

HANFORD ELEMENTARY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

HANFORD ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Hanford Elementary School District
Hanford, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 69, schedule of changes in the District's total OPEB liability and related ratios on page 70, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 71, schedule of the District's proportionate share of the net pension liability on page 72, and the schedule of District contributions on page 73, 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 Hanford Elementary School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the Hanford Elementary School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hanford Elementary School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hanford Elementary School District's internal control over financial reporting and compliance.

Varinck, Trine, Day + Co. LLP

Fresno, California
December 10, 2018

Hanford Elementary School District

HANFORD ELEMENTARY SCHOOL DISTRICT KINGS COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018



714N. White Street
P.O. Box 1067
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(559) 585-3600

Superintendent
Joy C. Gabler

Governing Board
Robert "Bobby" Garcia
Jeff Garner
Lupe Hernandez
Timothy L. Revious
Greg Strickland

INTRODUCTION

The Hanford Elementary School District's goal is to provide, in an atmosphere of care and concern, an opportunity for every student to recognize and fully develop his/her particular academic, technical, physical and social skills. Hanford Elementary School District students graduate prepared to continue on to high school.

The Management Discussion and Analysis of Hanford Elementary School District's financial statements provide an overall review of the District's financial activities for the fiscal year ended June 30, 2018. This analysis will look at the District's financial performance as a whole. The management discussion and analysis should be reviewed in conjunction with the auditor's transmittal letter, notes to the basic financial statements and the basic governmental wide financial statements to enhance the understanding of the District's financial performance.

The Hanford Elementary School District is a medium-sized rural school district offering instruction to students from kindergarten through eighth grade. During the 2018-2019 school year, the District operated eight elementary schools, one K-8 charter school, two junior high schools, and one community day school on the traditional August through June schedule, for the instruction of approximately 5,973 students.

USING THE ANNUAL FINANCIAL REPORT

- This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The Management Discussion and Analysis Statement is provided to assist our citizens, taxpayers and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

FINANCIAL HIGHLIGHTS

- The Hanford Elementary School District's Government-wide Statement of Net Position illustrates total net position of \$(4.8) million, the result of assets and deferred outflows of \$91.3 million minus liabilities and deferred inflows of \$96.1 million.
- General Revenues accounted for \$61.9 million or 83 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13.1 million or 17 percent of total revenues of \$75.0 million.
- The District had \$73.2 million in expenses related to governmental activities.
- The General Fund reported a positive fund balance of \$13.9 million.

STUDENT ENROLLMENT & DEMOGRAPHIC TRENDS

- The School District has an enrollment of approximately 5,973 students for the current 2017-2018 school year, with enrollment projected to remain static for the coming 2018-2019 school year.
- In addition to tracking enrollment, the District also watches actual Average Daily Attendance (ADA). The ADA is typically lower than a District's enrollment, although the two terms are often (though incorrectly) used interchangeably. The anticipated 2018-2019 ADA for the District is 5,829 excluding ADA from County run programs. The ratio of actual attendance to enrollment summarizes the District's changes and efforts to increase attendance. Figure 1 summarizes a historical analysis of the District's enrollment to actual positive attendance ratios.

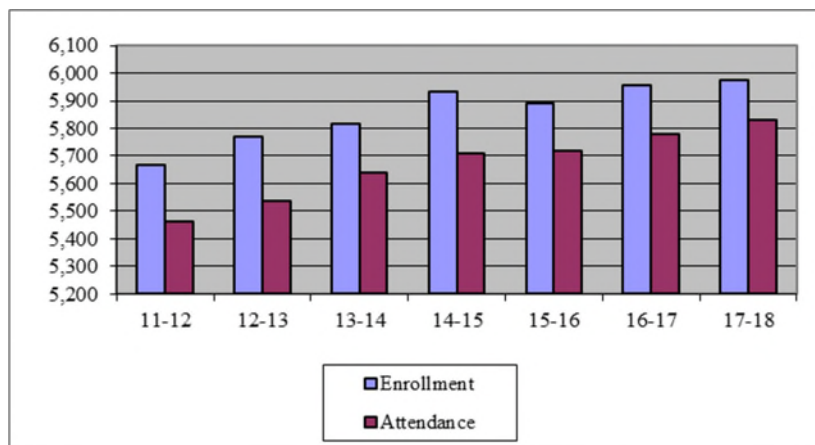


Figure 1. District Enrollment to Actual Attendance Data

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

School districts have traditionally placed great importance on the accurate projection of student enrollment for the ensuing budget year, due to the broad range of funding and programs impacted by this number. These impacts range from the very basic funding for California school districts which calculates the number of days attended by the enrolled students times a unique "revenue amount", to how much a particular special program will receive, to the amount of one-time monies a district may receive. Increased ADA is intended to generate additional dollars to help offset normal inflationary costs of operating the business of education, and related growth cost for the additional enrollment.

REPORTING THE DISTRICT AS A WHOLE

- THE STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" "The Statement of Net Position and the Statement of Activities" reports information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Hanford Elementary School District's net position and changes in them. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors, such as property tax base, current property tax laws, student enrollment, and facility conditions in arriving at their conclusion regarding the overall health of the District.

- FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various provisions. The District's three types of funds, governmental, proprietary, and fiduciary use different accounting approaches as further described in the notes to the financial statements.

- GOVERNMENTAL FUNDS

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting. Governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's program. The Relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the notes to the financial statements.

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Governmental funds include most of the major funds of the District. A more detailed discussion of Governmental funds follows.

- PROPRIETARY FUNDS

Proprietary funds use the same basis of accounting as business-type activities, therefore the statements will essentially match. Our District has only one such Internal Service Fund – the Self-Insurance Employee Benefits – Dental Fund.

- FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The District uses an agency fund to account for resources held for student activities and groups. These funds include Student Body funds for the two junior high schools.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

- NOTES TO THE FINANCIAL STATEMENTS

The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

- THE DISTRICT AS A WHOLE

The "Statement of Net Position" provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position for fiscal years 2017-2018 and 2016-2017, respectively.

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 1. Net Position

(Amounts in millions)	Governmental Activities		Change
	2018	2017, as Restated	
Assets			
Current and other assets	\$ 29.3	\$ 32.3	\$ (3.0)
Capital assets	41.5	34.6	6.9
Total Assets	<u>70.8</u>	<u>66.9</u>	<u>3.9</u>
Deferred Outflows of Resources	<u>20.5</u>	<u>13.2</u>	<u>7.3</u>
Liabilities			
Current liabilities	3.5	3.4	0.1
Long-term obligations	24.3	24.7	(0.4)
Net pension liability	65.5	57.1	8.4
Total Liabilities	<u>93.3</u>	<u>85.2</u>	<u>8.1</u>
Deferred Inflows of Resources	<u>2.8</u>	<u>1.5</u>	<u>1.3</u>
Net Position			
Net investment in capital assets	31.6	29.7	1.9
Restricted	5.0	5.0	-
Unrestricted	(41.4)	(41.3)	(0.1)
Total Net Position	<u>\$ (4.8)</u>	<u>\$ (6.6)</u>	<u>\$ 1.8</u>

Table 2 shows the changes in net position for fiscal years 2017-2018 and 2016-2017, respectively.

