70,043,555	\$ 70,695,771	\$ 60,131,742	\$ 59,733,196
Instruction-related activities	12,063,452	11,480,639	10,879,788	10,316,262
Pupil services	16,114,538	16,159,276	8,149,960	7,538,452
Administration	8,759,975	5,131,386	8,424,591	4,636,411
Plant services	13,110,770	13,060,763	12,658,398	12,620,698
All other services	9,711,585	9,058,428	7,482,985	6,869,681
Total	\$ 129,803,875	\$ 125,586,263	\$ 107,727,464	\$ 101,714,700

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$20,956,829, which is an increase of \$2,375,765 from last year.

	Balances and Activity			
	July 1, 2017	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2018
General Fund	\$ 9,344,615	\$ 97,013,306	\$ 96,441,967	\$ 9,915,954
Cafeteria Fund	2,549,636	7,243,642	6,911,955	2,881,323
Bond Interest and Redemption Fund	4,023,388	4,504,418	4,506,009	4,021,797
Child Development Fund	159	1,542,251	1,537,220	5,190
Deferred Maintenance Fund	886	595,905	-	596,791
Charter School Fund	1,807,176	7,121,070	6,430,374	2,497,872
Foundation Permanent Fund	170,149	2,663	826	171,986
Building Fund	261,010	2,415	-	263,425
Capital Facilities Fund	415,331	191,618	13,308	593,641
County School Facilities Fund	7,475	117	-	7,592
Special Reserve Fund for Capital Outlay Projects	1,239	19	-	1,258
Total	\$ 18,581,064	\$ 118,217,424	\$ 115,841,659	\$ 20,956,829

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The strong financial performance of the District as a whole is reflected in its governmental funds as well.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget at almost every meeting of the Board of Trustees. Many changes are made to reflect the continual updating of educational priorities. The major budget revisions are as follows:

- First interim
- Second interim
- Year-end revisions

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$125,729,102 in a broad range of capital assets, including land, buildings, and furniture and equipment (net of depreciation). This amount represents a net decrease of \$3,139,099. Depreciation expense for the year ended June 30, 2018, was \$3,358,875.

Table 4

	Governmental Activities	
	2018	2017
Land and construction in process	\$ 16,563,277	\$ 16,563,277
Buildings and improvements	159,337,981	159,202,734
Furniture and equipment	4,985,188	4,900,659
Accumulated depreciation	(55,157,344)	(51,798,469)
Total Capital Assets (net)	<u>\$ 125,729,102</u>	<u>\$ 128,868,201</u>

We present more detailed information regarding our capital assets in Note 5 of the financial statements.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Long-Term Obligations

At the end of this year, the District had \$116,453,192 in outstanding debt versus \$110,811,584 last year, an increase of \$5,641,608. Those debts consisted of:

Table 5

	Governmental Activities	
	2018	(as restated) 2017
General obligation bonds	\$ 61,497,666	\$ 63,039,110
Premium on general obligation bond	1,659,074	1,733,100
Certificates of participation	3,310,000	3,415,000
Compensated absences	803,669	628,949
Supplemental Employee Retirement Program	3,966,180	-
Aggregate net OPEB liability	45,216,603	41,995,425
Total	\$ 116,453,192	\$ 110,811,584

The District's general obligation bond rating continues to be "AAA". The State limits the amount of general obligation debt that Districts can issue to five percent of the assessed value of all taxable property within the District's boundaries.

We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

Net Pension Liability (NPL)

As of June 30, 2018, the District's Net pension liability is \$101,958,956.

	Governmental Activities	
	2018	2017
Net pension liability	<u>\$ 101,958,956</u>	<u>\$ 90,993,391</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The skyrocketing cost of PERS and STRS.
- The ongoing increase of health benefits.
- The escalating cost of Special Education.
- Declining enrollment.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year, the board and management used the following criteria: The State has enacted the Local Control Funding Formula (LCFF) to replace revenue limits and most categorical programs, commencing in 2013-2014. According to School Services of California, this is the most sweeping reform of the State's school finance system since the enactment of Senate Bill 90 in the early 1970's. LCFF has reached full implementation in 2018-2019. Starting with 2019-2020 future revenue increases will be based purely on state COLA (cost of living adjustment).

Known economic factors:

1. District enrollment calculation for LCFF was based on 7,486.84 average daily attendance (ADA) funded at approximately \$10,879 per ADA.
2. Class size reduction is projected to be approximately \$2.7 million.
3. State revenue projections have increased due to the one-time Mandated Cost funding.
4. PERS and STRS scheduled increases.

Expenditures are based on the following forecasts and directives:

1. Step and column enhancement.
2. No furlough days off for all staff.
3. A 10 percent increase on Health and Welfare.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and 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 financial information, contact the Assistant Superintendent, Business Services, at Hawthorne School District, Hawthorne, California, or e-mail at mpagniano@hawthorne.k12.ca.us. You may also contact the Director of Fiscal Services, at Hawthorne School District, Hawthorne, California, or e-mail at jmoreno@hawthorne.k12.ca.us.

HAWTHORNE SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 21,964,482
Receivables	5,241,439
Prepaid expenses	803,343
Stores inventories	148,569
Capital assets	
Land and construction in progress	16,563,277
Other capital assets	164,323,169
Less: accumulated depreciation	(55,157,344)
Total Capital Assets	<u>125,729,102</u>
Total Assets	<u>153,886,935</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	49,137
Deferred outflows of resources related to other postemployment benefits	529,954
Deferred outflows of resources related to pensions	34,430,896
Total Deferred Outflows of Resources	<u>35,009,987</u>
LIABILITIES	
Accounts payable	7,159,182
Interest payable	316,468
Unearned revenue	41,822
Current portion of long-term obligations other than pensions	4,798,236
Noncurrent portion of long-term obligations other than pensions	111,654,956
Total Long Term-Obligations	<u>116,453,192</u>
Aggregate net pension liability	101,958,956
Total Liabilities	<u>225,929,620</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>6,414,044</u>
NET POSITION	
Net investment in capital assets	79,640,740
Restricted for:	
Debt service	3,705,329
Capital projects	593,641
Educational programs	1,761,078
Other activities	3,342,142
Unrestricted deficit	(132,489,672)
Total Net Position (Deficit)	<u><u>\$ (43,446,742)</u></u>

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

HAWTHORNE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 70,043,555	\$ 31,639	\$ 9,880,174	\$ (60,131,742)
Instruction-related activities:				
Supervision of instruction	3,348,072	1,362	778,506	(2,568,204)
Instructional library, media and technology	1,135,208	-	-	(1,135,208)
School site administration	7,580,172	430	403,366	(7,176,376)
Pupil services:				
Home-to-school transportation	1,520,508	11	378	(1,520,119)
Food services	7,364,744	270,514	6,743,574	(350,656)
All other pupil services	7,229,286	15,780	934,321	(6,279,185)
Administration:				
Data processing	1,510,265	-	586	(1,509,679)
All other administration	7,249,710	8,250	326,548	(6,914,912)
Plant services	13,110,770	144	452,228	(12,658,398)
Ancillary services	122,230	-	2,310	(119,920)
Community services	1,174,971	-	1,174,971	-
Enterprise services	9,522	-	-	(9,522)
Interest on long-term obligations	3,382,907	-	-	(3,382,907)
Other outgo	5,021,955	28,546	1,022,773	(3,970,636)
Total Governmental Activities	\$ 129,803,875	\$ 356,676	\$ 21,719,735	(107,727,464)
General revenues and subventions:				
Property taxes, levied for general purposes				11,651,687
Property taxes, levied for debt service				4,449,436
Taxes levied for other specific purposes				2,049,504
Federal and State aid not restricted to specific purposes				75,699,764
Interest and investment earnings				372,521
Miscellaneous				2,658,122
Subtotal, General Revenues				96,881,034
Change in Net Position				(10,846,430)
Net Position - Beginning, as Restated				(32,600,312)
Net Position - Ending				\$ (43,446,742)

