

**HUENEME ELEMENTARY
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018**



HUENEME ELEMENTARY SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2018

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HUENEME ELEMENTARY SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2018

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Hueneme Elementary School District
Port Hueneme, 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 Hueneme Elementary School District, as of and for the fiscal 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.

Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Change in Accounting Principle

As discussed in Note 1.I.1. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$12,076,865 reduction of previously reported net position at July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

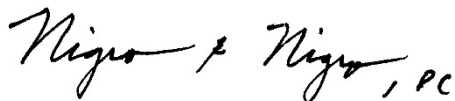
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, and the notes to the required supplementary information 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 supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis 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*, and is also not a required part of the basic financial statements. The supplementary information on pages 56 to 59 and the schedule of expenditures of federal awards on page 60 are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 55 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
November 29, 2018

HUENEME ELEMENTARY SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

This discussion and analysis of Hueneme Elementary School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by \$3.2 million, or 5.3%.
- Governmental expenses were about \$110.7 million. Revenues were about \$107.5 million.
- The District acquired over \$2.3 million in new capital assets during the year. These additions were incurred primarily from modernization projects throughout the District.
- The District increased its outstanding long-term debt by \$14.1 million. This was primarily due to an increase in the net pension liability.
- Grades K-12 average daily attendance (ADA) decreased by 13, or 0.2%.

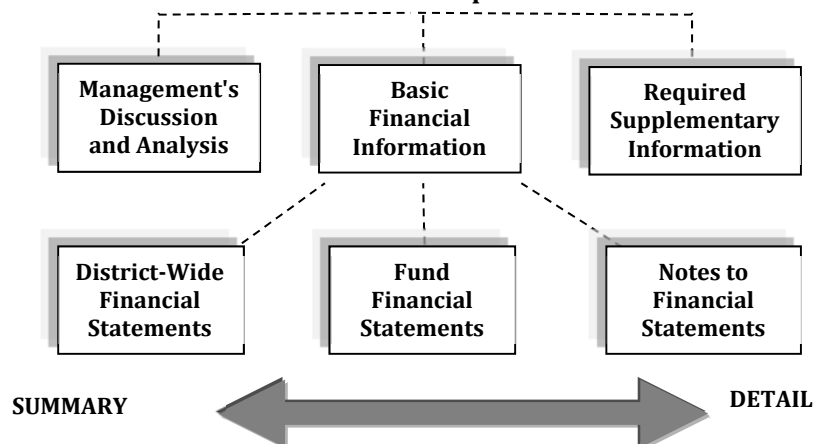
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Hueneme Elementary School District's Annual Financial Report



HUENEME ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

HUENEME ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has two kinds of funds:

- 1) ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

HUENEME ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

Fund Financial Statements (continued)

- 2) **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2018, than it was the year before – decreasing 5.3% to \$(64.1) million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2018	2017*	Increase (Decrease)
Assets			
Current assets	\$ 27,390,158	\$ 26,110,820	\$ 1,279,338
Capital assets	46,007,969	46,917,766	(909,797)
Total assets	73,398,127	73,028,586	369,541
Deferred outflows of resources	36,906,344	24,465,396	12,440,948
Liabilities			
Current liabilities	8,177,945	7,540,583	637,362
Long-term liabilities	64,249,185	64,657,593	(408,408)
Net pension liability	98,288,266	83,761,725	14,526,541
Total liabilities	170,715,396	155,959,901	14,755,495
Deferred inflows of resources	3,644,779	2,359,258	1,285,521
Net position			
Net investment in capital assets	11,349,037	4,729,597	6,619,440
Restricted	5,893,319	9,366,128	(3,472,809)
Unrestricted	(81,298,060)	(74,920,902)	(6,377,158)
Total net position	\$ (64,055,704)	\$ (60,825,177)	\$ (3,230,527)

*As restated

Changes in net position, governmental activities. The District's total revenues increased 6.7% to \$107.5 million (See Table A-2). The increase is due primarily to an increase in federal and state funding.

The total cost of all programs and services increased 2.2% to \$110.7 million. The District's expenses are predominantly related to educating and caring for students, 79.6%. The purely administrative activities of the District accounted for just 4.4% of total costs. A significant contributor to the increase in costs was negotiated salary increases.

HUENEME ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance
	2018	2017	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	\$ 140,453	\$ 131,646	\$ 8,807
Operating grants and contributions	18,344,907	15,161,384	3,183,523
General Revenues:			
Property taxes	11,331,419	10,072,687	1,258,732
Federal and state aid not restricted	75,449,275	74,391,396	1,057,879
Other general revenues	2,236,706	977,770	1,258,936
Total Revenues	107,502,760	100,734,883	6,767,877
Expenses			
Instruction-related	76,922,329	76,366,354	555,975
Pupil services	11,272,564	10,386,858	885,706
Administration	4,877,172	4,315,236	561,936
Plant services	9,050,788	8,949,057	101,731
All other activities	8,610,434	8,285,984	324,450
Total Expenses	110,733,287	108,303,489	2,429,798
Increase (decrease) in net position	\$ (3,230,527)	\$ (7,568,606)	\$ 4,338,079
Net Position	\$ (64,055,704)	\$ (60,825,177)	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$19.7 million, which is above last year's ending fund balance of \$19.4 million. The primary cause of the increased fund balance is the increase in state funding to the General Fund.

Table A-3: The District's Fund Balances

	Fund Balances				
Fund	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2018
General Fund	\$ 10,089,339	\$ 101,715,427	\$ 100,796,364	\$ -	\$ 11,008,402
Cafeteria Fund	1,554,065	5,631,902	5,972,588	-	1,213,379
Building Fund	4,771,920	47,710	575,746	-	4,243,884
Capital Facilities Fund	34,286	24,125	19,230	-	39,181
Bond Interest and Redemption Fund	2,921,553	2,960,431	2,688,482	14,855	3,208,357
	\$ 19,371,163	\$ 110,379,595	\$ 110,052,410	\$ 14,855	\$ 19,713,203

HUENEME ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$5.3 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$2.7 million due to reflect revised cost estimates.
- Other non-personnel expenses – increased \$3.7 million to revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$1.2 million, the actual results for the year show that revenues exceeded expenditures by roughly \$919,000. Actual revenues were \$0.9 million less than anticipated, and expenditures were \$3.0 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had acquired \$2.3 million in new capital assets related to construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$3.2 million.

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance
	2018	2017	Increase (Decrease)
Land	\$ 1,219,959	\$ 1,219,959	\$ -
Improvement of sites	5,686,496	6,144,142	(457,646)
Buildings	37,147,430	37,605,022	(457,592)
Equipment	827,747	875,216	(47,469)
Construction in progress	1,126,337	1,073,427	52,910
Total	<u>\$ 46,007,969</u>	<u>\$ 46,917,766</u>	<u>\$ (909,797)</u>

Long-Term Debt

At year-end the District had \$64.2 million in long-term debt – a decrease of 0.6% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance
	2018	2017*	Increase (Decrease)
General obligation bonds	\$ 40,831,760	\$ 42,188,169	\$ (1,356,409)
Compensated absences	477,213	524,282	(47,069)
Other postemployment benefits	22,940,212	21,945,142	995,070
Total	<u>\$ 64,249,185</u>	<u>\$ 64,657,593</u>	<u>\$ (408,408)</u>

*As restated

HUENEME ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2018-19 State Budget

Final Budget Package Includes \$15.9 Billion in Total Reserves

The Legislature passed the final budget package on June 14, 2018. Total reserves in the final budget package are lower than the proposed level in the May Revision, but roughly the same as the level proposed by the Governor in January. The budget package also reflects various choices that shifted spending priorities compared to the Governor's proposal. In particular, the final budget package reduces payments for deferred maintenance by \$700 million—relative to the Governor's proposal—freeing up a like amount of funding. Correspondingly, the final budget package reflects higher General Fund spending for homeless grants and the universities, among others. The Governor signed the *2018-19 Budget Act* and 26 other budget related bills on June 27 and June 28, 2018.