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Table 2. Changes in Net Position

(Amounts in millions)	Governmental Activities		Change
	2018	2017	
Revenues			
Program revenues:			
Charges for services	\$ 0.3	\$ 0.2	\$ 0.1
Operating grants and contributions	12.8	11.2	1.6
General revenues:			
Federal and State aid not restricted	55.6	54.2	1.4
Property taxes	4.2	4.5	(0.3)
Other general revenues	2.1	2.1	-
Total Revenues	<u>75.0</u>	<u>72.2</u>	<u>2.8</u>
Expenses			
Instruction related	48.5	44.7	3.8
Pupil services	10.3	9.6	0.7
Administration	4.2	4.0	0.2
Plant services	7.3	8.1	(0.8)
Other	2.9	3.4	(0.5)
Total Expenses	<u>73.2</u>	<u>69.8</u>	<u>3.4</u>
Change in Net Position	<u>\$ 1.8</u>	<u>\$ 2.4</u>	<u>\$ (0.6)</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

GOVERNMENTAL FUNDS

- The District's Governmental Funds include Special Revenue Funds for Deferred Maintenance and Cafeteria, Debt Service Funds for repayments of general obligation bonds, Capital Projects Funds, and most importantly, the General Fund. Figure 2 summarizes District Revenue by source of the District's Governmental Funds. Figure 3 summarize the District's Governmental Expenditures by function.

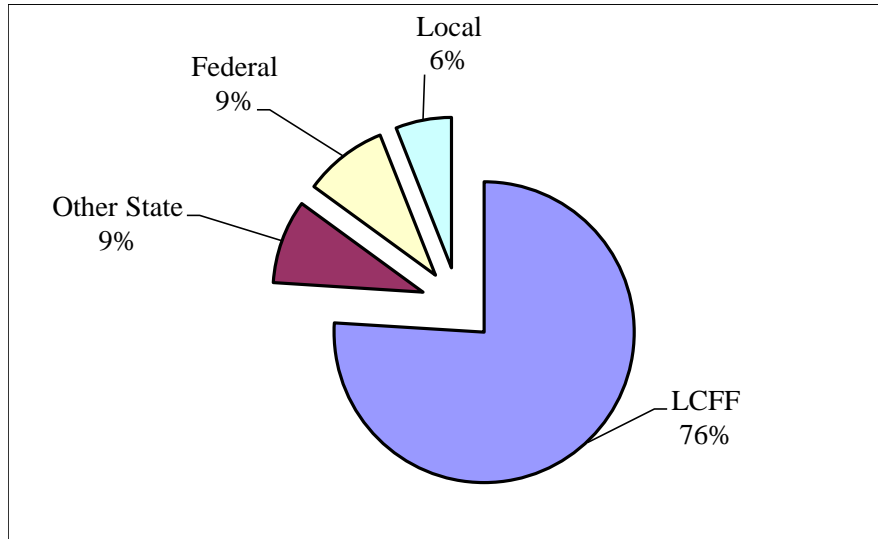
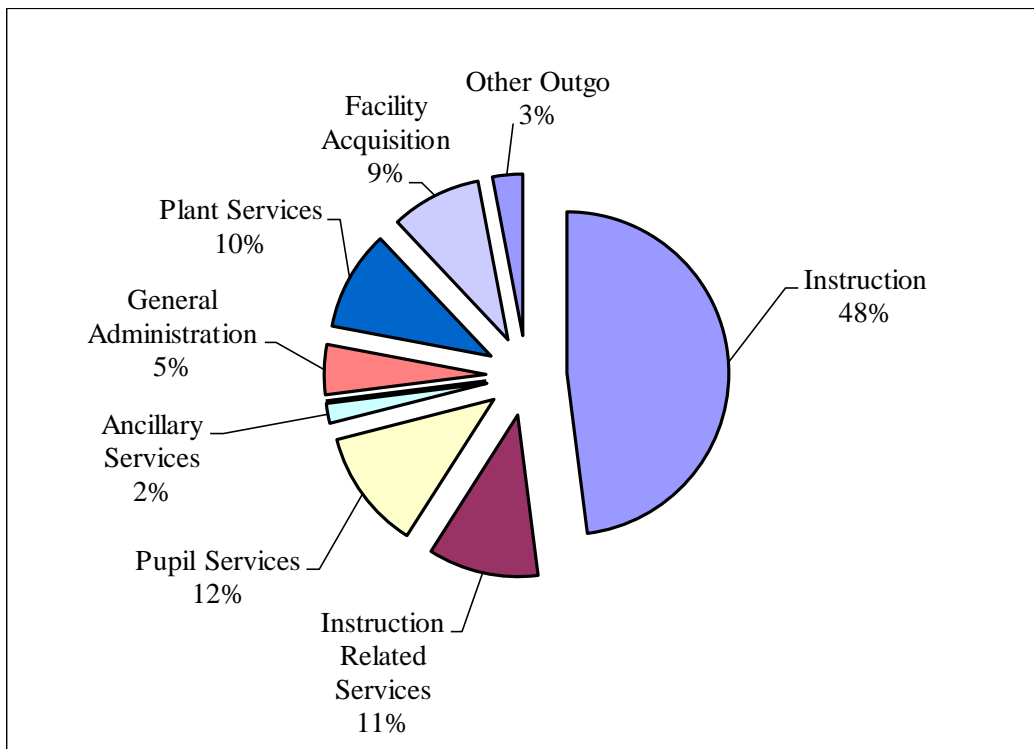


Figure 2. Revenues by Source



HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Figure 3. Expenditures by Function

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with California law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The District begins the budget process in January of each year, to be completed by June 30. After updating of the forecast for changes in revenue and expenditure assumptions, the operating budget begins at the school level. Each school in the District receives a per pupil allocation augmented with resources for special education students. The schools and departments provide input to the superintendent and to Fiscal Services for their budget needs. The site and department budgets are reviewed monthly to ensure management becomes aware of any significant variations during the year.

- GENERAL FUND BUDGET VARIATIONS

In June of each year, a Budget is adopted by the District's Board of Trustees, effective July 1 through June 30. The Budget is based on year-ending projections from the previous year's budget. As the school year progresses, the Budget is revised and updated, with numerous financial reports made public outlining the revisions. Finally, in August of the following year, the books are closed for the July 1 – June 30 fiscal year, and the results are audited, yielding actual final numbers.

There are several reasons for Budget revisions. Most notable are any salary increases granted by the Board of Trustees for district employees for the original budget does not presume salary increases unless they have already been agreed to in a multi-year contract. Also, any changes in the number of staff and/or staff utilization of health and welfare benefits that vary from the original projections would also yield budget revisions.

The implementation of new instructional or categorical programs can also effect budget projections. For the Hanford Elementary School District, the increased emphasis on closing the achievement gap for all of our students continue to push forward several academic-focused programs that impact expenditures in personnel, instructional materials, outside services and supplies.