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

HAWTHORNE SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2018

	General Fund	Cafeteria Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 12,331,380	\$ 1,970,926	\$ 4,021,797
Receivables	3,853,552	1,246,423	-
Due from other funds	-	-	-
Prepaid expenditures	757,195	-	-
Stores inventories	75,575	72,994	-
Total Assets	\$ 17,017,702	\$ 3,290,343	\$ 4,021,797
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,379,717	\$ 367,198	\$ -
Due to other funds	722,031	-	-
Unearned revenue	-	41,822	-
Total Liabilities	7,101,748	409,020	-
Fund Balances:			
Nonspendable	838,770	73,794	-
Restricted	1,761,078	2,794,149	4,021,797
Committed	-	-	-
Assigned	4,414,942	13,380	-
Unassigned	2,901,164	-	-
Total Fund Balances	9,915,954	2,881,323	4,021,797
Total Liabilities and Fund Balances	\$ 17,017,702	\$ 3,290,343	\$ 4,021,797

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 3,640,379	\$ 21,964,482
141,464	5,241,439
722,031	722,031
46,148	803,343
-	148,569
<u>\$ 4,550,022</u>	<u>\$ 28,879,864</u>

\$ 412,267	\$ 7,159,182
-	722,031
-	41,822
<u>412,267</u>	<u>7,923,035</u>

46,148	958,712
1,405,059	9,982,083
596,791	596,791
2,089,757	6,518,079
-	2,901,164
<u>4,137,755</u>	<u>20,956,829</u>
<u>\$ 4,550,022</u>	<u>\$ 28,879,864</u>

HAWTHORNE SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		\$ 20,956,829
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:	\$ 180,886,446	
Accumulated depreciation is:	<u>(55,157,344)</u>	
Net Capital Assets		125,729,102
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.		(316,468)
Deferred charges on refunding (the difference between the reacquisition price and the net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is less) and are included with governmental activities.		49,137
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	8,555,230	
Net change in proportionate share of net pension liability	5,909,150	
Differences between projected and actual earnings on pension plan investments	880,225	
Differences between expected and actual experience in the measurement of the total pension liability	1,194,547	
Changes of assumptions	<u>17,891,744</u>	
Total Deferred Outflows of Resources Related to Pensions		34,430,896
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(2,742,158)	
Differences between projected and actual earnings on pension plan investments	(2,037,777)	
Differences between expected and actual experience in the measurement of the total pension liability	(1,334,525)	
Changes of assumptions	<u>(299,584)</u>	
Total Deferred Inflows of Resources Related to Pensions		(6,414,044)

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

HAWTHORNE SCHOOL DISTRICT

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

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds.

Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.

\$ 529,954

Aggregate net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.

(101,958,956)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

General obligation bonds \$ (41,431,850)

Premium on general obligation bonds (1,659,074)

Certificates of participation (3,310,000)

Compensated absences (803,669)

Supplemental employee retirement program (SERP) (3,966,180)

Supplemental employee retirement program

Aggregate net OPEB liability (45,216,603)

In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is:

(20,065,816)

Total Long-Term Obligations

(116,453,192)

Total Net Position - Governmental Activities

\$ (43,446,742)

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

HAWTHORNE SCHOOL DISTRICT

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

	General Fund	Cafeteria Fund	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	\$ 78,533,998	\$ -	\$ -
Federal sources	4,739,551	6,426,205	-
Other State sources	10,739,552	515,045	18,813
Other local sources	3,000,205	302,392	4,485,605
Total Revenues	97,013,306	7,243,642	4,504,418
EXPENDITURES			
Current			
Instruction	56,928,708	-	-
Instruction-related activities:			
Supervision of instruction	2,828,603	-	-
Instructional library, media and technology	841,691	-	-
School site administration	6,164,853	-	-
Pupil services:			
Home-to-school transportation	1,451,120	-	-
Food services	13,779	6,694,955	-
All other pupil services	6,165,412	-	-
Administration:			
Data processing	1,266,450	-	-
All other administration	3,351,244	204,083	-
Plant services	9,917,621	3,550	-
Ancillary services	1,843	-	-
Community services	1,174,971	-	-
Other outgo	5,021,955	-	-
Enterprise services	-	9,367	-
Facility acquisition and construction	268,882	-	-
Debt service			
Principal	105,000	-	3,775,000
Interest and other	341,529	-	731,009
Total Expenditures	95,843,661	6,911,955	4,506,009
Excess (Deficiency) of Revenues Over Expenditures	1,169,645	331,687	(1,591)
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(598,306)	-	-
Net Financing Sources (Uses)	(598,306)	-	-
NET CHANGE IN FUND BALANCES	571,339	331,687	(1,591)
Fund Balance - Beginning	9,344,615	2,549,636	4,023,388
Fund Balances - Ending	\$ 9,915,954	\$ 2,881,323	\$ 4,021,797

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 5,956,489	\$ 84,490,487
-	11,165,756
2,633,455	13,906,865
267,808	8,056,010
<u>8,857,752</u>	<u>117,619,118</u>
5,003,064	61,931,772
164,318	2,992,921
90,731	932,422
502,276	6,667,129
-	1,451,120
371	6,709,105
383,532	6,548,944
-	1,266,450
211,712	3,767,039
1,484,767	11,405,938
117,411	119,254
-	1,174,971
-	5,021,955
-	9,367
23,546	292,428
-	3,880,000
-	1,072,538
<u>7,981,728</u>	<u>115,243,353</u>
<u>876,024</u>	<u>2,375,765</u>
598,306	598,306
-	(598,306)
<u>598,306</u>	<u>-</u>
1,474,330	2,375,765
2,663,425	18,581,064
<u>\$ 4,137,755</u>	<u>\$ 20,956,829</u>

HAWTHORNE SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		\$	2,375,765
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 exceeds capital outlay in the period.			
Depreciation expense	\$ (3,358,875)		
Capital outlays	<u>219,776</u>		
Net expense adjustment			(3,139,099)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) 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). Vacation used was less than the amounts earned by \$174,720.			(174,720)
In the Statement of Activities, certain operating expenses - 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). Retirement incentive benefits earned were more than amounts paid during the year by \$3,966,180.			(3,966,180)
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.			(4,820,603)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.			(2,691,224)
Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when the financial resources are available. This adjustment combines the net changes of the following balances:			
Amortization of debt premium	74,026		
Amortization of deferred charge on refunding	<u>(12,284)</u>		
Combined adjustment			61,742

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

HAWTHORNE 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, 2018

Repayment of bond 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	\$ 3,775,000	
Certificates of participation	<u>105,000</u>	
Combined adjustment		\$3,880,000

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. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation and certificate of participation bonds increased by \$138,555 and second, \$2,233,556 of accumulated interest was accreted on the District's 'capital appreciation' general obligation bonds.

	<u>(2,372,111)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (10,846,430)</u></u>

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

HAWTHORNE SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 298,433</u>
LIABILITIES	
Due to student groups	\$ 173,613
Due to employees	<u> 124,820</u>
Total Liabilities	<u>\$ 298,433</u>

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hawthorne School District (the District) was established in 1908 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and/or Federal agencies. The District operates seven elementary schools, three middle schools, and one charter school.

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, boards, and agencies that are not legally separate from the District. For Hawthorne School District, this includes general operations, food service, and student related activities of the District.

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 two broad fund categories: governmental 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 Fund

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, 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 assets, fund balance, and revenues of \$25,854, \$25,854, and \$385, respectively.

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).