Overall Spending

The budget assumed total state spending of \$197.2 billion (excluding federal and bond funds), an increase of 7% over revised totals for 2017-18. General Fund spending in the budget package is \$138.7 billion—an increase of \$11.6 billion, or 9%, over the revised 2017-18 level. Special fund spending increased \$1.3 billion, or 2%, over the revised 2017-18 level.

Considerable New Spending on Education

The budget package contains significant increases for every education segment. For elementary and secondary schools, the state surpasses the Local Control Funding Formula target rates set in 2013-14. For early education, the budget contains higher spending for more slots, rate increases, staff training, and facilities.

Proposition 98 Establishes Minimum Spending Level

This minimum spending requirement is commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 student attendance. The state can spend at the minimum guarantee or any level above it. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

Higher Proposition 98 Spending in 2016-17 and 2017-18

From the June 2017 budget plan to the June 2018 budget plan, spending increased \$252 million in 2016-17 and \$1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of \$789 million (on top of a previous \$536 million payment). After making the \$1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

2018-19 Spending up Notably Over Revised 2017-18 Level

For 2018-19, total Proposition 98 spending across all segments is \$78.4 billion, an increase of \$2.8 billion (3.7%) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67% increase in per capita personal income. Though the administration projects a 0.29% decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

HUENEME ELEMENTARY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

\$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19

The enacted 2018-19 level is \$2.4 billion (3.6%) more than the revised 2017-18 level and \$3.2 billion (4.9%) more than the 2017-18 Budget Act level. The budget increases spending per student by \$579 (5.2%) over the 2017-18 Budget Act level, bringing Proposition 98 spending per student up to \$11,645.

Package Includes Mix of Ongoing and One-Time Spending

The budget includes \$5.7 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the \$5.7 billion, \$4 billion (70%) is ongoing and \$1.7 billion (30%) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes \$594 million in Proposition 51 bond authority for school facility projects and \$100 million in non-Proposition 98 funding for kindergarten school facilities.

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates

In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71% cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7% COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is \$3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to \$61.1 billion, a 6.4% increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants

The largest one-time spending initiative for K-12 education is \$1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated \$183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total \$145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, it is estimated that only \$202 million of the funding provided will count toward the K-12 mandates backlog. It is estimated that the total remaining mandate backlog at the end of 2018-19 will be \$668 million.

All of these factors were considered in preparing the Hueneme Elementary School District budget for the 2018-19 fiscal year.

HUENEME ELEMENTARY SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Dannielle Brook
Assistant Superintendent, Business Services
Hueneme Elementary School District
205 N. Ventura Road
Port Hueneme, CA 93041
(805) 488-3588

HUENEME ELEMENTARY SCHOOL DISTRICT*Statement of Net Position**June 30, 2018*

	Total Governmental Activities
ASSETS	
Cash	\$ 23,578,173
Accounts receivable	3,707,955
Inventories	104,030
Capital assets:	
Non-depreciable capital assets	2,346,296
Depreciable capital assets	83,911,317
Less accumulated depreciation	<u>(40,249,644)</u>
Total assets	<u>73,398,127</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	716,618
Deferred outflows related to pensions	<u>36,189,726</u>
Total deferred outflows of resources	<u>36,906,344</u>
 LIABILITIES	
Accounts payable	7,615,312
Unearned revenue	562,633
Long-term liabilities:	
Due within one year	2,101,507
Due after one year	62,147,678
Net pension liability	<u>98,288,266</u>
Total liabilities	<u>170,715,396</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>3,644,779</u>
 NET POSITION	
Net investment in capital assets	11,349,037
Restricted for:	
Capital projects	39,181
Debt service	3,208,357
Categorical programs	2,645,781
Unrestricted	<u>(81,298,060)</u>
 Total net position	<u>\$ (64,055,704)</u>

HUENEME ELEMENTARY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities				
Instructional Services:				
Instruction	\$ 65,072,751	\$ -	\$ 7,674,961	\$ (57,397,790)
Instruction-Related Services:				
Supervision of instruction	3,742,216	-	808,456	(2,933,760)
Instructional library, media and technology	1,237,174	-	279,805	(957,369)
School site administration	6,870,188	-	165,915	(6,704,273)
Pupil Support Services:				
Home-to-school transportation	1,091,405	-	48,408	(1,042,997)
Food services	5,347,307	116,632	4,625,423	(605,252)
All other pupil services	4,833,852	-	867,443	(3,966,409)
General Administration Services:				
Data processing services	413,243	-	-	(413,243)
Other general administration	4,463,929	4,760	2,323,067	(2,136,102)
Plant services	9,050,788	19,061	947,641	(8,084,086)
Community services	640,880	-	603,788	(37,092)
Interest on long-term debt	1,082,857	-	-	(1,082,857)
Other outgo	3,721,667	-	-	(3,721,667)
Depreciation (unallocated)	3,165,030	-	-	(3,165,030)
Total Governmental Activities	\$ 110,733,287	\$ 140,453	\$ 18,344,907	(92,247,927)

General Revenues:

Property taxes	11,331,419
Federal and state aid not restricted to specific purpose	75,449,275
Interest and investment earnings	250,470
Miscellaneous	1,986,236
Total general revenues	89,017,400
Change in net position	(3,230,527)
Net position - July 1, 2017, as originally stated	(48,748,312)
Restatement - change in accounting principle	(12,076,865)
Net position- July 1, 2017, as restated	(60,825,177)
Net position - June 30, 2018	\$ (64,055,704)

HUENEME ELEMENTARY SCHOOL DISTRICT*Balance Sheet – Governmental Funds**June 30, 2018*

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 15,652,247	\$ 4,242,603	\$ 3,198,495	\$ 484,828	\$ 23,578,173
Accounts receivable	2,596,036	16,598	9,862	1,085,459	3,707,955
Due from other funds	189,327	-	-	19,658	208,985
Inventories	80,968	-	-	23,062	104,030
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 18,518,578</u>	<u>\$ 4,259,201</u>	<u>\$ 3,208,357</u>	<u>\$ 1,613,007</u>	<u>\$ 27,599,143</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 6,927,885	\$ 15,317	\$ -	\$ 171,120	\$ 7,114,322
Due to other funds	19,658	-	-	189,327	208,985
Unearned revenue	562,633	-	-	-	562,633
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>7,510,176</u>	<u>15,317</u>	<u>-</u>	<u>360,447</u>	<u>7,885,940</u>
Fund Balances					
Nonspendable	91,968	-	-	23,062	115,030
Restricted	1,432,402	4,243,884	3,208,357	1,229,498	10,114,141
Assigned	6,571,287	-	-	-	6,571,287
Unassigned	2,912,745	-	-	-	2,912,745
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>11,008,402</u>	<u>4,243,884</u>	<u>3,208,357</u>	<u>1,252,560</u>	<u>19,713,203</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 18,518,578</u>	<u>\$ 4,259,201</u>	<u>\$ 3,208,357</u>	<u>\$ 1,613,007</u>	<u>\$ 27,599,143</u>