The State and Federal budget issues have an impact on the District's General Fund budget. As revenues from these two sources change, so do District revenues, since 85 percent of District revenues come from State and Federal revenue streams.

The final actual numbers of the General Fund that will be certified by February of the next year will be the reflection of the culmination of these several factors.

The net difference in fund balance between the adopted budget and the final budget was an increase of \$1.3 million and may be summarized as follows:

- \$2.8 million increase in total revenue mainly due to increases state revenue.

- \$1.5 million increase in total expenditures (not including transfers out) due primarily to decreased spending for books, supplies, and services.

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

- CAPITAL ASSETS

At June 30, 2017, the District had \$34.6 million in a broad range of capital assets, including land, buildings, and furniture and equipment, net of accumulated depreciation. At June 30, 2018, the District's net capital assets were \$41.5 million. This amount represents a net increase (including additions and deductions) of \$6.9 million, or 19.9 percent, from last year. Table 3 presents capital asset balances for each year and the net change.

Table 3. Changes in Capital Assets
(Net of Depreciation)

(Amounts in millions)	Governmental Activities		Change
	2018	2017	
Land	\$ 3.0	\$ 2.2	\$ 0.8
Buildings and improvements	31.7	30.1	1.6
Equipment	2.6	1.9	0.7
Construction in Progress	4.2	0.4	3.8
Total	\$ 41.5	\$ 34.6	\$ 6.9

- LONG-TERM OBLIGATIONS

At the end of this year, the District had \$24.3 million in long-term obligations outstanding versus \$24.7 million last year, a decrease of 4.6 percent. Table 4 summarizes these obligations.

Table 4. Outstanding Obligations

(Amounts in millions)	Governmental Activities		Change
	2018	2017, as Restated	
General obligation bonds	\$ 12.7	\$ 13.4	\$ (0.7)
Compensated absences	0.3	0.3	-
Other postemployment benefits	11.3	11.0	0.3
Total	\$ 24.3	\$ 24.7	\$ (0.4)

The District's general obligation bond insured S&P bond rating at the time of their last issuance was "AA".

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term obligations. We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

- NET PENSION LIABILITY (NPL)

In the fiscal year ending June 30, 2015, the District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities of \$20.0 million, Deferred Inflows from pension activities of \$2.8 million, and a Net Pension Liability of \$65.6 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

FOR THE FUTURE

The District's system of budgeting and internal controls is well regarded and it will take all of the District's financial abilities to meet the challenges of the future.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Hanford Elementary School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Endo, Chief Business Officer, Hanford Elementary School District, P. O. Box 1067, Hanford, CA 93232.

HANFORD ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 27,896,176
Receivables	1,238,780
Prepaid expenses	985
Stores inventories	165,649
Nondepreciable capital assets	7,181,964
Capital assets being depreciated	62,153,389
Accumulated depreciation	<u>(27,864,992)</u>
Total Assets	<u>70,771,951</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to other postemployment benefits (OPEB) liability	524,044
Deferred outflows of resources related to pensions	<u>20,006,199</u>
Total Deferred Outflows of Resources	<u>20,530,243</u>
LIABILITIES	
Accounts payable	3,321,830
Unearned revenue	183,161
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,375,000
Noncurrent portion of long-term obligations other than pensions	<u>22,916,867</u>
Total Long-Term Obligations	24,291,867
Aggregate net pension liability	<u>65,558,808</u>
Total Liabilities	<u>93,355,666</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>2,751,312</u>
NET POSITION	
Net investment in capital assets	31,620,489
Restricted for:	
Debt service	1,888,638
Capital projects	809,550
Educational programs	826,325
Other activities	1,446,470
Unrestricted	<u>(41,396,256)</u>
Total Net Position	<u>\$ (4,804,784)</u>

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

HANFORD ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Instruction	\$ 39,013,674	\$ -	\$ 3,941,638	\$ 1,953
Instruction-related activities:				
Supervision of instruction	2,858,171	-	3,097,823	-
Instructional library, media, and technology	1,168,698	-	-	-
School site administration	5,449,743	-	168,478	-
Pupil services:				
Home-to-school transportation	1,366,364	-	162,707	-
Food services	3,365,385	260,773	3,078,459	-
All other pupil services	5,516,210	-	735,339	-
Administration:				
Data processing	889,791	-	291	-
All other administration	3,290,706	13,258	342,049	-
Plant services	7,313,977	598	8,507	-
Ancillary services	1,572,585	-	1,069,379	-
Interest on long-term obligations	377,350	-	-	-
Other outgo	1,012,492	-	221,227	-
Total Governmental Activities	<u>\$ 73,195,146</u>	<u>\$ 274,629</u>	<u>\$ 12,825,897</u>	<u>\$ 1,953</u>

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning as Restated

Net Position - Ending

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

Net (Expenses)
Revenues and
Changes in
Net Position
Governmental
Activities
\$ (35,070,083)
239,652
(1,168,698)
(5,281,265)
(1,203,657)
(26,153)
(4,780,871)
(889,500)
(2,935,399)
(7,304,872)
(503,206)
(377,350)
(791,265)
<u>(60,092,667)</u>
2,929,495
1,283,594
32,477
55,589,861
242,052
1,826,942
<u>61,904,421</u>
1,811,754
(6,616,538)
<u>\$ (4,804,784)</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 16,570,450	\$ 3,708,824	\$ 7,077,957
Receivables	763,292	-	475,488
Due from other funds	-	300,000	-
Prepaid expenditures	603	-	382
Stores inventories	136,519	-	29,130
Total Assets	\$ 17,470,864	\$ 4,008,824	\$ 7,582,957
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,057,192	\$ -	\$ 209,562
Due to other funds	300,000	-	-
Unearned revenue	183,161	-	-
Total Liabilities	3,540,353	-	209,562
Fund Balances:			
Nonspendable	142,222	-	29,922
Restricted	774,000	-	6,959,723
Committed	-	-	3,296
Assigned	3,594,949	4,008,824	380,454
Unassigned	9,419,340	-	-
Total Fund Balances	13,930,511	4,008,824	7,373,395
Total Liabilities and Fund Balances	\$ 17,470,864	\$ 4,008,824	\$ 7,582,957

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

**Total
Governmental
Funds**

\$ 27,357,231
1,238,780
300,000
985
165,649

\$ 29,062,645

\$ 3,266,754
300,000
183,161

3,749,915

172,144
7,733,723
3,296
7,984,227
9,419,340

25,312,730

\$ 29,062,645

HANFORD ELEMENTARY SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		\$ 25,312,730
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 69,335,353	
Accumulated depreciation is	<u>(27,864,992)</u>	
Net Capital Assets		41,470,361
An internal service fund is used by the District's management to charge the costs of the dental insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		483,869
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	5,578,644	
Net change in proportionate share of net pension liability	1,520,794	
Difference between projected and actual earnings on pension plan investments	652,003	
Differences between expected and actual experience in the measurement of the total pension liability.	847,978	
Changes of assumptions	<u>11,406,780</u>	
Total Deferred Outflows of Resources Related to Pensions		20,006,199
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(470,640)	
Difference between projected and actual earnings on pension plan investments	(1,244,047)	
Differences between expected and actual experience in the measurement of the total pension liability.	(814,716)	
Changes of assumptions	<u>(221,909)</u>	
Total Deferred Inflows of Resources Related to Pensions		(2,751,312)