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Non-Major Governmental Funds

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

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.

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* Section 17582).

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

Foundation Permanent Fund The Foundation Permanent Fund is used to account for resources received from gifts or bequests pursuant to *Education Code* Section 41031 that are restricted to the extent that earnings, but not principal, may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

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.

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 associated student body (ASB) activities and voluntary payroll withholdings of the District employees.

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, 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*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

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 balance 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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

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 45 or 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 LEAs 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 balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met 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.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

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

Prepaid Expenditures

Prepaid expenditures represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

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.

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, five to 50 years; equipment, two to 15 years.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from other funds/due to other funds". These amounts are eliminated in the governmental column of the *Statement of Net Position*.

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. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term obligations 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.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 deferred charges on refunding of debt, for pension related items, and for OPEB related items.

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three 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. 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 reports \$9,402,190 of restricted net position.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the Statement of Activities.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Estimates

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

Property Tax

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

Parcel Tax

In November 2012 local voters passed Local Classrooms Funding Authority - Measure CL Parcel Tax to protect academic quality in local K-12 schools; maintain math, science, English programs; provide education for students with disabilities/special needs, support computer technology and school security, prepare students for college/careers, and retain excellent teachers. Local Classrooms Funding Authority levied a special tax of 2¢/square foot of lot for residential property, and 7.5¢/square foot for other property types; requiring citizens oversight, audits, senior exemptions and no money for administrator salaries. The District received \$1,124,352 in parcel tax receipts.

Change in Accounting Principles

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

New Accounting Pronouncements

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

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

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

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 21,964,482
Fiduciary funds	<u>298,433</u>
Total Deposits and Investments	<u>\$ 22,262,915</u>

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

Cash on hand and in banks	\$ 1,946,392
Cash in revolving	6,800
Investments	<u>20,309,723</u>
Total Deposits and Investments	<u>\$ 22,262,915</u>

Policies and Practices

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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
Joint Powers Authority Pools	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 Code*. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

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 primarily investing in the Los Angeles County Treasury Investment Pool and by 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.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 investment by maturity:

Investment Type	Fair Value	Weighted Average Days to Maturity
Los Angeles County Treasury Investment Pool	\$ 19,774,120	609
First American Treasury Obligation	263,425	18
Total	<u>\$ 20,037,545</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Los Angeles County Treasury Investment Pool is not required to be rated, nor has been rated as of June 30, 2018. The District's investment in First American Treasury Obligation was rated by Standard & Poor's as AAAm.

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 agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$1,342,841 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

Investment Type	Fair Value	Fair Value Measurements Using	
		Level 1 Inputs	Uncategorized
Los Angeles County Treasury Investment Pool	\$ 19,774,120	\$ -	\$ 19,774,120
First American Treasury Obligation	263,425	263,425	-
Total	<u>\$ 20,037,545</u>	<u>\$ 263,425</u>	<u>\$ 19,774,120</u>

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 4 - RECEIVABLES

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

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 2,010,728	\$ 1,148,031	\$ -	\$ 3,158,759
State Government				
Categorical aid	1,043,362	96,065	110,217	1,249,644
Lottery	314,633	-	24,578	339,211
Local Government				
Interest	45,981	269	6,575	52,825
Other Local Sources	438,848	2,058	94	441,000
Total	<u>\$ 3,853,552</u>	<u>\$ 1,246,423</u>	<u>\$ 141,464</u>	<u>\$ 5,241,439</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 16,563,277	\$ -	\$ -	\$ 16,563,277
Capital Assets Being Depreciated				
Land improvements	2,111,040	-	-	2,111,040
Buildings and improvements	157,091,694	135,247	-	157,226,941
Furniture and equipment	4,900,659	84,529	-	4,985,188
Total Capital Assets Being Depreciated	164,103,393	219,776	-	164,323,169
Less Accumulated Depreciation				
Land improvements	1,792,315	84,379	-	1,876,694
Buildings and improvements	46,130,634	3,024,048	-	49,154,682
Furniture and equipment	3,875,520	250,448	-	4,125,968
Total Accumulated Depreciation	51,798,469	3,358,875	-	55,157,344
Governmental Activities Capital Assets, Net	\$ 128,868,201	\$ (3,139,099)	\$ -	\$ 125,729,102

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 1,960,254
Supervision of instruction	93,700
Instructional library, media, and technology	31,770
School site administration	212,140
Pupil transportation	42,553
Food services	206,111
All other pupil services	202,320
Data processing services	42,267
All other general administration	202,872
Plant services	364,888
Total Depreciation Expenses Governmental Activities	\$ 3,358,875

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds are as follows:

	Due From General Fund
Due To	
Non-Major Governmental Funds	\$ 722,031

The balance of \$722,031 is due to the Non-Major Charter School Fund for a transfer of apportionment in lieu of property taxes.

Operating Transfers

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

	Transfer From General Fund
Transfer To	
Non-Major Governmental Funds	\$ 598,306

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund \$595,891 for Deferred Maintenance projects.

The General Fund transferred to the Building Non-Major Governmental Fund \$2,415 for reimbursement of costs.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 1,607,314	\$ 207,971	\$ 66,354	\$ 1,881,639
LCFF principal apportionment	330,921	-	-	330,921
Salaries and benefits	2,636,923	159,227	345,913	3,142,063
Special education	1,804,559	-	-	1,804,559
Total	<u>\$ 6,379,717</u>	<u>\$ 367,198</u>	<u>\$ 412,267</u>	<u>\$ 7,159,182</u>

NOTE 8 - UNEARNED REVENUE

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

	Cafeteria Fund
Other local revenue	<u>\$ 41,822</u>

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On August 17, 2017, the District issued \$7,110,000 of Tax and Revenue Anticipation Notes bearing interest at 3.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 1, 2018. By March 2018, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2017	Additions	Payments	Outstanding June 30, 2018
08/17/17	3.00%	6/1/2018	<u>\$ -</u>	<u>\$ 7,110,000</u>	<u>\$ 7,110,000</u>	<u>\$ -</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	(as restated)				
	Balance			Balance	Due in
	July 1, 2017	Additions	Deductions	June 30, 2018	One Year
General obligation bonds	\$ 63,039,110	\$ 2,233,556	\$ 3,775,000	\$ 61,497,666	\$ 3,900,000
Premium on general obligation bonds	1,733,100	-	74,026	1,659,074	-
Certificates of participation	3,415,000	-	105,000	3,310,000	105,000
Compensated absences	628,949	174,720	-	803,669	-
Supplemental employee retirement plan (SERP)	-	3,966,180	-	3,966,180	793,236
Aggregate net OPEB liability	41,995,425	3,672,620	451,442	45,216,603	-
	<u>\$ 110,811,584</u>	<u>\$ 10,047,076</u>	<u>\$ 4,405,468</u>	<u>\$ 116,453,192</u>	<u>\$ 4,798,236</u>

Payments on the General Obligation Bonds will be made by the Bond Interest and Redemption Fund with local revenues. Payments on the certificates of participation will be made by the General Fund. Compensated absences will be paid by the fund for which the employee worked. The SERP will be paid by the General Fund. Aggregate net OPEB liability will be paid by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding	
				July 1, 2017	Accretion	Redeemed	June 30, 2018	
1998	2023	4.45 - 5.02%	\$ 5,997,115	\$ 5,084,272	\$ 243,612	\$ 955,000	\$ 4,372,884	
2002	2028	2.00 - 5.45%	3,504,844	5,417,559	311,963	200,000	5,529,522	
2004	2020	2.00 - 5.10%	1,997,115	717,661	42,403	300,000	460,064	
2005	2024	2.05 - 4.61%	9,850,061	1,739,571	125,847	215,000	1,650,418	
2005	2031	3.86 - 5.14%	5,108,625	5,844,974	293,215	595,000	5,543,189	
2008	2049	2.36 - 6.15%	9,036,599	13,525,540	465,972	195,000	13,796,512	
2009	2035	2.61 - 6.00%	6,665,001	7,084,841	214,759	265,000	7,034,600	
2012	2043	2.00 - 5.35%	13,331,770	14,314,692	535,785	380,000	14,470,477	
2015	2030	3.49%	5,465,000	5,380,000	-	10,000	5,370,000	
2015	2022	2.63%	4,340,000	3,930,000	-	660,000	3,270,000	
				<u>\$ 63,039,110</u>	<u>\$ 2,233,556</u>	<u>\$ 3,775,000</u>	<u>\$ 61,497,666</u>	