HUENEME ELEMENTARY SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position *June 30, 2018*

Total fund balances - governmental funds \$ 19,713,203

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost:	86,257,613	
Accumulated depreciation:	<u>(40,249,644)</u>	
Net:		46,007,969

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (500,990)

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were: 716,618

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows of resources and inflows of resources relating to pensions are reported as follows:

Deferred outflows of resources relating to pensions	36,189,726	
Deferred inflows of resources relating to pensions	<u>(3,644,779)</u>	
Total		32,544,947

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	40,831,760	
Compensated absences payable	477,213	
Other postemployment benefits payable	<u>22,940,212</u>	
Total		(64,249,185)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (98,288,266)

Total net position - governmental activities \$ (64,055,704)

HUENEME ELEMENTARY SCHOOL DISTRICT*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2018*

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 80,310,789	\$ -	\$ -	\$ -	\$ 80,310,789
Federal sources	4,123,536	-	-	5,100,796	9,224,332
Other state sources	10,475,781	-	23,886	380,075	10,879,742
Other local sources	6,805,321	47,710	2,936,545	175,156	9,964,732
Total Revenues	101,715,427	47,710	2,960,431	5,656,027	110,379,595
EXPENDITURES					
Current:					
Instructional Services:					
Instruction	65,572,431	-	-	-	65,572,431
Instruction-Related Services:					
Supervision of instruction	3,789,882	-	-	-	3,789,882
Instructional library, media and technology	1,092,243	-	-	-	1,092,243
School site administration	6,560,873	-	-	-	6,560,873
Pupil Support Services:					
Home-to-school transportation	982,822	-	-	-	982,822
Food services	23,793	-	-	5,025,065	5,048,858
All other pupil services	4,785,077	-	-	-	4,785,077
General Administration Services:					
Data processing services	413,243	-	-	-	413,243
Other general administration	4,230,934	-	-	-	4,230,934
Plant services	8,402,087	-	-	65,317	8,467,404
Community services	611,058	-	-	-	611,058
Transfers of indirect costs	(189,327)	-	-	189,327	-
Capital Outlay	801,011	575,746	-	712,109	2,088,866
Intergovernmental Transfers	3,720,237	-	-	-	3,720,237
Debt Service:					
Principal	-	-	1,218,168	-	1,218,168
Interest	-	-	1,470,314	-	1,470,314
Total Expenditures	100,796,364	575,746	2,688,482	5,991,818	110,052,410
Excess (Deficiency) of Revenues Over (Under) Expenditures	919,063	(528,036)	271,949	(335,791)	327,185
OTHER FINANCING SOURCES (USES)					
All other financing sources	-	-	16,285	-	16,285
All other financing uses	-	-	(1,430)	-	(1,430)
Total Other Financing Sources and Uses	-	-	14,855	-	14,855
Net Change in Fund Balances	919,063	(528,036)	286,804	(335,791)	342,040
Fund Balances, July 1, 2017	10,089,339	4,771,920	2,921,553	1,588,351	19,371,163
Fund Balances, June 30, 2018	\$ 11,008,402	\$ 4,243,884	\$ 3,208,357	\$ 1,252,560	\$ 19,713,203

HUENEME ELEMENTARY SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2018

Total net change in fund balances - governmental funds \$ 342,040

Amounts reported for governmental activities in the statement of activities are different because:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, the cost of capital assets are allocated over their estimated useful life as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	2,255,233	
Depreciation expense:	<u>(3,165,030)</u>	
Net:		(909,797)

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,218,168

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. 1,735

In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premiums for the period is: 136,506

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In governmental funds these charges are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the refunded debt. The difference between current year charges and the current year amortization is: (59,718)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 308,936

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis costs and actual employer contributions was: (3,320,396)

In governmental funds, compensated absences are measured by the amount paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned was: 47,069

In governmental funds, OPEB expenses are recognized when employer contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (995,070)

Change in net position of governmental activities \$ (3,230,527)

HUENEME ELEMENTARY SCHOOL DISTRICT*Statement of Fiduciary Net Position**June 30, 2018*

	Agency Funds
	Student Body Funds
Assets	
Cash	\$ 126,888
Total Assets	<u>\$ 126,888</u>
Liabilities	
Accounts payable	\$ 19,899
Use Tax payable	299
Due to student groups	<u>106,690</u>
Total Liabilities	<u>\$ 126,888</u>

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hueneme Elementary School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District has identified no organizations that are required to be reported as component units.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Building Fund: This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds and the sale of property.

Bond Interest and Redemption Fund: This fund is used to account for the accumulation of resources for, and the repayment of, general obligation bonds issued by the District.

Non-Major Governmental Funds

Special Revenue Funds:

Cafeteria Fund: This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

Capital Projects Funds:

Capital Facilities Fund: This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

Associated Student Body Fund: This Fund is used to account for raising and expending money to promote the general welfare, morale, and educational experiences of the student body. The District operates three Associated Student Body funds.

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

3. 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. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

4. Revenues - Exchange and Non-Exchange Transactions (continued)

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.

C. Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

3. Prepaid Expenses/Expenditures

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense/expenditure is reported in the year in which goods or services are consumed.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

4. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Furniture and equipment	5-10 years

5. Unearned Revenue

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

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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

7. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

8. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hueneme Elementary School District Retiree Benefits Plan (“the Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan 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.

9. 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 District’s California State Teachers Retirement System (CalSTRS) and California Public Employees’ Retirement System (CalPERS) plans and addition 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. Investments are reported at fair value.

10. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District’s highest decision-making level of authority rests with the District’s Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

10. Fund Balances (continued)

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

11. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Minimum Fund Balance Policy

The District does not have a written minimum fund balance policy. To protect against revenue shortfalls and unexpected one-time expenditures, the District has maintained a reserve for economic uncertainties consisting of unassigned amounts equivalent to 3% of budgeted General Fund expenditures and other financing uses. These amounts represent the minimum recommended reserve consistent with the criteria and standards for fiscal solvency adopted by the State Board of Education.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

I. New GASB Pronouncements

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

1. 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.