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

HANFORD ELEMENTARY SCHOOL DISTRICT

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

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.		\$	524,044
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.			(65,558,808)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.			
Bonds payable including unamortized premiums	\$	12,642,152	
Compensated absences		316,073	
Net other postemployment benefits (OPEB) liability		11,333,642	
Total Long-Term Obligations			<u>(24,291,867)</u>
Total Net Position - Governmental Activities			<u><u>\$ (4,804,784)</u></u>

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

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	<u>General Fund</u>	<u>Special Reserve Capital Outlay Fund</u>	<u>Non-Major Governmental Funds</u>
REVENUES			
Local Control Funding Formula	\$ 52,315,942	\$ -	\$ 4,015,693
Federal sources	4,055,717	-	3,009,823
Other State sources	6,013,636	-	535,771
Other local sources	2,369,741	43,479	2,081,485
Total Revenues	<u>64,755,036</u>	<u>43,479</u>	<u>9,642,772</u>
EXPENDITURES			
Current			
Instruction	35,003,039	-	2,234,025
Instruction-related activities:			
Supervision of instruction	2,599,773	-	45,034
Instructional library, media and technology	1,026,347	-	84,472
School site administration	4,621,113	-	399,467
Pupil services:			
Home-to-school transportation	1,161,874	-	73,737
Food services	13,587	-	3,245,349
All other pupil services	4,944,886	-	231,340
Administration:			
Data processing	879,478	-	-
All other administration	2,578,648	-	399,133
Plant services	6,348,255	17,985	693,498
Ancillary services	1,463,950	-	400
Other outgo	1,012,492	-	-
Facility acquisition and construction	63,575	934,684	6,350,965
Debt service			
Principal	-	-	780,000
Interest and other	-	-	377,350
Total Expenditures	<u>61,717,017</u>	<u>952,669</u>	<u>14,914,770</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,038,019</u>	<u>(909,190)</u>	<u>(5,271,998)</u>
Other Financing Sources (Uses)			
Transfers in	137,548	1,185,054	3,694,374
Transfers out	(1,186,428)	-	(3,830,548)
Net Financing Sources (Uses)	<u>(1,048,880)</u>	<u>1,185,054</u>	<u>(136,174)</u>
NET CHANGE IN FUND BALANCES	1,989,139	275,864	(5,408,172)
Fund Balance - Beginning	11,941,372	3,732,960	12,781,567
Fund Balance - Ending	<u>\$ 13,930,511</u>	<u>\$ 4,008,824</u>	<u>\$ 7,373,395</u>

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

Total Governmental Funds	
\$	56,331,635
	7,065,540
	6,549,407
	4,494,705
	<u>74,441,287</u>
	37,237,064
	2,644,807
	1,110,819
	5,020,580
	1,235,611
	3,258,936
	5,176,226
	879,478
	2,977,781
	7,059,738
	1,464,350
	1,012,492
	7,349,224
	780,000
	377,350
	<u>77,584,456</u>
	<u>(3,143,169)</u>
	5,016,976
	<u>(5,016,976)</u>
	-
	<u>(3,143,169)</u>
	28,455,899
\$	<u><u>25,312,730</u></u>

HANFORD ELEMENTARY SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ (3,143,169)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 8,499,947	
Depreciation expense	<u>(1,621,931)</u>	6,878,016

Loss on disposal of capital assets is reported in the government-wide Statement of Activities, but is not recorded in the governmental funds. (5,738)

In the Statement of Activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$9,960. (9,960)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (2,968,022)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year. 148,935

Governmental funds report the effect of premiums when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these related items:
 Amortization on debt premium 31,215

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of Net Position and does not affect the statement of activities. Repayment of debt principal for the year consisted of:
 General obligation bonds 780,000

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

HANFORD ELEMENTARY SCHOOL DISTRICT

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

An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net income of the internal service fund is reported with governmental activities.

Change in Net Position of Governmental Activities

\$	100,477
\$	1,811,754

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

HANFORD ELEMENTARY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities - Internal Service Fund
ASSETS	
Deposits and investments	\$ 538,945
LIABILITIES	
Claim liabilities	55,076
NET POSITION	
Unrestricted	\$ 483,869

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

HANFORD ELEMENTARY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 690,999
OPERATING EXPENSES	
Professional and contract services	596,414
Operating gain	94,585
NONOPERATING REVENUES	
Interest income	5,892
Change in Net Position	100,477
Total Net Position - Beginning	383,392
Total Net Position - Ending	<u>\$ 483,869</u>

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

HANFORD ELEMENTARY SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from premiums	\$ 691,305
Cash payments for insurance claims	(711,845)
Net Cash Used by Operating Activities	<u>(20,540)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	5,892
Net Cash Provided by Investing Activities	<u>5,892</u>
 Net Decrease in Cash and Cash Equivalents	(14,648)
Cash and Cash Equivalents - Beginning	553,593
Cash and Cash Equivalents - Ending	<u><u>\$ 538,945</u></u>
 RECONCILIATION OF OPERATING GAIN TO NET CASH USED BY OPERATING ACTIVITIES	
Operating gain	\$ 94,585
Changes in assets and liabilities:	
Receivables	306
Claim liabilities	(115,431)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (20,540)</u></u>

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

HANFORD ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 29,950
LIABILITIES	
Due to student groups	\$ 29,950

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hanford Elementary School District (the District) was organized under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates eight elementary schools, one K-8 charter school, two junior high schools, and one community day school.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 15, Pupil Transportation Equipment Fund, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as an extension of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$3,594,949.

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Internal Service Fund Internal service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a Self-Insurance Fund for dental coverage that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

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

Investments

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

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Capital Assets and Depreciation

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

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position as long-term obligations.

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

Accounts Payable and Long-Term Obligations

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Premiums

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources.