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Election 1997, Series B General Obligation Bonds

In September 1998, the District issued \$5,997,115 accreting to \$13,895,000 in Election 1997, Series B General Obligation Bonds. Proceeds from the bonds were used for the purpose of construction and renovating school facilities throughout the District and to pay costs related to financing. The remaining bonds mature through November 2022, and yield interest ranging from 4.45 percent to 5.02 percent. At June 30, 2018, the principal balance outstanding was \$4,372,884.

The bonds mature through 2023 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2019	\$ 949,303	\$ 15,697	\$ 965,000
2020	936,330	63,670	1,000,000
2021	890,810	109,190	1,000,000
2022	856,201	153,799	1,010,000
2023	740,240	279,760	1,020,000
Total	<u>\$ 4,372,884</u>	<u>\$ 622,116</u>	<u>\$ 4,995,000</u>

Election 1997, Series C General Obligation Bonds

In November 2002, the District issued \$3,504,844 accreting to \$9,490,000 in Election 1997, Series C General Obligation Bonds. Proceeds from the bonds were used for the purpose of construction and acquisition of certain real property and improvements for school facilities within the District. The remaining bonds mature through November 2027, and yield interest ranging from 2.00 percent to 5.45 percent. At June 30, 2018, the principal balance outstanding was \$5,529,522.

The bonds mature through 2028 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2019	\$ 211,190	\$ 3,810	\$ 215,000
2020	204,502	15,498	220,000
2021	210,759	29,241	240,000
2022	211,180	43,820	255,000
2023	214,489	60,511	275,000
2024-2028	4,477,402	2,357,598	6,835,000
Total	<u>\$ 5,529,522</u>	<u>\$ 2,510,478</u>	<u>\$ 8,040,000</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Election 1997, Series D General Obligation Bonds

In April 2004, the District issued \$1,997,115 accreting to \$2,705,000 in Election 1997, Series D General Obligation Bonds. Proceeds from the bonds were used for the purpose of construction and acquisition of certain real property and improvements for school facilities within the District. The remaining bonds mature through November 2019, and yield interest ranging from 2.00 percent to 5.10 percent. At June 30, 2018, the principal balance outstanding was \$460,064.

The bonds mature through 2020 as follows:

<u>Fiscal Year</u>	Principal Including Accreted Interest to Date	Accreted Interest	Total
2019	\$ 306,921	\$ 8,079	\$ 315,000
2020	153,143	16,857	170,000
Total	<u>\$ 460,064</u>	<u>\$ 24,936</u>	<u>\$ 485,000</u>

Election 2004, Series A General Obligation Bonds

In January 2005, the District issued \$9,850,061 accreting to \$11,900,000 in Election 2004, Series A General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2023, and yield interest ranging from 2.05 percent to 4.61 percent. At June 30, 2018, the principal balance outstanding was \$1,650,418.

The bonds mature through 2024 as follows:

<u>Fiscal Year</u>	Principal Including Accreted Interest to Date	Accreted Interest	Total
2019	\$ 248,397	\$ 1,603	\$ 250,000
2020	261,808	23,192	285,000
2021	271,782	48,218	320,000
2022	282,688	77,312	360,000
2023	290,402	109,598	400,000
2024	295,341	144,659	440,000
Total	<u>\$ 1,650,418</u>	<u>\$ 404,582</u>	<u>\$ 2,055,000</u>

Election 2004, Series B General Obligation Bonds

On December 7, 2005, the District issued \$5,108,625 accreting to \$11,080,000 in Election 2004, Series B General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2030, and yield interest ranging from 3.86 percent to 5.14 percent. At June 30, 2018, the principal balance outstanding was \$5,543,189.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The bonds mature through 2031 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2019	\$ 592,558	\$ 2,442	\$ 595,000
2020	563,371	31,629	595,000
2021	539,712	60,288	600,000
2022	482,035	117,965	600,000
2023	485,589	114,411	600,000
2024-2028	1,618,334	691,666	2,310,000
2029-2031	1,261,590	1,103,410	2,365,000
Total	<u>\$ 5,543,189</u>	<u>\$ 2,121,811</u>	<u>\$ 7,665,000</u>

Election 2004, Series C General Obligation Bonds

In July 2008, the District issued \$9,036,599 accreting to \$61,840,000 in Election 2004, Series C General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2048, and yield interest ranging from 2.36 percent to 6.15 percent. At June 30, 2018, the principal balance outstanding was \$13,796,512.

The bonds mature through 2049 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2019	\$ 170,000	\$ -	\$ 56,845	\$ 226,845
2020	220,000	-	48,935	268,935
2021	230,000	-	39,538	269,538
2022	245,000	-	29,138	274,138
2023	250,000	-	18,000	268,000
2024-2028	738,316	706,684	6,188	1,451,188
2029-2033	1,411,155	3,523,845	-	4,935,000
2034-2038	3,886,297	7,235,776	-	11,122,073
2039-2043	3,307,352	9,588,059	-	12,895,411
2044-2048	2,824,550	12,116,158	-	14,940,708
2049	513,842	2,746,158	-	3,260,000
Total	<u>\$ 13,796,512</u>	<u>\$ 35,916,680</u>	<u>\$ 198,644</u>	<u>\$ 49,911,836</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Election 2008, Series A General Obligation Bonds

In September 2009, the District issued \$6,665,001 accreting to \$9,645,000 in Election 2008, 2009 Series A General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain capital facilities of the District. The remaining bonds mature through August 2034, and yield interest ranging from 2.61 percent to 6.00 percent. At June 30, 2018, the principal balance outstanding was \$7,034,600.

The bonds mature through 2035 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2019	\$ 282,311	\$ 2,689	\$ 239,638	\$ 524,638
2020	264,478	35,522	239,638	539,638
2021	247,154	67,846	239,638	554,638
2022	230,442	99,558	239,638	569,638
2023	220,629	134,371	239,638	594,638
2024-2028	1,339,586	685,414	1,187,619	3,212,619
2029-2033	2,905,000	-	767,137	3,672,137
2034-2035	1,545,000	-	78,875	1,623,875
Total	<u>\$ 7,034,600</u>	<u>\$ 1,025,400</u>	<u>\$ 3,231,821</u>	<u>\$ 11,291,821</u>

Election 2008, Series B General Obligation Bonds

In April 2012, the District issued \$13,331,770 accreting to \$19,755,000 in Election 2008, 2012 Series B General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain capital facilities of the District. The remaining bonds mature through August 2042, and yield interest ranging from 2.00 percent to 5.35 percent. At June 30, 2018, the principal balance outstanding was \$14,470,477.