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:
 - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
 - Reporting amounts previously reported as goodwill and “negative” goodwill
 - Classifying real estate held by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
 - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
 - Classifying employer-paid member contributions for OPEB
 - Simplifying certain aspects of the alternative measurement method for OPEB
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.
4. 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.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH

Cash at June 30, 2018, is reported at fair value and consisted of the following:

	Governmental Activities/ Funds	Fiduciary Funds
Pooled Funds:		
Cash in county treasury	<u>\$ 23,567,173</u>	<u>\$ 126,588</u>
Deposits:		
Cash on hand and in banks	-	300
Cash in revolving fund	<u>11,000</u>	<u>-</u>
Total Deposits	<u>11,000</u>	<u>300</u>
Total Cash	<u><u>\$ 23,578,173</u></u>	<u><u>\$ 126,888</u></u>

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2018, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk 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. Cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2018, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH (continued)

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 date if reasonably 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 Ventura 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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consisted of the following:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	\$ 1,762,199	\$ -	\$ -	\$ 1,002,228	\$ 2,764,427
State Government:					
Child Nutrition	-	-	-	79,291	79,291
Lottery	296,249	-	-	-	296,249
Categorical aid programs	129,165	-	-	-	129,165
Local:					
Interest	68,590	16,598	9,862	1,854	96,904
Miscellaneous	339,833	-	-	2,086	341,919
Total	<u>\$ 2,596,036</u>	<u>\$ 16,598</u>	<u>\$ 9,862</u>	<u>\$ 1,085,459</u>	<u>\$ 3,707,955</u>

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 4 – INTERFUND TRANSACTIONS

Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2018, consisted of the following:

Due to the General Fund from the Cafeteria Fund for cash contribution and indirect costs	\$	189,327
Due to the Cafeteria Fund from the General Fund for Cooking Club support, payroll and bank fees		19,658
	\$	<u>208,985</u>

NOTE 5 – FUND BALANCES

At June 30, 2018, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 11,000	\$ -	\$ -	\$ -	\$ 11,000
Stores inventories	80,968	-	-	23,062	104,030
Total Nonspendable	<u>91,968</u>	<u>-</u>	<u>-</u>	<u>23,062</u>	<u>115,030</u>
Restricted:					
Categorical programs	1,432,402	-	-	1,190,317	2,622,719
Capital projects	-	4,243,884	-	39,181	4,283,065
Debt service	-	-	3,208,357	-	3,208,357
Total Restricted	<u>1,432,402</u>	<u>4,243,884</u>	<u>3,208,357</u>	<u>1,229,498</u>	<u>10,114,141</u>
Assigned:					
Instruction, Facilities, Tech Programs	6,571,287	-	-	-	6,571,287
Total Assigned	<u>6,571,287</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,571,287</u>
Unassigned:					
Remaining unassigned balances	2,912,745	-	-	-	2,912,745
Total Unassigned	<u>2,912,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,912,745</u>
Total	<u>\$ 11,008,402</u>	<u>\$ 4,243,884</u>	<u>\$ 3,208,357</u>	<u>\$ 1,252,560</u>	<u>\$ 19,713,203</u>

HUENEME ELEMENTARY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 1,219,959	\$ -	\$ -	\$ 1,219,959
Construction in progress	1,073,427	949,701	896,791	1,126,337
Total capital assets not being depreciated	2,293,386	949,701	896,791	2,346,296
Capital assets being depreciated:				
Improvement of sites	9,846,715	32,843	-	9,879,558
Buildings	68,599,012	2,043,576	-	70,642,588
Equipment	3,375,790	125,904	112,523	3,389,171
Total capital assets being depreciated	81,821,517	2,202,323	112,523	83,911,317
Accumulated depreciation for:				
Improvement of sites	(3,702,573)	(490,489)	-	(4,193,062)
Buildings	(30,993,990)	(2,501,168)	-	(33,495,158)
Equipment	(2,500,574)	(173,373)	(112,523)	(2,561,424)
Total accumulated depreciation	(37,197,137)	(3,165,030)	(112,523)	(40,249,644)
Total capital assets being depreciated, net	44,624,380	(962,707)	-	43,661,673
Governmental activity capital assets, net	\$ 46,917,766	\$ (13,006)	\$ 896,791	\$ 46,007,969

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	\$ 36,205,270	\$ -	\$ 1,218,168	\$ 34,987,102	\$ 1,550,333
Accreted Interest	3,888,536	390,098	391,833	3,886,801	414,667
Unamortized Issuance Premium	2,094,363	-	136,506	1,957,857	136,507
Total - G.O. Bonds	42,188,169	390,098	1,746,507	40,831,760	2,101,507
Compensated Absences	524,282	-	47,069	477,213	-
Other Postemployment Benefits*	21,945,142	1,852,207	857,137	22,940,212	-
TOTALS	\$ 64,657,593	\$ 2,242,305	\$ 2,650,713	\$ 64,249,185	\$ 2,101,507

* Beginning balance of OPEB has been restated to reflect the implementation of GASB Statement No. 75.

The early retirement program, postemployment healthcare benefits, and compensated absences are liquidated by the funds recording the associated salary expense. The general obligation bonds are liquidated through property tax collections as administered by the County through the Bond Interest and Redemption Fund.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

General Obligation Bonds

Election of 1997

On March 4, 1997, the voters of the District approved a measure authorizing the District to issue up to \$4.7 million of general obligation bonds for the purpose of renovating and modernizing school facilities.

Election of 2000

On June 6, 2000, the voters of the District approved a measure authorizing the District to issue up to \$6.95 million of general obligation bonds for the purpose of repairing, renovating and modernizing three elementary schools and two junior high schools.

Election of 2004

On November 2, 2004, the voters of the District approved a measure by a 74% affirmative vote authorizing the District to issue up to \$17.1 million of general obligation bonds for the purpose of repairing, renovating and modernizing three elementary schools and two junior high schools and to improve pedestrian safety in school parking lots.

Election of 2012 (Measure T)

On November 6, 2012, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$19.6 million of general obligation bonds. The Bonds were issued to finance the repair, upgrading, modernization, renovation, construction and equipping of certain District property and facilities, to pay capitalized interest on the Bonds, and to pay certain costs of issuing the Bonds.

Election of 2018 (Measure B)

On June 5, 2018, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$34.2 million of general obligation bonds. The Bonds will be issued to improve the quality of education; upgrade, modernize, and construct classrooms, restrooms and school facilities; repair or replace leaky roofs; renovate plumbing, sewer, and build new classrooms. No bonds have been issued under this authorization as of June 30, 2018.

Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, none of the defeased debt remains outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2018, deferred amounts on refunding were \$716,618.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

A summary of all bond issued and outstanding at June 30, 2018 follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Issuances	Redemptions	Balance, June 30, 2018
Election of 1997								
Series A	6/18/1998	6/1/2023	4.40% - 5.40%	\$ 2,085,011	\$ 398,218	\$ -	\$ 64,369	\$ 333,849
Series B	5/6/1999	5/1/2024	4.20% - 5.20%	2,611,156	588,512	-	84,572	503,940
Election of 2000								
Series B	6/18/2002	6/1/2027	4.00% - 5.73%	3,563,545	1,138,545	-	129,228	1,009,317
Election of 2004								
Series B	8/9/2007	8/1/2032	4.00% - 6.859%	7,599,996	1,669,995	-	199,999	1,469,996
Election of 2012								
Series A	5/6/2013	8/1/2037	3.00% - 5.00%	4,000,000	1,925,000	-	25,000	1,900,000
Series B	2/3/2015	8/1/2039	2.00% - 5.00%	11,000,000	10,960,000	-	100,000	10,860,000
Series C	6/28/2017	8/1/2029	2.00% - 4.00%	4,600,000	4,600,000	-	-	4,600,000
Refunding Bonds								
2011 Ref.	10/11/2011	8/1/2025	2.00% - 5.00%	3,980,000	2,025,000	-	170,000	1,855,000
2014 Ref.	5/2/2014	8/1/2029	3.25%	8,700,000	8,225,000	-	355,000	7,870,000
2017 Ref.	6/28/2017	8/1/2029	2.00% - 4.00%	4,675,000	4,675,000	-	90,000	4,585,000
					<u>\$ 36,205,270</u>	<u>\$ -</u>	<u>\$ 1,218,168</u>	<u>\$ 34,987,102</u>
Accreted Interest:								
					\$ 671,905	\$ 52,310	\$ 110,632	\$ 613,583
					865,871	70,691	125,429	811,133
					1,402,774	135,710	155,772	1,382,712
					947,985	131,388	-	1,079,373
					<u>\$ 3,888,535</u>	<u>\$ 390,099</u>	<u>\$ 391,833</u>	<u>\$ 3,886,801</u>