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Fund Balances - Governmental Funds

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

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

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

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Superintendent or Assistant Superintendent, Fiscal Services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$4,970,983 of restricted net position.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are dental premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

Estimates

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

Property Tax

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

Change in Accounting Principles

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

New Accounting Pronouncements

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 27,896,176
Fiduciary funds	29,950
Total Deposits and Investments	<u>\$ 27,926,126</u>

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

Cash on hand and in banks	\$ 42,450
Cash in revolving	5,510
Investments	27,878,166
Total Deposits and Investments	<u>\$ 27,926,126</u>

Policies and Practices

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

Limitations as they relate to interest rate risk are indicated in the schedules below:

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

Interest Rate Risk

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

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 27,676,524	\$ -	\$ 27,676,524	\$ -	\$ -

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if 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 Kings 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 4 - RECEIVABLES

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
	<u> </u>	<u> </u>	<u> </u>
Federal Government			
Categorical aid	\$ 182,017	\$ 396,894	\$ 578,911
State Government			
Grants and entitlements	468,038	48,138	516,176
Local Sources	113,237	30,456	143,693
Total	<u>\$ 763,292</u>	<u>\$ 475,488</u>	<u>\$ 1,238,780</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 2,150,542	\$ 866,037	\$ -	\$ 3,016,579
Construction in progress	391,479	4,083,179	309,273	4,165,385
Total Capital Assets Not Being Depreciated	<u>2,542,021</u>	<u>4,949,216</u>	<u>309,273</u>	<u>7,181,964</u>
Capital Assets Being Depreciated				
Land improvements	6,280,175	32,500	-	6,312,675
Buildings and improvements	46,447,877	2,676,780	-	49,124,657
Furniture and equipment	5,770,306	1,150,724	204,973	6,716,057
Total Capital Assets Being Depreciated	<u>58,498,358</u>	<u>3,860,004</u>	<u>204,973</u>	<u>62,153,389</u>
Less Accumulated Depreciation				
Land improvements	4,942,794	138,936	-	5,081,730
Buildings and improvements	17,641,485	1,052,470	-	18,693,955
Furniture and equipment	3,858,017	430,525	199,235	4,089,307
Total Accumulated Depreciation	<u>26,442,296</u>	<u>1,621,931</u>	<u>199,235</u>	<u>27,864,992</u>
Governmental Activities Capital Assets, Net	<u>\$ 34,598,083</u>	<u>\$ 7,187,289</u>	<u>\$ 315,011</u>	<u>\$ 41,470,361</u>

Depreciation expense was charged to the following functions as follows:

Governmental Activities	
Instruction	\$ 729,580
Supervision of instruction	58,930
School site administration	129,790
Home-to-school transportation	89,766
Food services	105,212
All other pupil services	45,979
Ancillary services	29,871
All other general administration	185,185
Plant services	247,618
Total Depreciation Expenses Governmental Activities	<u>\$ 1,621,931</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds		
General	\$ -	\$ 300,000
Special Reserve Capital Outlay	300,000	-
Total All Governmental Funds	<u>\$ 300,000</u>	<u>\$ 300,000</u>

The General Fund owes the Special Reserve Capital Outlay Fund for project related expenditures.

\$ 300,000

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018, consist of the following:

The General Fund transferred to the Special Reserve Capital Outlay Fund for capital projects.	\$ 1,185,054
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for uncollected food service charges.	1,374
The Charter Schools Non-Major Governmental Fund transferred to the General Fund to	137,548
The Building Non-Major Governmental Fund transferred to the County School Facilities Non-Major Governmental Fund for potential state funded classroom wing.	2,933,000
The Capital Facilities Non-Major Governmental Fund transferred to the County School Facilities Non-Major Governmental Fund for potential state funded classroom wing.	760,000
Total	<u>\$ 5,016,976</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 1,020,025	\$ 188,984	\$ 1,209,009	\$ 55,076	\$ 1,264,085
Deferred payroll	1,715,959	-	1,715,959	-	1,715,959
LCFF funding	321,208	20,578	341,786	-	341,786
Total	<u>\$ 3,057,192</u>	<u>\$ 209,562</u>	<u>\$ 3,266,754</u>	<u>\$ 55,076</u>	<u>\$ 3,321,830</u>

NOTE 8 - UNEARNED REVENUE

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

	General Fund
Federal financial assistance	<u>\$ 183,161</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017, as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds-					
2003 Issuance	\$ 680,000	\$ -	\$ 350,000	\$ 330,000	\$ 330,000
2010 issuance	3,415,000	-	430,000	2,985,000	445,000
2016A issuance	8,800,000	-	-	8,800,000	600,000
Bond premiums	558,367	-	31,215	527,152	-
Compensated absences - net	306,113	9,960	-	316,073	-
Net other postemployment benefit (OPEB) liability	10,958,533	415,483	40,374	11,333,642	-
Total	<u>\$24,718,013</u>	<u>\$ 425,443</u>	<u>\$ 851,589</u>	<u>\$ 24,291,867</u>	<u>\$ 1,375,000</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. The compensated absences and other postemployment benefits obligations will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Dates	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2017	Bonds Redeemed	Bonds Outstanding June 30, 2018
2003	2005-19	2.0-3.5	\$ 4,775,000	\$ 680,000	\$ 350,000	\$ 330,000
2010	2012-24	2.0-5.0	5,740,000	3,415,000	430,000	2,985,000
2017	2019-47	2.0-5.0	8,800,000	8,800,000	-	8,800,000
Total				<u>\$ 12,895,000</u>	<u>\$ 780,000</u>	<u>\$ 12,115,000</u>

Debt Service Requirements to Maturity

2003 General Obligation Bonds

On June 12, 2003, the District issued general obligation refunding bonds in the amount of \$4,775,000 for the purpose of refunding the *callable* outstanding 1993 General Obligation Bonds of the District. The bond interest rates range from 2.0 percent to 3.5 percent. Interest on the Bonds is payable semiannually each January 1 and July 1, commencing on July 1, 2004.

The bonds mature through 2019 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	<u>\$ 330,000</u>	<u>\$ 5,775</u>	<u>\$ 335,775</u>

The bonds were sold at a premium of \$16,991 which is being amortized over the life of the bonds at \$1,132 per year. The premium has been fully amortized as of June 30, 2018.

2010 General Obligation Bonds

On December 9, 2010, the District issued general obligation refunding bonds in the amount of \$5,740,000 for the purpose of refunding the outstanding 1998 General Obligation Bonds of the District originally issued to fund improvements to real property for school purposes. The bond interest rates range from 2.0 percent to 5.0 percent. Interest on the Bonds is payable semiannually each March 1 and September 1, commencing on March 1, 2011.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The bonds mature through 2024 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 445,000	\$ 129,306	\$ 574,306
2020	460,000	109,500	569,500
2021	485,000	89,450	574,450
2022	505,000	67,125	572,125
2023	535,000	41,125	576,125
2024	555,000	13,875	568,875
Total	<u>\$ 2,985,000</u>	<u>\$ 450,381</u>	<u>\$ 3,435,381</u>

The bonds were sold at a premium of \$210,148 which is being amortized over the life of the bonds at \$15,011 per year. The unamortized premium as of June 30, 2018, amounted to \$90,060.