The bonds mature through 2043 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2019	\$ 410,000	\$ -	\$ 126,716	\$ 536,716
2020	445,000	-	113,891	558,891
2021	485,000	-	99,941	584,941
2022	525,000	-	84,791	609,791
2023	555,000	-	314,981	869,981
2024-2028	865,000	-	2,826,726	3,691,726
2029-2033	555,000	-	3,778,730	4,333,730
2034-2038	2,764,112	1,695,888	3,302,640	7,762,640
2039-2043	7,866,365	1,823,635	1,350,440	11,040,440
Total	<u>\$ 14,470,477</u>	<u>\$ 3,519,523</u>	<u>\$ 11,998,856</u>	<u>\$ 29,988,856</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Election 2004 Refunding, 2015 Series A General Obligation Bonds

In May 2015, the District issued \$5,465,000 in Election 2004, 2015 Series A General Obligation Refunding Bonds. Proceeds from the bonds were used to refund a portion of the District's General Obligation Bonds, Election 2004, 2005 Series A. The remaining bonds mature through August 2029, and yield an interest 3.49 percent. At June 30, 2018, the principal balance outstanding was \$5,370,000.

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	\$ 10,000	\$ 187,326	\$ 197,326
2020	10,000	186,977	196,977
2021	15,000	186,628	201,628
2022	15,000	186,104	201,104
2023	15,000	185,581	200,581
2024-2028	3,665,000	703,410	4,368,410
2029-2030	1,640,000	57,934	1,697,934
Total	<u>\$ 5,370,000</u>	<u>\$ 1,693,960</u>	<u>\$ 7,063,960</u>

Election 1997 Refunding, 2015 Series B General Obligation Bonds

In August 2015, the District issued \$4,340,000 in Election 1997, 2015 Series B General Obligation Refunding Bonds. Proceeds from the Bonds were used to currently refund a portion of the District's outstanding General Obligation Bonds, Election 1997, 2005 Series E. The Bonds mature May 1, 2022 and yield interest of 2.63 percent. At June 30, 2018, the principal balance outstanding was \$3,270,000 and deferred charges on refunding was \$49,137.

The Bonds mature through 2022 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	\$ 685,000	\$ 81,596	\$ 766,596
2020	705,000	63,449	768,449
2021	735,000	44,710	779,710
2022	1,145,000	25,248	1,170,248
Total	<u>\$ 3,270,000</u>	<u>\$ 215,003</u>	<u>\$ 3,485,003</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Certificates of Participation

On May 22, 2007, the District issued Certificates of Participation in the amount of \$5,075,000 with interest rates ranging from 3.7 percent to 4.7 percent. Proceeds from the certificate of participation were used for modernization of school facilities. In the fiscal year 2012, a portion of the balance was paid off with the issuance of 2012 Series B, General Obligation Bonds. At June 30, 2018, the principal balance outstanding was \$3,310,000.

The certificates mature through 2038 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	\$ 105,000	\$ 146,518	\$ 251,518
2020	110,000	141,895	251,895
2021	115,000	137,058	252,058
2022	120,000	132,005	252,005
2023	125,000	126,675	251,675
2024-2028	720,000	542,620	1,262,620
2029-2033	895,000	361,663	1,256,663
2034-2038	1,120,000	132,940	1,252,940
Total	<u>\$ 3,310,000</u>	<u>\$ 1,721,374</u>	<u>\$ 5,031,374</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$803,669.

Supplemental Employee Retirement Plan (SERP)

The District offered a retirement incentive to qualified employees to be administered through Keenan & Associates. The District purchased qualified 403(b) annuity contracts from United of Omaha Life Insurance Company payable in annual installments as shown below. Eligibility requirements are that the classified employee attain age 50 with at least five years of service with the District, or for the certified employee attain age 55 with at least five years of service with the District. 51 employees qualified and accepted the incentive. At June 30, 2018, the remaining balance of the payments is \$3,966,180.

Year Ending June 30,	Total Payment
2019	\$ 793,236
2020	793,236
2021	793,236
2022	793,236
2023	793,236
Total	<u>\$ 3,966,180</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Aggregate Net Other Postemployment Benefits (OPEB) Liability

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

<u>OPEB Plan</u>	<u>Aggregate Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>OPEB Expense</u>
District Plan	\$ 44,586,438	\$ 529,954	\$ 3,314,510
Medicare Premium Payment (MPP) Program	630,165	-	(93,332)
Total	<u>\$ 45,216,603</u>	<u>\$ 529,954</u>	<u>\$ 3,221,178</u>

The details of each plan are as follows:

District Plan

Plan Administration

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

Management of the Plan is vested in the District management.

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	40
Active employees	<u>710</u>
	<u>750</u>

Benefits Provided

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Contributions

The contribution requirements of the Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by management and the District's governing board. For fiscal year 2017-2018, the District contributed \$358,110 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$44,586,438 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	2.98 percent
Healthcare cost trend rates	7.00 percent

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

The mortality rates were based on the expectation that future experience under the plan will be materially consistent with the assumptions utilized in the CalSTRS and CalPERS valuations. CalSTRS mortality rates are from the 2015 experience study and the CalPERS mortality rates are from the 2017 experience study.

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	\$ 41,271,928
Service cost	1,735,231
Interest	1,345,234
Changes of assumptions	592,155
Benefit payments	(358,110)
Net change in total OPEB liability	3,314,510
Balance at June 30, 2018	\$ 44,586,438

There were no changes to benefit terms.

The discount rate as of the end of the fiscal year changed from 3.13 percent to 2.98 percent based on the change in 20 year municipal bond yields. The actuarial cost method changed to the Entry Age Normal method to reflect the adoption of GASB Statement No. 75. The mortality, termination, and retirement rates were updated to reflect the CalPERS 2017 experience study. Morbidity rates were updated based on the June 2013 Society of Actuaries Study entitled "Health Care Costs - From Birth to Death". The healthcare cost trend was updated to a graded scale beginning with 7.00 percent in the 2017-2018 fiscal year.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Total OPEB Liability
1% decrease (1.98%)	\$ 48,868,643
Current discount rate (2.98%)	44,586,438
1% increase (3.98%)	40,592,982

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (6.00%)	\$ 38,965,807
Current healthcare cost trend rate (7.00%)	44,586,438
1% increase (8.00%)	51,239,603

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ 62,201
2020	62,201
2021	62,201
2022	62,201
2022	62,201
Thereafter	218,949
	<u>\$ 529,954</u>

Medicare Premium Payment (MPP) Program

Plan Description

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

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

Benefits Provided

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Contributions

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

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

At June 30, 2018, the District reported a liability of \$630,165 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1498 percent and 0.1546 percent, resulting in a net decrease in the proportionate share of 0.0048 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of (\$93,332).

Actuarial Methods and Assumptions

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

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

Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 697,636
Current discount rate (3.58%)	630,165
1% increase (4.58%)	564,534

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 569,450
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	630,165
1% increase (4.7% Part A and 5.1% Part B)	690,273

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Cafeteria Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 6,000	\$ 800	\$ -	\$ -	\$ 6,800
Stores inventories	75,575	72,994	-	-	148,569
Prepaid expenditures	757,195	-	-	46,148	803,343
Total Nonspendable	838,770	73,794	-	46,148	958,712
Restricted					
Legally restricted programs	1,761,078	2,794,149	-	547,993	5,103,220
Capital projects	-	-	-	857,066	857,066
Debt services	-	-	4,021,797	-	4,021,797
Total Restricted	1,761,078	2,794,149	4,021,797	1,405,059	9,982,083
Committed					
Deferred maintenance program	-	-	-	596,791	596,791
Assigned					
Other	4,414,942	13,380	-	2,089,757	6,518,079
Unassigned					
Reserve for economic uncertainties	2,875,310	-	-	-	2,875,310
Remaining unassigned	25,854	-	-	-	25,854
Total Unassigned	2,901,164	-	-	-	2,901,164
Total	\$ 9,915,954	\$ 2,881,323	\$ 4,021,797	\$ 4,137,755	\$ 20,956,829

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 12 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in one public entity risk pool, Joint Powers Authority (JPA) for the workers' compensation programs and purchases liability coverage through the JPA's. Refer to Note 15 for additional information regarding the JPA's. Excess property and liability coverage is obtained through Alliance for Schools for Cooperative Insurance Programs (ASCIP).