The annual requirements to amortize general obligation bonds payable are as follows:

Fiscal Year	Principal	Interest	Totals
2018-2019	\$ 1,550,333	\$ 1,598,679	\$ 3,149,012
2019-2020	1,673,358	1,584,455	3,257,813
2020-2021	1,663,147	1,558,991	3,222,138
2021-2022	1,792,310	1,525,646	3,317,956
2022-2023	1,987,718	1,625,914	3,613,632
2023-2028	11,075,240	5,331,209	16,406,449
2028-2033	8,349,996	5,766,179	14,116,175
2033-2038	4,510,000	1,131,950	5,641,950
2038-2040	2,385,000	121,625	2,506,625
	<u>\$ 34,987,102</u>	<u>\$ 20,244,648</u>	<u>\$ 55,231,750</u>

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished capital projects of approximately \$700,000.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2018.

NOTE 9 – RISK MANAGEMENT

The District participates in two joint powers agreement (JPA) entities, the Ventura County Schools' Self-Funding Authority (VCSFA) and Gold Coast Joint Benefits Trust (GCJBT).

VCSFA provided workers' compensation, property and liability coverage for its member school district through a varying combination of self-insurance and excess coverage. The District pays a premium commensurate with the level of coverage requested.

GCJBT arranges for health and welfare benefits for employees and retirees of participating school districts and their eligible dependents. Member districts pay a monthly premium per eligible participant.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influences by the District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. VCSFA and GCJBT maintain their own accounting records. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA. Separate financial statements for each JPA may be obtained from the respective entity.

The relationship between the District and the JPAs are such that none of the JPAs is a component unit of the District for financial reporting purposes.

HUENEME ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2018***NOTE 9 – RISK MANAGEMENT (continued)**

Condensed financial information is as follows:

	Ventura County Schools Self-Funding Authority June 30, 2017	Gold Coast Joint Benefits Trust June 30, 2017
Assets	<u>\$ 114,051,674</u>	<u>\$ 77,529,369</u>
Liabilities	<u>51,460,307</u>	<u>46,662,107</u>
Net Position	<u>\$ 62,591,367</u>	<u>\$ 30,867,262</u>
Revenues	\$ 26,663,117	\$ 3,482,127
Expenses	<u>19,190,998</u>	<u>22,113,345</u>
Operating Income	7,472,119	(18,631,218)
Non-Operating Income	854,400	24,057,639
Change in Net Position	<u>\$ 8,326,519</u>	<u>\$ 5,426,421</u>

NOTE 10 – PENSION PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated 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	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 77,012,630	\$ 28,751,520	\$ 3,394,285	\$ 8,557,869
CalPERS	21,275,636	7,438,206	250,494	3,861,582
Total	<u>\$ 98,288,266</u>	<u>\$ 36,189,726</u>	<u>\$ 3,644,779</u>	<u>\$ 12,419,451</u>

The details of each plan are as follows:

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are 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% 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	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Employee Contribution Rate	10.25%	9.205%
Required Employer Contribution Rate	14.43%	14.43%
Required State Contribution Rate	9.328%	9.328%

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

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% 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 \$6,462,392.

Pension Liabilities, Pension Expenses, 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	\$ 77,012,630
State's proportionate share of the net pension liability associated with the District	17,985,423
Total	<u>\$ 94,998,053</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 proportions of the net pension liability for the two most recent measurement periods were:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2018</u>	<u>Fiscal Year Ending June 30, 2017</u>	
Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	
Proportion of the Net Pension Liability	0.083275%	0.082000%	0.001275%

HUENEME ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2018***NOTE 10 – PENSION PLANS (continued)****A. California State Teachers' Retirement System (CalSTRS) (continued)****Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended June 30, 2018, the District recognized pension expense of \$8,557,869. In addition, the District recognized pension expense and revenue of \$811,887 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	\$ 6,462,392	\$ -
Net change in proportionate share of net pension liability	7,736,839	-
Difference between projected and actual earnings on pension plan investments	-	2,051,061
Changes of assumptions	14,267,489	-
Differences between expected and actual experience in the measurement of the total pension liability	284,800	1,343,224
Total	<u>\$ 28,751,520</u>	<u>\$ 3,394,285</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. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (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 7 years.

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,912,230
2020	4,907,628
2021	3,803,403
2022	1,794,812
2023	3,772,591
Thereafter	2,703,346
Total	<u>\$ 18,894,010</u>

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Actuarial Methods and Assumptions

Total pension liability for STRS 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
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

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 uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% 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%

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.1%. 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 (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 113,078,990
Current discount rate (7.10%)	77,012,630
1% increase (8.10%)	47,742,334

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 \$3,705,007 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have not been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

B. 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 publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

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%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$1,833,775.

HUENEME ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2018***NOTE 10 – PENSION PLANS (continued)****B. California Public Employees Retirement System (CalPERS) (continued)****Pension Liabilities, Pension Expenses, 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 \$21,275,636. 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 proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2017	Change Increase/ (Decrease)
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.089121%	0.088300%	0.000821%

For the year ended June 30, 2018, the District recognized pension expense of \$3,861,582. 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	\$ 1,833,775	\$ -
Net change in proportionate share of net pension liability	998,580	-
Difference between projected and actual earnings on pension plan investments	735,991	-
Changes of assumptions	3,107,641	250,494
Differences between expected and actual experience in the measurement of the total pension liability	762,219	-
Total	<u>\$ 7,438,206</u>	<u>\$ 250,494</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. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (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 4 years.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,432,511
2020	2,517,262
2021	1,773,454
2022	(369,290)
2023	-
Thereafter	-
Total	<u>\$ 5,353,937</u>

Actuarial Methods and Assumptions

Total pension liability for 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%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Actuarial Methods and Assumptions (continued)

The target asset allocation and best estimates of 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%
Fixed Income	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%. 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%)	\$ 31,303,279
Current discount rate (7.15%)	21,275,636
1% increase (8.15%)	12,956,867

C. Social Security

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

D. Payables to the Pension Plans

At June 30, 2018, the District reported payables of \$79,321 and \$99,373 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

A. General Information about the OPEB Plan

Plan description

The District offers medical and prescription drug benefits to its employees and retirees through Gold Coast Joint Benefits Trust. Dental and vision coverages are also offered through Gold Coast. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided

The postretirement health plans and the District's obligation vary by employee group as described below.

Certificated, Classified, Certificated Management, Classified Management, and Confidential employees who have attained age 55 and completed at least 15 years of continuous service with the District immediately prior to retirement are eligible to receive District-paid medical and prescription drug coverage for the retiree and eligible dependents up to a District cap, which was \$1,214 per month in 2017-18. Retirees may elect dental and vision coverage and are responsible for the full cost of premiums for those coverages, if elected. Classified employees who are less than 50% full-time do not earn eligibility for District-paid retiree health benefits. District-paid benefits end at age 65.

Employees covered by benefit terms

At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	49
Active employees	673
Total	<u>722</u>

Medicare Premium Payment (MPP) Program

The Medicare Premium Payment Program is a cost-sharing multiple-employer other postemployment benefit plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers' Health Benefit Fund. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit 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 on a monthly basis.