2016A General Obligation Bonds

On May 24, 2017, the District issued \$8,800,000 Election of 2016, Series A General Obligation Bonds. The bonds were authorized at an election of the registered voters of the District held on November 8, 2016, which authorized the issuance of \$24,000,000 principal amount of general obligation bonds to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, and to pay the costs of issuing the bonds. The bonds were issued as current interest bonds. Interest on the bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2018.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 600,000	\$ 325,144	\$ 925,144
2020	115,000	322,625	437,625
2021	-	320,900	320,900
2022	-	320,900	320,900
2023	-	320,900	320,900
2024-2028	390,000	1,574,700	1,964,700
2029-2033	960,000	1,415,600	2,375,600
2034-2038	1,570,000	1,201,086	2,771,086
2039-2043	2,420,000	863,510	3,283,510
2044-2047	2,745,000	284,337	3,029,337
Total	<u>\$ 8,800,000</u>	<u>\$ 6,949,702</u>	<u>\$ 15,749,702</u>

The bonds were sold at a premium of \$452,164 which is being amortized over the life of the bonds at \$15,072 per year. The unamortized premium as of June 30, 2018, amounted to \$437,092.

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2018, amounted to \$316,073.

HANFORD ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Net Other Postemployment Benefit (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 10,948,932	\$ 524,044	\$ 937,986
Medicare Premium Payment (MPP) Program	384,710	-	(40,374)
Total	\$ 11,333,642	\$ 524,044	\$ 897,612

The details of each plan are as follows:

District Plan

Plan Administration

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

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	45
Active employees	435
Total	480

Benefits Provided

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

Contributions

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Hanford Elementary Teachers Association (HETA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, HETA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$522,503 in benefits.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Total OPEB Liability of the District

The District's total OPEB liability of \$10,948,932 was measured as of June 30, 2017.

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
Salary increases	3.0 percent, average, including inflation
Investment rate of return	3.13 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	6.0 percent for 2017, 5.0 percent for 2018 and later years

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

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males and Females, as appropriate, without projection.

The actual assumptions used in the July 1, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 10,533,449
Service cost	616,403
Interest	321,583
Benefit payments	(522,503)
Net change in total OPEB liability	415,483
Balance at June 30, 2018	<u>\$ 10,948,932</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.13%)	\$ 12,014,932
Current discount rate (3.13%)	10,948,932
1% increase (4.13%)	9,992,356

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

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

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (5.0% decreasing to 4.0%)	\$ 9,835,951
Current healthcare cost trend rate (6.0% decreasing to 5.0%)	10,948,932
1% increase (7.0% decreasing to 6.0%)	12,267,649

OPEB Expense and Deferred Outflows of Resources

For the year ended June 30, 2018, the District recognized OPEB expense of \$937,986. At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$524,044.

Medicare Premium Payment (MPP) Program

Plan Description

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

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

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

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

OPEB Liabilities and OPEB Expense

At June 30, 2018, the District reported a liability of \$384,710 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0914 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(40,374).

Actuarial Methods and Assumptions

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Discount Rate

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

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

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

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.58%)	\$ 425,901
Current discount rate (3.58%)	384,710
1% increase (4.58%)	344,643

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 347,645
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	384,710
1% increase (4.7% Part A and 5.1% Part B)	421,406

HANFORD ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 5,100	\$ -	\$ 410	\$ 5,510
Stores inventories	136,519	-	29,130	165,649
Prepaid expenditures	603	-	382	985
Total Nonspendable	<u>142,222</u>	<u>-</u>	<u>29,922</u>	<u>172,144</u>
Restricted				
Legally restricted programs	774,000	-	1,469,255	2,243,255
Capital projects	-	-	3,601,830	3,601,830
Debt service	-	-	1,888,638	1,888,638
Total Restricted	<u>774,000</u>	<u>-</u>	<u>6,959,723</u>	<u>7,733,723</u>
Committed				
Deferred maintenance program	-	-	3,296	3,296
Assigned				
Transportation Equipment	148,916	-	-	148,916
Charter school activities	-	-	380,454	380,454
Postemployment benefits	3,446,033	-	-	3,446,033
Future capital projects	-	4,008,824	-	4,008,824
Total Assigned	<u>3,594,949</u>	<u>4,008,824</u>	<u>380,454</u>	<u>7,984,227</u>
Unassigned				
Reserve for economic uncertainties	6,400,000	-	-	6,400,000
Remaining unassigned	3,019,340	-	-	3,019,340
Total Unassigned	<u>9,419,340</u>	<u>-</u>	<u>-</u>	<u>9,419,340</u>
Total	<u>\$ 13,930,511</u>	<u>\$ 4,008,824</u>	<u>\$ 7,373,395</u>	<u>\$ 25,312,730</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Northern California Regional Excess Liability Fund for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2018, the District participated in the Kings County Self-Insured Schools (KCSIC), an insurance purchasing pool. The intent of KCSIC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in KCSIC. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in KCSIC. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of KCSIC. Participation in KCSIC is limited to districts that can meet KCSIC's selection criteria.

Employee Medical and Vision Benefits

The District has contracted with the Self-Insured Schools of California (SISC III) to provide employee medical benefits. SISC III is a shared risk pool comprised of agencies in California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool. The District has a contract with Keenan-Medical Eye Services for employee vision benefits. The plan is fully insured.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Employee Dental Benefits Claims Liabilities

The District records an estimated liability for dental claims paid out of the Self-Insurance Fund of the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience. The following represent the changes in approximate aggregate liabilities for the District from June 30, 2016 to June 30, 2018 (in thousands):

	<u>Dental Care</u>
Liability Balance, June 30, 2016	\$ 156,570
Claims and changes in estimates	13,937
Liability Balance, June 30, 2017	<u>170,507</u>
Claims and changes in estimates	(115,431)
Liability Balance, June 30, 2018	<u>\$ 55,076</u>
Assets available to pay claims at June 30, 2018	<u><u>\$ 538,945</u></u>

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

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

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 46,711,085	\$ 14,014,239	\$ 2,425,987	\$ 4,937,202
CalPERS	18,847,723	5,991,960	325,325	3,609,464
Total	<u>\$ 65,558,808</u>	<u>\$ 20,006,199</u>	<u>\$ 2,751,312</u>	<u>\$ 8,546,666</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Benefits Provided

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

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

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

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	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%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$3,978,395.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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	\$ 46,711,085
State's proportionate share of the net pension liability associated with the District	27,633,883
Total	<u><u>\$ 74,344,968</u></u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement periods June 30, 2017 and June 30, 2016, respectively was 0.0505 percent and 0.0511 percent, resulting in a net decrease in the proportionate share of 0.0006 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$4,937,202. In addition, the District recognized pension expense and revenue of \$2,781,616 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 3,978,395	\$ -
Net change in proportionate share of net pension liability	1,209,328	367,224
Difference between projected and actual earnings on pension plan investments	-	1,244,047
Differences between expected and actual experience in the measurement of the total pension liability	172,742	814,716
Changes of assumptions	8,653,774	-
Total	<u><u>\$ 14,014,239</u></u>	<u><u>\$ 2,425,987</u></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.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (1,034,222)
2020	782,600
2021	112,846
2022	(1,105,271)
Total	<u>\$ (1,244,047)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,527,393
2020	1,527,393
2021	1,527,393
2022	1,527,394
2023	1,334,449
Thereafter	1,409,882
Total	<u>\$ 8,853,904</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

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

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

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 68,586,703
Current discount rate (7.10%)	46,711,085
1% increase (8.10%)	28,957,539

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

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

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$1,600,249.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$18,847,723. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0790 percent and 0.0798 percent, resulting in a net decrease in the proportionate share of 0.0008 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$3,609,464. 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	\$ 1,600,249	\$ -
Net change in proportionate share of net pension liability	311,466	103,416
Difference between projected and actual earnings on pension plan investments	652,003	-
Differences between expected and actual experience in the measurement of the total pension liability	675,236	-
Changes of assumptions	2,753,006	221,909
Total	<u>\$ 5,991,960</u>	<u>\$ 325,325</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 of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (17,666)
2020	752,270
2021	274,436
2022	(357,037)
Total	<u>\$ 652,003</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,304,337
2020	1,190,021
2021	920,025
Total	<u>\$ 3,414,383</u>

Actuarial Methods and Assumptions

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 27,731,040
Current discount rate (7.15%)	18,847,723
1% increase (8.15%)	11,478,267

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings Social Security.