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 76,513,897	\$ 26,211,198	\$ 6,114,460	\$ 8,359,533
CalPERS	25,445,059	8,219,698	299,584	5,016,300
Total	<u>\$ 101,958,956</u>	<u>\$ 34,430,896</u>	<u>\$ 6,414,044</u>	<u>\$ 13,375,833</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Benefits Provided

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

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$6,314,113.

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

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 76,513,897
State's proportionate share of the net pension liability associated with the District	<u>45,264,975</u>
Total	<u>\$ 121,778,872</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0827 percent and 0.0869 percent, resulting in a net decrease in the proportionate share of 0.0042 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$8,359,533. In addition, the District recognized pension expense and revenue of \$4,556,354 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 6,314,113	\$ -
Net change in proportionate share of net pension liability	5,439,036	2,742,158
Differences between projected and actual earnings on the pension plan investments	-	2,037,777
Differences between expected and actual experience in the measurement of the total pension liability	282,956	1,334,525
Changes of assumptions	14,175,093	-
Total	<u>\$ 26,211,198</u>	<u>\$ 6,114,460</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,694,080)
2020	1,281,919
2021	184,846
2022	(1,810,462)
Total	<u>\$ (2,037,777)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,854,206
2020	2,854,206
2021	2,854,206
2022	2,854,203
2023	2,450,935
Thereafter	1,952,646
Total	<u>\$ 15,820,402</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

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

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 112,346,692
Current discount rate (7.10%)	76,513,897
1% increase (8.10%)	47,433,156

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, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$2,241,117.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$25,445,059. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1066 percent and 0.1048 percent, resulting in a net increase in the proportionate share of 0.0018 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$5,016,300. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,241,117	\$ -
Net change in proportionate share of net pension liability	470,114	-
Differences between projected and actual earnings on the pension plan investments	880,225	-
Differences between expected and actual experience in the measurement of the total pension liability	911,591	-
Changes of assumptions	3,716,651	299,584
Total	<u>\$ 8,219,698</u>	<u>\$ 299,584</u>

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/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (23,851)
2020	1,015,588
2021	370,499
2022	(482,011)
Total	<u>\$ 880,225</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,723,564
2020	1,720,556
2021	1,354,652
Total	<u>\$ 4,798,772</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 37,437,836
Current discount rate (7.15%)	25,445,059
1% increase (8.15%)	15,496,047

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,218,027 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. 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 14 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

Operating Lease

The District has entered into an operating lease for the real property occupied by the Hawthorne Math and Science Academy, with a lease expiration date of December 31, 2023. The lease will expire at such date unless otherwise amended between the District and the Lessor. Expenditures for rent under the lease for the year ended June 30, 2018, amounted to approximately \$944,475.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Future minimum payments are as follows:

Year Ending June 30,	
2019	\$ 1,275,216
2020	1,203,034
2021	1,034,604
2022	1,065,642
2023	1,097,610
Thereafter	<u>1,130,538</u>
Total	<u>\$ 6,806,644</u>

Purchase Commitment

The District entered into an agreement to purchase educational materials. On May 2, 2017, the District guaranteed the sum of \$1,798,562 payable over four years. Expenditures for the educational materials for the year ended June 30, 2018, amounted to approximately \$300,000. The remaining balance as of June 30, 2018, was \$498,562.

Future minimum payments are as follows:

Year Ending June 30,	
2019	\$ 300,000
2020	<u>198,562</u>
Total	<u>\$ 498,562</u>

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOL

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) public entity risk pool. The District pays an annual premium to the entity for its health, workers' compensation, and property liability coverage. The relationship between the District and the pool is such that it is not a component unit of the District for financial reporting purposes.

The entity 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 entity and the District are included in these statements. Audited financial statements are available from the respective entity.

During the year ended June 30, 2018, the District made a payment of \$1,702,196 to ASCIP.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 16 - SUBSEQUENT EVENTS

On August 15, 2018, the District issued \$9,615,000 of Tax and Revenue Anticipation Notes bearing interest at 4.00 percent. The notes mature on June 3, 2019. The notes were issued to supplement cash flows. Interest and principal are due in June 2019. By March 2019, the District is required to have placed 100 percent of the principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

On August 20, 2018, the District issued \$12,505,000 of Bond Anticipation Notes (the Notes) bearing interest at 5.00 percent. The notes are payable semi-annually on March 1, 2019 and at final maturity on September 1, 2019. The Notes were issued to finance the acquisition, construction, modernization and equipping of District sites and facilities, and to pay the costs of issuing the Notes. The Notes are being issued in anticipation of receipt of proceeds from future general obligation bonds to be issued by the District pursuant to a duly called election of the registered voters of the District held June 5, 2018.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements	
Net Position - Beginning	\$ (762,851)
Inclusion of aggregate net OPEB liability from the adoption of GASB Statement No. 75	<u>(31,837,461)</u>
Net Position - Beginning as Restated	<u><u>\$ (32,600,312)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

HAWTHORNE SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$78,363,945	\$ 78,498,565	\$ 78,533,998	\$ 35,433
Federal sources	5,518,238	6,187,334	4,739,551	(1,447,783)
Other State sources	9,276,224	10,579,706	10,739,552	159,846
Other local sources	1,151,149	2,629,317	3,000,205	370,888
Total Revenues ¹	94,309,556	97,894,922	97,013,306	(881,616)
EXPENDITURES				
Current				
Certificated salaries	41,380,069	41,416,712	40,826,118	590,594
Classified salaries	12,264,111	12,305,986	11,679,882	626,104
Employee benefits	25,734,295	25,486,409	24,980,081	506,328
Books and supplies	3,391,331	3,614,138	2,406,334	1,207,804
Services and operating expenditures	9,221,480	11,807,810	10,847,683	960,127
Other outgo	4,912,228	4,855,510	4,479,147	376,363
Capital outlay	-	1,184,257	177,887	1,006,370
Debt service - principal	166,119	166,119	105,000	61,119
Debt service - interest	180,000	180,000	341,529	(161,529)
Total Expenditures ¹	97,249,633	101,016,941	95,843,661	5,173,280
Excess (Deficiency) of Revenues Over Expenditures	(2,940,077)	(3,122,019)	1,169,645	4,291,664
Other Financing Uses				
Transfers out	(319,938)	(319,938)	(598,306)	(278,368)
NET CHANGE IN FUND BALANCES	(3,260,015)	(3,441,957)	571,339	4,013,296
Fund Balance - Beginning	9,344,615	9,344,615	9,344,615	-
Fund Balance - Ending	\$ 6,084,600	\$ 5,902,658	\$ 9,915,954	\$ 4,013,296

¹ In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund 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.