B. Total OPEB Liability

The District's total OPEB liability of \$22,382,607 for the District Plan was based on an actuarial valuation as of July 1, 2016 and a measurement date of June 30, 2018. The District's proportionate share of the net MPP Program OPEB liability of \$557,605 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Total OPEB Liability (continued)

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	District Plan	MPP Program
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	2.25%	N/A
Salary increases	3.0%, average, including inflation	N/A
Healthcare cost trend rates	8.0% for 2017-18, decreasing to 5.0% for 2020-21 and after	3.58 percent
Retirees' share of benefit-related costs	District assumed to pay full composite medical premium for all future years.	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

District Plan

The discount rate used was 3.60%, net of investment expense, including inflation, and was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

MPP Program

The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis, 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, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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 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.

HUENEME ELEMENTARY SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2018***NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (continued)****C. Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at July 1, 2017	\$ 21,324,829
Changes for the year:	
Service cost	1,043,926
Interest	791,281
Benefit payments	<u>(777,429)</u>
Net changes	<u>1,057,778</u>
Balance at June 30, 2018	22,382,607
District's Proportionate Share of the Net MPP OPEB Liability	<u>557,605</u>
District's Total Reported Net OPEB Liability	<u>\$ 22,940,212</u>

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 percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease <u>2.60%</u>	Discount Rate <u>3.60%</u>	1% Increase <u>4.60%</u>
District Plan	\$ 24,159,351	\$ 22,382,607	\$ 20,719,546
	1% Decrease <u>2.58%</u>	Discount Rate <u>3.58%</u>	1% Increase <u>4.58%</u>
MPP Program	\$ 617,307	\$ 557,605	\$ 499,531

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 percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease <u>(7.0% decreasing to 4.0%)</u>	Healthcare Cost Trend Rates <u>(8.0% decreasing to 5.0%)</u>	1% Increase <u>(9.0% decreasing to 6.0%)</u>
District Plan	\$ 19,773,545	\$ 22,382,607	\$ 25,434,403
	1% Decrease <u>(2.7% Part A and 3.1% Part B)</u>	Medicare Cost Trend Rates <u>(3.7% Part A and 4.1% Part B)</u>	1% Increase <u>(4.7% Part A and 5.1% Part B)</u>
MPP Program	\$ 503,881	\$ 557,605	\$ 610,792

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (continued)

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$995,070. At June 30, 2018, the District reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

Required Supplementary Information

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HUENEME ELEMENTARY SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
LCFF Sources	\$ 80,444,877	\$ 81,445,803	\$ 80,310,789	\$ (1,135,014)
Federal Sources	4,109,981	5,096,491	4,123,536	(972,955)
Other State Sources	2,974,127	5,438,911	6,770,908	1,331,997
Other Local Sources	6,097,007	6,897,296	6,805,321	(91,975)
Total Revenues	93,625,992	98,878,501	98,010,554	(867,947)
Expenditures				
Current:				
Certificated Salaries	45,225,416	46,533,212	45,928,488	604,724
Classified Salaries	11,738,383	12,455,229	12,665,473	(210,244)
Employee Benefits	21,150,951	21,824,847	21,629,268	195,579
Books and Supplies	5,370,985	7,217,422	4,221,966	2,995,456
Services and Other Operating Expenditures	6,894,066	9,252,966	8,198,102	1,054,864
Transfers of indirect costs	(198,036)	(198,036)	(198,036)	-
Capital Outlay	-	279,231	917,284	(638,053)
Intergovernmental	2,960,000	2,761,727	3,728,946	(967,219)
Total Expenditures	93,141,765	100,126,598	97,091,491	3,035,107
Excess (Deficiency) of Revenues Over (Under) Expenditures	484,227	(1,248,097)	919,063	2,167,160
Fund Balances, July 1, 2017	10,089,339	10,089,342	10,089,339	-
Fund Balances, June 30, 2018	\$ 10,573,566	\$ 8,841,245	\$ 11,008,402	\$ 2,167,160

The actual amounts reported in this schedule do not include \$3,704,873 recorded as State revenue and employee benefits expenditures for the STRS On-Behalf contribution described in Note 10.

HUENEME ELEMENTARY SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

	Last Ten Fiscal Years*			
	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.0833%	0.0820%	0.0820%	0.0690%
District's proportionate share of the net pension liability	\$ 77,012,630	\$ 66,322,420	\$ 55,205,680	\$ 40,321,530
State's proportionate share of the net pension liability associated with the District	17,985,423	37,761,729	29,197,641	24,348,125
Totals	\$ 94,998,053	\$ 104,084,149	\$ 84,403,321	\$ 64,669,655
District's covered-employee payroll	\$ 43,985,429	\$ 41,878,000	\$ 37,390,000	\$ 34,189,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.09%	158.37%	147.65%	117.94%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability	0.0891%	0.0883%	0.0805%	0.0779%
District's proportionate share of the net pension liability	\$ 21,275,636	\$ 17,439,305	\$ 11,865,779	\$ 8,843,547
District's covered-employee payroll	\$ 11,401,447	\$ 10,597,000	\$ 8,974,000	\$ 8,177,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	186.60%	164.57%	132.22%	108.15%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Notes to Schedule:

Changes in Benefit Terms

A summary of the plan provisions that were used for a specific plan can be found in each plan's annual valuation report.

Change of Assumptions and Methods

CalSTRS:

The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables

CalPERS:

In Fiscal Year 2016-17, the financial reporting discount rate for the PERF B was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF B from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2017, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

HUENEME ELEMENTARY SCHOOL DISTRICT*Schedule of Pension Contributions**For the Fiscal Year Ended June 30, 2018*

	Last Ten Fiscal Years*			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS				
Contractually required contribution	\$ 6,462,392	\$ 5,533,367	\$ 4,493,597	\$ 3,320,260
Contributions in relation to the contractually required contribution	<u>6,462,392</u>	<u>5,533,367</u>	<u>4,493,597</u>	<u>3,320,260</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 44,784,420</u>	<u>\$ 43,985,429</u>	<u>\$ 41,878,000</u>	<u>\$ 37,390,000</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS				
Contractually required contribution	\$ 1,833,775	\$ 1,583,433	\$ 1,255,444	\$ 1,056,313
Contributions in relation to the contractually required contribution	<u>1,833,775</u>	<u>1,583,433</u>	<u>1,255,444</u>	<u>1,056,313</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 11,807,192</u>	<u>\$ 11,401,447</u>	<u>\$ 10,597,000</u>	<u>\$ 8,974,000</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

HUENEME ELEMENTARY SCHOOL DISTRICT*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018*

Last 10 Fiscal Years*

	2017
Total OPEB liability	
Service cost	\$ 1,043,926
Interest	791,281
Benefit payments	<u>(777,429)</u>
Net change in total OPEB liability	1,057,778
Total OPEB liability - beginning	<u>21,324,829</u>
Total OPEB liability - ending	<u><u>\$ 22,382,607</u></u>
 Covered-employee payroll	 <u>\$ 58,884,316</u>
 Total OPEB liability as a percentage of covered- employee payroll	 <u>38.01%</u>

Notes to Schedule:

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

HUENEME ELEMENTARY SCHOOL DISTRICT***Schedule of Changes in the District's Total OPEB Liability and Related Ratios – MPP Program
For the Fiscal Year Ended June 30, 2018***

(Dollars in Thousands, except for District's proportionate share)

	2017
Total OPEB liability	
Interest	\$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
Net change in total OPEB liability	(47,282)
Total OPEB liability - beginning	468,031
Total OPEB liability - ending	<u>\$ 420,749</u>
 Plan fiduciary net position	
Contributions - employer	\$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
Net change in plan fiduciary net position	31
Plan fiduciary net position - beginning	10
Plan fiduciary net position - ending	<u>\$ 41</u>
 Net OPEB liability	<u>\$ 420,708</u>
 District's proportionate share of net OPEB liability	<u>\$ 557,605</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>
 Covered-employee payroll	<u>N/A</u>
 District's net OPEB liability as a percentage of covered- employee payroll	<u>N/A</u>

Notes to Schedule:

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.