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 \$2,247,218 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

The District is not currently a party to any legal proceedings.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Martin Luther King classroom wing	\$ 315,241	8/2018
Martin Luther King child development campus	334,049	8/2018
Jefferson administration building	63,884	4/2019
Lincoln new kinder wing	132,667	12/2019
John F. Kennedy gym and cafeteria re-roofing	127,164	8/2018
Total remaining construction commitments	<u>\$ 973,005</u>	

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Northern California Regional Excess Liability Fund (NorCal ReLiEF), the Self-Insured Schools of California (SISC III), the Kings County Self-Insured Schools (KCSIS), and the Kings Schools Transportation Authority (KSTA) joint powers authorities (JPAs). The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

The District has an appointed representative to the governing board of NorCal ReLiEF.

During the year ended June 30, 2018, the District made payment of \$303,322 to NorCal ReLiEF for property and liability insurance.

The District has appointed no members to the governing board of SISC III.

During the year ended June 30, 2018, the District made payment of \$6,298,235 to SISC III for health insurance.

The District has an appointed representative to the governing board of KCSIS.

During the year ended June 30, 2018, the District made payment of \$748,903 to KCSIS for workers' compensation insurance.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The District has an appointed representative to the governing board of KSTA.

During the year ended June 30, 2018, the District made payment of \$363,328 to KSTA for student transportation services.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Government-Wide Financial Statements

Net Position - Beginning	\$ 845,293
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(7,461,831)</u>
Net Position - Beginning as Restated	<u><u>\$ (6,616,538)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 52,536,587	\$ 52,315,942	\$ 52,315,942	\$ -
Federal sources	3,117,059	4,055,717	4,055,717	-
Other State sources	4,321,794	6,013,636	6,013,636	-
Other local sources	2,073,346	2,369,741	2,369,741	-
Total Revenues	62,048,786	64,755,036	64,755,036	-
EXPENDITURES				
Current				
Certificated salaries	26,452,112	26,359,241	26,359,241	-
Classified salaries	10,424,580	10,531,763	10,531,763	-
Employee benefits	15,692,942	15,766,389	15,766,389	-
Books and supplies	3,866,133	3,567,788	3,567,788	-
Services and operating expenditures	3,494,803	3,681,574	3,681,574	-
Other outgo	979,762	642,494	642,494	-
Capital outlay	452,989	1,167,768	1,167,768	-
Total Expenditures	61,363,321	61,717,017	61,717,017	-
Excess (Deficiency) of Revenues				
Over Expenditures	685,465	3,038,019	3,038,019	-
Other Financing Sources (Uses)				
Transfers in	-	137,548	137,548	-
Transfers out	-	(1,186,428)	(1,186,428)	-
Net Financing Sources (Uses)	-	(1,048,880)	(1,048,880)	-
NET CHANGE IN FUND BALANCES	685,465	1,989,139	1,989,139	-
Fund Balance - Beginning	11,941,372	11,941,372	11,941,372	-
Fund Balance - Ending	\$ 12,626,837	\$ 13,930,511	\$ 13,930,511	\$ -

See accompanying note to required supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 616,403
Interest	321,583
Benefit payments	<u>(522,503)</u>
Net change in total OPEB liability	415,483
Total OPEB liability - beginning	<u>10,533,449</u>
Total OPEB liability - ending	<u><u>\$ 10,948,932</u></u>
Covered payroll	<u>N/A ¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A ¹</u>

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

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

See accompanying note to required supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

Year ended June 30,	2017
District's proportion of the net OPEB liability	0.0914%
District's proportionate share of the net OPEB liability	\$ 384,710
District's covered-employee payroll	N/A ¹
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

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

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

See accompanying note to required supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0505%</u>	<u>0.0511%</u>
District's proportionate share of the net pension liability	\$ 46,711,085	\$ 41,305,968
State's proportionate share of the net pension liability associated with the District	<u>27,633,883</u>	<u>23,514,751</u>
Total	<u>\$ 74,344,968</u>	<u>\$ 64,820,719</u>
District's covered - employee payroll	<u>\$ 26,685,429</u>	<u>\$ 25,643,541</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>175.04%</u>	<u>161.08%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.0790%</u>	<u>0.0798%</u>
District's proportionate share of the net pension liability	<u>\$ 18,847,723</u>	<u>\$ 15,760,087</u>
District's covered - employee payroll	<u>\$ 10,066,302</u>	<u>\$ 9,581,751</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>187.24%</u>	<u>164.48%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0510%</u>	<u>0.0482%</u>
\$ 34,307,537	\$ 28,163,133
<u>18,144,905</u>	<u>17,006,116</u>
<u>\$ 52,452,442</u>	<u>\$ 45,169,249</u>
<u>\$ 23,320,878</u>	<u>\$ 21,702,145</u>
<u>147.11%</u>	<u>129.77%</u>
<u>74%</u>	<u>77%</u>
<u>0.0771%</u>	<u>0.0740%</u>
\$ 11,366,384	\$ 8,395,535
<u>\$ 8,524,832</u>	<u>\$ 7,842,555</u>
<u>133.33%</u>	<u>107.05%</u>
<u>79%</u>	<u>83%</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 3,978,395	\$ 3,357,027
Contributions in relation to the contractually required contribution	<u>3,978,395</u>	<u>3,357,027</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 27,570,305</u>	<u>\$ 26,685,429</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 1,600,249	\$ 1,398,008
Contributions in relation to the contractually required contribution	<u>1,600,249</u>	<u>1,398,008</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 10,303,580</u>	<u>\$ 10,066,302</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 2,751,552	\$ 2,070,894
<u>2,751,552</u>	<u>2,070,894</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 25,643,541	\$ 23,320,878
<u>10.73%</u>	<u>8.88%</u>
\$ 1,135,150	\$ 1,003,458
<u>1,135,150</u>	<u>1,003,458</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 9,581,751	\$ 8,524,832
<u>11.847%</u>	<u>11.771%</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