HAWTHORNE SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Federal sources	\$ 6,215,909	\$ 6,215,909	\$ 6,426,205	\$ 210,296
Other State sources	525,216	525,216	515,045	(10,171)
Other local sources	413,072	412,141	302,392	(109,749)
Total Revenues	7,154,197	7,153,266	7,243,642	90,376
EXPENDITURES				
Current				
Classified salaries	2,431,309	2,300,807	2,300,807	-
Employee benefits	835,086	769,554	769,554	-
Books and supplies	3,523,551	3,566,922	3,458,050	108,872
Services and operating expenditures	272,376	138,182	163,693	(25,511)
Other outgo	222,333	221,127	204,082	17,045
Capital outlay	138,182	138,182	15,769	122,413
Total Expenditures	7,422,837	7,134,774	6,911,955	222,819
NET CHANGE IN FUND BALANCES	(268,640)	18,492	331,687	313,195
Fund Balance - Beginning	2,549,636	2,549,636	2,549,636	-
Fund Balance - Ending	\$ 2,280,996	\$ 2,568,128	\$ 2,881,323	\$ 313,195

See accompanying note to required supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 1,735,231
Interest	1,345,234
Changes of assumptions	592,155
Benefit payments	<u>(358,110)</u>
Net change in total OPEB liability	3,314,510
Total OPEB liability - beginning	<u>41,271,928</u>
Total OPEB liability - ending	<u><u>\$ 44,586,438</u></u>
 Covered payroll	 <u>N/A¹</u>
 District's total OPEB liability as a percentage of covered payroll	 <u>N/A¹</u>

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

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

See accompanying note to required supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.1498%</u>
District's proportionate share of the net OPEB liability	<u>\$ 630,165</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.0827%	0.0869%
District's proportionate share of the net pension liability	\$ 76,513,897	\$ 70,303,239
State's proportionate share of the net pension liability associated with the District	45,264,975	40,022,380
Total	<u>\$ 121,778,872</u>	<u>\$ 110,325,619</u>
District's covered-employee payroll	\$ 43,075,278	\$ 41,761,957
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	177.63%	168.34%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.1066%	0.1048%
District's proportionate share of the net pension liability	\$ 25,445,059	\$ 20,690,152
District's covered-employee payroll	\$ 13,095,565	\$ 12,439,056
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	194.30%	166.33%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0809%</u>	<u>0.0755%</u>
\$ 54,433,028	\$ 44,111,211
<u>28,789,071</u>	<u>26,636,254</u>
<u>\$ 83,222,099</u>	<u>\$ 70,747,465</u>
<u>\$ 38,859,764</u>	<u>\$ 38,467,115</u>
<u>140.08%</u>	<u>114.67%</u>
<u>74%</u>	<u>77%</u>
<u>0.1014%</u>	<u>0.0965%</u>
<u>\$ 14,953,642</u>	<u>\$ 10,954,709</u>
<u>\$ 11,238,977</u>	<u>\$ 11,168,950</u>
<u>133.05%</u>	<u>98.08%</u>
<u>79%</u>	<u>83%</u>

HAWTHORNE SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
Contractually required contribution	\$ 6,314,113	\$ 5,418,870
Contributions in relation to the contractually required contribution	6,314,113	5,418,870
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 43,756,847</u>	<u>\$ 43,075,278</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 2,241,117	\$ 1,818,712
Contributions in relation to the contractually required contribution	2,241,117	1,818,712
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 14,429,959</u>	<u>\$ 13,095,565</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

2016	2015
\$ 4,481,058	\$ 3,450,747
4,481,058	3,450,747
<u>\$ -</u>	<u>\$ -</u>
\$ 41,761,957	\$ 38,859,764
<u>10.73%</u>	<u>8.88%</u>
\$ 1,473,655	\$ 1,322,940
1,473,655	1,322,940
<u>\$ -</u>	<u>\$ -</u>
\$ 12,439,056	\$ 11,238,977
<u>11.847%</u>	<u>11.771%</u>

HAWTHORNE SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

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

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

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

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

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The discount rate as of the end of the fiscal year changed from 3.13 percent to 2.98 percent based on the change in 20 year municipal bond yields. The actuarial cost method changed to the Entry Age Normal method to reflect the adoption of GASB Statement No. 75. The mortality, termination, and retirement rates were updated to reflect the CalPERS 2017 experience study. Morbidity rates were updated based on the June 2013 Society of Actuaries Study entitled "Health Care Costs - From Birth to Death". The healthcare cost trend was updated to a graded scale beginning with 7.00 percent in the 2017-2018 fiscal year.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability - MPP program and the Plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

HAWTHORNE SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

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

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

HAWTHORNE SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education (CDE)			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 2,494,564
Title II, Part A, Supporting Effective Instruction	84.367	14341	356,175
Title III, English Learner Student Program	84.365	14346	333,115
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	119
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,023,728
Preschool Grants, Part B, Sec 619	84.173	13435	114,846
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	292,650
Preschool Staff Development, Part B, Section 619	84.173A	13431	501
Total Special Education (IDEA) Cluster			<u>1,431,725</u>
Total U.S. Department of Education			<u>4,615,698</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the California Department of Health Care Services			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	87,407
Medi-Cal Administrative Activities	93.778	10060	9,235
Total Medicaid Cluster			<u>96,642</u>
Total U.S. Department of Health and Human Services			<u>96,642</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	3,529,236
Basic Breakfast Program	10.553	13525	4,635
Especially Needy Breakfast Program	10.553	13526	2,319,951
Meal Supplements	10.555	13396	139,002
Commodities	10.555	13396	407,263
Seamless Summer Food Option	10.559	13004	26,118
Total Child Nutrition Cluster			<u>6,426,205</u>
Child Nutrition: Nutrition Education	10.574	02151	1,730
Total U.S. Department of Agriculture			<u>6,427,935</u>
Total Expenditures of Federal Awards			<u>\$ 11,140,275</u>

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The Hawthorne School District was established 1908, and consists of an area comprising approximately nine square miles. The District operates seven elementary schools, three middle schools, and one charter school. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Eugene M. Krank	President	2018
Mrs. Cristina Chiappe	Vice President	2020
Mr. Alexandre Monteiro	Clerk	2020
Mr. Luciano A. Aguilar	Member	2018
Mr. Sergio R. Mortara	Member	2018

ADMINISTRATION

Dr. Helen E. Morgan	Superintendent
Dr. Brian Markarian	Associate Superintendent, Human Resources
Mrs. Mara Pagniano	Assistant Superintendent, Business Services

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

	Final Report	
	Second Period Report*	Annual Report
Regular ADA		
Transitional kindergarten through third	3,421.92	3,411.61
Fourth through sixth	2,452.42	2,443.87
Seventh and eighth	1,597.22	1,593.09
Total Regular ADA	7,471.56	7,448.57
Extended Year Special Education		
Transitional kindergarten through third	3.71	3.71
Fourth through sixth	1.32	1.32
Seventh and eighth	0.65	0.65
Total Extended Year Special Education	5.68	5.68
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.84	1.36
Fourth through sixth	2.88	2.97
Seventh and eighth	2.13	2.21
Total Special Education, Nonpublic, Nonsectarian Schools	5.85	6.54
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.18	0.18
Fourth through sixth	0.42	0.42
Seventh and eighth	0.27	0.27
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.87	0.87
Total ADA	7,483.96	7,461.66

*The District revised the Second Period Report for the District on July 3, 2018.