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

HUENEME ELEMENTARY SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Pension Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

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

This schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents information of the measurement date of the net OPEB liability.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2018, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

Classified Salaries	\$	210,244
Capital Outlay		638,053
Intergovernmental		967,219

Supplementary Information

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HUENEME ELEMENTARY SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2018

The Hueneme Elementary School District was established in 1873 and consists of an area comprising approximately eight square miles. The Districts operates nine elementary schools and two junior high schools. There were no boundary changes during the year.

BOARD OF EDUCATION		
Member	Office	Term Expires
Scott E. Swenson	President	December 2018
Dr. Charles Weis	Clerk	December 2018
Darlene A. Bruno	Member	December 2020
Bexy I. Gomez	Member	December 2018
Vianey Lopez	Member	December 2020

DISTRICT ADMINISTRATORS

Dr. Christine Walker,
Superintendent

Dr. Carlos Dominguez,
Assistant Superintendent, Human Resources

Helen Cosgrove,
Assistant Superintendent, Educational Resources

Dannielle Brook,
Assistant Superintendent, Business Services

HUENEME ELEMENTARY SCHOOL DISTRICT*Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018*

	Second Period Report	Annual Report
	Certificate No. (92E0C09C)	Certificate No. (6FD196FE)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	3,674.33	3,671.77
Fourth through Sixth	2,778.60	2,769.82
Seventh through Eighth	1,678.67	1,672.38
Total Regular ADA	8,131.60	8,113.97
Special Education, Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	1.06	1.11
Total ADA	8,132.66	8,115.08

HUENEME ELEMENTARY SCHOOL DISTRICT*Schedule of Instructional Time**For the Fiscal Year Ended June 30, 2018*

Grade Level	Required Minutes	2017-18 Actual Minutes	Number of Days Traditional Calendar*	Status
Kindergarten	36,000	36,079	173	Complied
Grade 1	50,400	48,690	173	Complied
Grade 2	50,400	48,690	173	Complied
Grade 3	50,400	48,690	173	Complied
Grade 4	54,000	52,050	173	Complied
Grade 5	54,000	52,050	173	Complied
Grade 6	54,000	53,375	173	Complied
Grade 7	54,000	53,375	173	Complied
Grade 8	54,000	53,375	173	Complied

*The District had emergency closures on December 5 through 8 and 13 through 15, 2017; the CDE granted the District a waiver pursuant to California Education Code sections 46200, 46201, 46207, and/or 46208.

HUENEME ELEMENTARY SCHOOL DISTRICT*Schedule of Financial Trends and Analysis**For the Fiscal Year Ended June 30, 2018*

General Fund	(Budget) 2019 ²	2018	2017	2016
Revenues and other financing sources	<u>\$ 102,321,373</u>	<u>\$ 98,010,554</u>	<u>\$ 92,813,854</u>	<u>\$ 91,204,071</u>
Expenditures	<u>99,653,057</u>	<u>97,091,491</u>	<u>96,319,700</u>	<u>87,214,842</u>
Change in fund balance (deficit)	<u>2,668,316</u>	<u>919,063</u>	<u>(3,505,846)</u>	<u>3,989,229</u>
Ending fund balance	<u>\$ 13,676,718</u>	<u>\$ 11,008,402</u>	<u>\$ 10,089,339</u>	<u>\$ 13,595,185</u>
Available reserves ¹	<u>\$ 5,651,563</u>	<u>\$ 2,912,745</u>	<u>\$ 2,889,591</u>	<u>\$ 3,001,060</u>
Available reserves as a percentage of total outgo	<u>5.7%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.4%</u>
Total long-term debt	<u>\$ 160,435,945</u>	<u>\$ 162,537,452</u>	<u>\$ 148,419,318</u>	<u>\$ 115,016,298</u>
Average daily attendance at P-2	<u>8,128</u>	<u>8,133</u>	<u>8,146</u>	<u>8,168</u>

The General Fund balance has decreased by \$2,586,783 over the past two years. The fiscal year 2018-19 adopted budget projects an increase of \$2,668,316. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years, but anticipates incurring an operating surplus during the 2018-19 fiscal year. Long-term debt has increased by \$47,521,154 over the past two years.

Average daily attendance has decreased by 35 over the past two years. A further decrease of 5 ADA is anticipated during fiscal year 2018-19.

¹ Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund.

² Revised Final Budget September, 2018

HUENEME ELEMENTARY SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2018*

*There were no differences between the Annual Financial and Budget Report and the
Audited Financial Statements in any funds.*

HUENEME ELEMENTARY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,333,012	
National School Lunch Program	10.555	13523	3,382,098	
USDA Donated Foods	10.555	N/A	<u>385,686</u>	
Total Child Nutrition Cluster				<u>\$ 5,100,796</u>
Total U.S. Department of Agriculture				<u>5,100,796</u>
U.S. Department of Education:				
Federal Impact Aid	84.041	N/A		243,585
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		1,165,101
Title II, Part A, English Language Acquisitions Grants	84.367	14341		311,128
Title III, Immigrant Education Program	84.365	15146	4,791	
Title III, Limited English Proficiency	84.365	14346	<u>266,585</u>	
Total English Language Acquisition Grants Cluster				271,376
Passed through Ventura County SELPA:				
Individuals with Disabilities Education Act (IDEA):				
Local Assistance Entitlement	84.027	13379	1,401,551	
IDEA Preschool Grants, Part B, Section 619	84.173	13430	60,657	
IDEA Preschool Local Entitlement, Part B, Section 611	84.027A	13682	<u>122,838</u>	
Total Special Education (IDEA) Cluster				<u>1,585,046</u>
Total U.S. Department of Education				<u>3,576,236</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Billing Option	93.778	10013		<u>320,378</u>
Total U.S. Department of Health & Human Services				<u>320,378</u>
U.S. Department of Homeland Security				
Passed through Governor's Office of Emergency Services				
FEMA Public Assistance Funds	97.036	10014		<u>9,300</u>
Total U.S. Department of Homeland Security				<u>9,300</u>
Total Expenditures of Federal Awards				<u>\$ 9,006,710</u>

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

HUENEME ELEMENTARY SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

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.

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 Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a 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 represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 9,224,332
Differences between Federal Revenues and Expenditures:		
Medi-Cal Administrative Activities	N/A	(210,879)
Medi-Cal Billing Option	93.778	<u>(6,743)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 9,006,710</u>

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Other Independent Auditors' Reports

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**INDEPENDENT AUDITORS' 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**

Board of Education
Hueneme Elementary School District
Port Hueneme, 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 Hueneme Elementary School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hueneme Elementary School District's basic financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control Over Financial Reporting

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

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

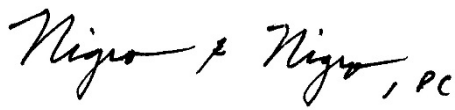
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hueneme Elementary School District's financial statements are free of 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.