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

Hawthorne Mathematics, Science and Technology Charter School

	Final Report	
	Second Period Report	Annual Report
Regular ADA Ninth through twelfth	<u>543.04</u>	<u>540.04</u>
Classroom based ADA Ninth through twelfth	<u>542.40</u>	<u>539.47</u>
Non Classroom based ADA Ninth through twelfth	<u>0.64</u>	<u>0.57</u>

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	54,900	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		51,300	180	N/A	Complied
Grade 2		51,300	180	N/A	Complied
Grade 3		51,300	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,140	180	N/A	Complied
Grade 5		55,140	180	N/A	Complied
Grade 6		58,844	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		58,844	180	N/A	Complied
Grade 8		58,844	180	N/A	Complied

Hawthorne Mathematics, Science and Technology Charter School

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		65,336	180	N/A	Complied
Grade 10		65,336	180	N/A	Complied
Grade 11		65,336	180	N/A	Complied
Grade 12		65,336	180	N/A	Complied

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

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

	General Fund	Charter School Fund
FUND BALANCE		
Balance, June 30, 2018, Unaudited Actuals	\$ 10,637,985	\$ 1,775,841
Increase in:		
Due to other funds	(722,031)	-
Due from other funds	-	722,031
Balance, June 30, 2018, Audited Financial Statement	<u>\$ 9,915,954</u>	<u>\$ 2,497,872</u>

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

	(Budget) 2019 ¹	2018	(as restated) 2017	2016
GENERAL FUND ⁴				
Revenues	\$ 107,087,815	\$ 97,012,920	\$ 97,188,374	\$ 94,734,869
Other sources and transfers in	-	-	3,000,661	1,709,286
Total Revenues and Other Sources	107,087,815	97,012,920	100,189,035	96,444,155
Expenditures	103,381,005	95,843,661	99,256,903	91,233,898
Other uses and transfers out	319,938	598,306	1,070,450	5,696,885
Total Expenditures and Other Uses	103,700,943	96,441,967	100,327,353	96,930,783
INCREASE (DECREASE) IN FUND BALANCE	\$ 3,386,872	\$ 570,953	\$ (138,318)	\$ (486,628)
ENDING FUND BALANCE	\$ 13,276,972	\$ 9,890,100	\$ 9,319,147	\$ 9,457,465
AVAILABLE RESERVES ²	\$ 3,136,882	\$ 2,901,164	\$ 3,003,197	\$ 2,907,924
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.02%	3.01%	2.99%	3.00%
LONG-TERM OBLIGATIONS ⁵	N/A	\$ 116,453,192	\$ 110,811,584	\$ 78,834,363
AVERAGE DAILY ATTENDANCE AT P-2 ³	7,313	7,484	7,697	7,796

The General Fund balance has increased by \$432,635 over the past two years. The fiscal year 2018-2019 budget projects a further increase of \$3,386,872 (34.25 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years, but anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$37,618,829 over the past two years.

Average daily attendance has decreased by 312 over the past two years. An additional decline of 171 ADA is anticipated during fiscal year 2018-2019.

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

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund and Special Reserve Fund for other than Capital Outlay Projects.

³ Excludes Charter School ADA.

⁴ General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

⁵ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Hawthorne Mathematics, Science and Technology (0523)	Yes

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

	Child Development Fund	Deferred Maintenance Fund	Charter School Fund	Foundation Permanent Fund
ASSETS				
Deposits and investments	\$ 41,297	\$ 596,786	\$ 1,968,626	\$ 171,038
Receivables	8,445	5	128,484	948
Due from other funds	-	-	722,031	-
Prepaid expenditures	-	-	46,148	-
Total Assets	\$ 49,742	\$ 596,791	\$ 2,865,289	\$ 171,986
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 44,552	\$ -	\$ 367,417	\$ -
Fund Balances:				
Nonspendable	-	-	46,148	-
Restricted	5,190	-	542,803	-
Committed	-	596,791	-	-
Assigned	-	-	1,908,921	171,986
Total Fund Balances	5,190	596,791	2,497,872	171,986
Total Liabilities and Fund Balances	\$ 49,742	\$ 596,791	\$ 2,865,289	\$ 171,986

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
\$ 263,425	\$ 590,405	\$ 7,550	\$ 1,252	\$ 3,640,379
-	3,534	42	6	141,464
-	-	-	-	722,031
-	-	-	-	46,148
<u>\$ 263,425</u>	<u>\$ 593,939</u>	<u>\$ 7,592</u>	<u>\$ 1,258</u>	<u>\$ 4,550,022</u>
\$ -	\$ 298	\$ -	\$ -	\$ 412,267
-	-	-	-	46,148
263,425	593,641	-	-	1,405,059
-	-	-	-	596,791
-	-	7,592	1,258	2,089,757
<u>263,425</u>	<u>593,641</u>	<u>7,592</u>	<u>1,258</u>	<u>4,137,755</u>
<u>\$ 263,425</u>	<u>\$ 593,939</u>	<u>\$ 7,592</u>	<u>\$ 1,258</u>	<u>\$ 4,550,022</u>

HAWTHORNE SCHOOL DISTRICT

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

	Child Development Fund	Deferred Maintenance Fund	Charter School Fund	Foundation Permanent Fund
REVENUES				
Local Control Funding Formula	\$ -	\$ -	\$ 5,956,489	\$ -
Other State sources	1,537,220	-	1,096,235	-
Other local sources	5,031	14	68,346	2,663
Total Revenues	1,542,251	14	7,121,070	2,663
EXPENDITURES				
Current				
Instruction	1,233,516	-	3,769,548	-
Instruction-related activities:				
Supervision of instruction	145,685	-	18,633	-
Instructional library, media and technology	-	-	90,731	-
School site administration	158,019	-	344,257	-
Pupil services:				
Food services	-	-	371	-
All other pupil services	-	-	383,532	-
General administration:				
All other general administration	-	-	211,712	-
Plant services	-	-	1,483,332	-
Ancillary services	-	-	116,585	826
Facility acquisition and construction	-	-	11,673	-
Total Expenditures	1,537,220	-	6,430,374	826
Excess (Deficiency) of Revenues Over Expenditures	5,031	14	690,696	1,837
Other Financing Sources				
Transfers in	-	595,891	-	-
NET CHANGE IN FUND BALANCES	5,031	595,905	690,696	1,837
Fund Balances - Beginning	159	886	1,807,176	170,149
Fund Balances - Ending	\$ 5,190	\$ 596,791	\$ 2,497,872	\$ 171,986

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 5,956,489
-	-	-	-	2,633,455
-	191,618	117	19	267,808
-	191,618	117	19	8,857,752
-	-	-	-	5,003,064
-	-	-	-	164,318
-	-	-	-	90,731
-	-	-	-	502,276
-	-	-	-	371
-	-	-	-	383,532
-	-	-	-	211,712
-	1,435	-	-	1,484,767
-	-	-	-	117,411
-	11,873	-	-	23,546
-	13,308	-	-	7,981,728
-	178,310	117	19	876,024
2,415	-	-	-	598,306
2,415	178,310	117	19	1,474,330
261,010	415,331	7,475	1,239	2,663,425
\$ 263,425	\$ 593,641	\$ 7,592	\$ 1,258	\$ 4,137,755

HAWTHORNE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 Administrative Activities and Title I, Part G, Advance Placement Test Fee Reimbursement Program funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted ending balances with the General Fund. In addition, Child Nutrition: Nutrition Education funds that in the previous period were recorded as revenues, but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance:		\$ 11,165,756
Medi-Cal Administrative Activities	93.778	(24,448)
Title I, Part G, Advanced Placement Test Fee Reimbursement Program	84.330B	(1,743)
Child Nutrition: Nutrition Education	10.574	710
Total Schedule of Expenditures of Federal Awards		<u>\$ 11,140,275</u>

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.

HAWTHORNE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report 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 Balances

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

INDEPENDENT AUDITOR'S REPORTS



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

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**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
Hawthorne School District
Hawthorne, 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, each major fund, and the aggregate remaining fund information of Hawthorne School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 30, 2018.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Rancho Cucamonga, California
November 30, 2018



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

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

Governing Board
Hawthorne School District
Hawthorne, California

Report on Compliance for Each Major Federal Program

We have audited Hawthorne School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2018. The 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 the 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the 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 the 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 the 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.



Rancho Cucamonga, California
November 30, 2018



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

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Hawthorne School District
Hawthorne, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the 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 the District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

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

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

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

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

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

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

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

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

 Valerie T. Day & Co., LLP.

Rancho Cucamonga, California
November 30, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HAWTHORNE SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low-Income and Neglected</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

HAWTHORNE SCHOOL DISTRICT

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

None reported.

HAWTHORNE SCHOOL DISTRICT

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

None reported.

HAWTHORNE SCHOOL DISTRICT

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

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.