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Murrieta, California
November 29, 2018



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Hueneme Elementary School District
Port Hueneme, California

Report on State Compliance

We have audited Hueneme Elementary School District's compliance with the types of compliance requirements described in the *2017-18 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 Hueneme Elementary School District's state government programs as noted on the following page for the fiscal year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Hueneme Elementary School District's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Hueneme Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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:

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for independent study because the ADA was under the level that requires testing.

Unmodified Opinion on Compliance with State Programs

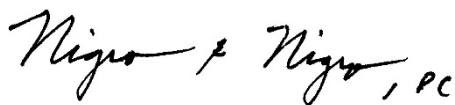
In our opinion, Hueneme Elementary School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2018-001 and 2018-002. Our opinion on each state program is not modified with respect to these matters.

District's Responses to Findings

Hueneme Elementary School District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Hueneme Elementary School District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.



Murrieta, California
November 29, 2018



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

Board of Education
Hueneme Elementary School District
Port Hueneme, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

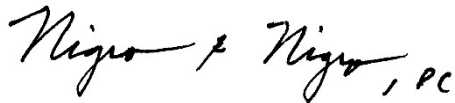
Report on Internal Control Over Compliance

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

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Murrieta, California
November 29, 2018

Findings and Questioned Costs

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HUENEME ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None noted</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None noted</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance Sec. 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
84.027, 84.173	<u>Special Education (IDEA) Cluster</u>
93.778	<u>Medicaid Cluster</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 auditors' report issued on compliance for state programs:	<u>Unmodified</u>
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HUENEME ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2017-18.

HUENEME ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2017-18.

HUENEME ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2018-001: CALPADS Unduplicated Pupil Counts (40000)

Criteria: Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).
- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

Condition: During our testing of the free and reduced-price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student who was reported as free or reduced priced meal eligible that did not qualify based on the income survey on file.

Context: We noted the error in one of the three schools tested.

Questioned Costs: \$739. This amount was determined by using the audit penalty calculator provided by the California Department of Education.

Cause: The student was classified in error.

Effect: The unduplicated pupil counts reported in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes as a result of the procedures performed:

<u>School Site</u>	<u>CALPADS Reported</u>	<u>Adjusted based on eligibility for:</u>	
		<u>FRPM</u>	<u>Adjusted Total</u>
Sunkist Elementary	592	(1)	591
Aggregate of all other school sites	6,907	-	6,907
District-wide	7,499	(1)	7,498

The enrollment count of 8,429 was not impacted as a result of the procedures performed.

Recommendation: We recommend that the District update the application review process to ensure no errors exist.

View of Responsible Officials: The District will continue to review CALPADS data carefully for any status changes prior to submission to the State.

HUENEME ELEMENTARY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2018-002: Instructional Materials (70000)

Criteria: California Education Code Section 60119 requires that school districts conduct a public hearing regarding the sufficiency of textbooks and instructional materials. Furthermore, the District must provide 10-day notice of the public hearing. The notice must include the time, place, and purpose of the hearing and must be posted at a minimum of three public locations within the District.

Condition: The notice posted by the District did not provide the time of the public hearing regarding the sufficiency of textbooks and instructional materials nor was it posted at three separate public locations.

Context: The information was omitted on the notice of public hearing presented on September 11, 2017.

Questioned Cost: None.

Cause: The District was unaware of the time requirement for the public notice.

Effect: None.

Recommendation: We recommend that the District ensure that the notice which is posted during the 2018-19 school year adhere to the requirements for the posting of the public notice with the time, place and purpose at three public locations.

View of Responsible Officials: The District has taken measures to ensure all required elements are posted on the 2018-19 notice, as well as all notices forthcoming.

HUENEME ELEMENTARY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-001: Child Nutrition Cluster: Eligibility Determination</i>	<p>Child nutrition services serves meals to district students. Students may be classified as free, reduced, or paid based on applications submitted to the District. Income Eligibility Guidelines are based on the Federal income poverty guidelines and are stated by household size. The guidelines are used to determine eligibility for free and reduced price meals and free milk in accordance with applicable program rules. The District submits meal counts by category for reimbursement.</p> <p>It was noted that the annualized income calculation was incorrect on two applications. The applications included two sources of income with differing frequencies stated, and the annualized calculation included both sources of income as monthly income. This led to one application being reported as free instead of paid and one application being reported as free instead of reduced.</p>	50000	The questioned costs noted above is a range and we recommend that the District conduct a 100% review of lunch applications to determine the actual dollar error. We also recommend that the District consider the need to submit revised SNP Claim for Reimbursements based on the outcome of their review. We further recommend that the District conduct trainings for eligibility determination and implement review procedures to ensure that eligibility determinations are accurately completed.	Implemented.
<i>Finding 2017-002: Unduplicated Pupil Counts</i>	<p>Education Code section 42238.02(b)(2) requires a school district or charter school to submit its enrolled free and reduced-price meal eligibility, foster youth and English learner pupil level records for enrolled pupils using the California Longitudinal Pupil Achievement Data System (CalPADS). The CalPADS reports should accurately report the number of students in the categories as identified above.</p> <p>Two students were found to be inaccurately reported. These students were reported as free for meal price eligibility in the CalPADS report and should have been classified as paid. The first instance was incorrect due to an error in the calculation to annualize the household income on the student's lunch application.</p>	40000	The questioned costs noted above is a range and we recommend that the District conduct a 100% review of the data in CalPADS to determine the actual penalty. We further recommend that the District implement additional review procedures to ensure that errors are prevented in future CalPADS reporting.	Implemented; However, See Finding 2018-001.

HUENEME ELEMENTARY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2017-002: Unduplicated Pupil Counts (continued)</i>	The application included two sources of income with differing frequencies stated, and the annualized calculation included both sources of income as monthly income. The second instance was an application that was selected for the National School Lunch Program verification process. Through the verification process, the classification of the application was changed from free to paid; however, the classification of the student was not updated in the CalPADS report.			

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To the Board of Education
Hueneme Elementary School District
Port Hueneme, California

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 29, 2018 on the financial statements of Hueneme Elementary School District.

DISTRICT OFFICE

Observation: During our test of payroll, the following weaknesses in internal controls were noted:

- The District maintains a position control system in Escape; however, the communication between departments regarding these functions is inconsistent.
- Changes are made to employee records in payroll without consistent documentation. The District has developed a new Personnel Request Form, but it is not being completed properly. We recommend that the District begin to use that form for documenting all changes to payroll-related data and input be made per the Personnel Request form.
- Monthly payroll could not be traced to the proper account due to a miscoding in the payroll run.
- The District recently created procedures for balancing of gross pay. However, the District has no permanent employee assigned to this job function. In addition, there is currently no review of payroll adjustments based on time sheet information. We recommend the District identify an employee to perform these critical payroll functions to help reduce the number of errors in Payroll.

Recommendations: We recommend that the District utilize a new Personnel Requisition Form to facilitate communications throughout the District, as well as to document all changes made to employee's records. Additionally, we recommend the District develop and implement procedures to balance monthly payroll and ensure no clerical errors persist in district records.

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

Murrieta, California
November 29, 2018