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

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

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

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

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

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

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

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

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

HANFORD ELEMENTARY SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education (CDE):			
Title I - Part A, Basic Grants	84.010	14329	\$ 3,082,094
Title II - Part A, Supporting Effective Instruction	84.367	14341	272,776
Title III - English Language Acquisition - LEP	84.365	14346	193,120
Special Education, Basic Local Assistance	84.027	13379	204,877
Special Education, Basic Local Assistance Private School	84.027	10115	125
Special Education, Mental Health Services	84.027A	15197	66,927
Total U.S. Department of Education			<u>3,819,919</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medi-Cal Administrative Assistance	93.778	10060	190,874
Medi-Cal Billing Option	93.778	10013	44,924
Total U.S. Department of Health and Human Services			<u>235,798</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through CDE:			
Child Nutrition Cluster			
National School Lunch	10.555	13391	2,058,835
Especially Needy Breakfast	10.553	13526	606,183
Meals Supplements - Snack	10.555	13391	94,577
Summer Food Program	10.559	13004	17,977
Food Distribution - Commodities	10.555	13391	232,251
Subtotal Child Nutrition Cluster			<u>3,009,823</u>
Total U.S. Department of Agriculture			<u>3,009,823</u>
Total Expenditures of Federal Awards			<u><u>\$ 7,065,540</u></u>

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The Hanford Elementary School District was established in August 1891 and consists of an area comprising approximately 12.92 square miles. The District operates eight elementary schools, one K-8 charter school, two junior high schools, and one community day school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Jeff Garner	President	2018
Timothy Revious	Vice President	2020
Lupe Hernandez	Clerk	2018
Robert "Bobby" Garcia	Trustee	2018
Greg Strickland	Trustee	2020

ADMINISTRATION

Joy C. Gabler	Superintendent
David Endo	Chief Business Official
Jaime Martinez	Assistant Superintendent Human Resources
Jill Rubalcava	Assistant Superintendent Curriculum, Instruction and Professional Development
Karen McConnell	Assistant Superintendent, Special Services

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	Second Period Report	Annual Report
HANFORD ELEMENTARY SCHOOL DISTRICT		
Regular ADA		
Transitional kindergarten through third	2,397.03	2,401.79
Fourth through sixth	1,757.30	1,758.36
Seventh and eighth	1,178.24	1,174.76
Total Regular ADA	<u>5,332.57</u>	<u>5,334.91</u>
Extended Year Special Education		
Transitional kindergarten through third	-	0.74
Total Extended Year Special Education	<u>-</u>	<u>0.74</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	-	0.24
Fourth through sixth	-	0.01
Seventh and eighth	1.00	0.97
Total Special Education, Nonpublic, Nonsectarian Schools	<u>1.00</u>	<u>1.22</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	-	0.08
Fourth through sixth	-	0.13
Seventh and eighth	-	0.11
Total Special Education, Nonpublic, Nonsectarian Schools	<u>-</u>	<u>0.32</u>
Community Day School		
Transitional kindergarten through third	5.13	4.23
Fourth through sixth	2.97	3.12
Seventh and eighth	7.19	8.61
Total Community Day School	<u>15.29</u>	<u>15.96</u>
Total ADA	<u><u>5,348.86</u></u>	<u><u>5,353.15</u></u>
JEFFERSON CHARTER ACADEMY		
Regular ADA - All classroom based		
Transitional kindergarten through third	186.87	188.26
Fourth through sixth	176.79	177.04
Seventh and eighth	89.31	89.50
Total Regular ADA	<u>452.97</u>	<u>454.80</u>

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

HANFORD ELEMENTARY SCHOOL DISTRICT

Grade Level	1986-1987 Minutes Requirement	2017-2018 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	48,913	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,103	180	N/A	Complied
Grade 2		52,103	180	N/A	Complied
Grade 3		52,103	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,293	180	N/A	Complied
Grade 5		55,293	180	N/A	Complied
Grade 6		55,293	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		57,138	180	N/A	Complied
Grade 8		57,138	180	N/A	Complied

JEFFERSON CHARTER ACADEMY

Grade Level	1986-1987 Minutes Requirement	2017-2018 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	48,913	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,103	180	N/A	Complied
Grade 2		52,103	180	N/A	Complied
Grade 3		52,103	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,293	180	N/A	Complied
Grade 5		55,293	180	N/A	Complied
Grade 6		55,293	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		57,318	180	N/A	Complied
Grade 8		57,318	180	N/A	Complied

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND				
Revenues ⁴	\$ 69,380,647	\$ 64,728,808	\$ 62,214,309	\$ 60,016,389
Expenditures	66,427,071	61,717,017	58,903,348	56,714,134
Other uses and transfers out	1,993,500	2,694,216	1,889,795	2,647,472
Total Expenditures and Other Uses ⁴	68,420,571	64,411,233	60,793,143	59,361,606
INCREASE (DECREASE) IN FUND BALANCE	\$ 960,076	\$ 317,575	\$ 1,421,166	\$ 654,783
ENDING FUND BALANCE	\$ 11,295,638	\$ 10,335,562	\$ 10,017,987	\$ 8,596,821
AVAILABLE RESERVES ²	\$ 10,602,457	\$ 9,419,340	\$ 8,688,436	\$ 6,823,394
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	15.50%	14.62%	14.29%	11.49%
LONG-TERM OBLIGATIONS ⁵	Not Available	\$ 24,291,867	\$ 24,718,013	\$ 8,499,624
AVERAGE DAILY ATTENDANCE AT P-2 ³	5,348	5,349	5,352	5,325

The General Fund balance has increased by \$1,738,741 over the past two years. The fiscal year 2018-2019 budget projects a further increase of \$960,076 (9.29 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$15,792,243 over the past two years due primarily to the issuance of general obligation bonds and the implementation of GASB Statement No. 75.

Average daily attendance has increased by 24 over the past two years. A decline of one ADA is anticipated during fiscal year 2018-2019.

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

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

³ Excludes Charter School average daily attendance.

⁴ General Fund amounts do not include activity related to the consolidation of the Pupil Transportation Fund and the Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

⁵ The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Jefferson Charter Academy (Charter School Number 1637)	Yes

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	Charter Schools Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 487,843	\$ 1,020,774	\$ 3,296
Receivables	18,728	434,286	-
Prepaid expenses	382	-	-
Stores inventories	-	29,130	-
Total Assets	\$ 506,953	\$ 1,484,190	\$ 3,296
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 73,792	\$ 37,720	\$ -
Fund Balances:			
Nonspendable	382	29,540	-
Restricted	52,325	1,416,930	-
Committed	-	-	3,296
Assigned	380,454	-	-
Total Fund Balances	433,161	1,446,470	3,296
Total Liabilities and Fund Balances	\$ 506,953	\$ 1,484,190	\$ 3,296

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 2,890,330	\$ 176,193	\$ 610,883	\$ 1,888,638	\$ 7,077,957
-	22,474	-	-	475,488
-	-	-	-	382
-	-	-	-	29,130
<u>\$ 2,890,330</u>	<u>\$ 198,667</u>	<u>\$ 610,883</u>	<u>\$ 1,888,638</u>	<u>\$ 7,582,957</u>
\$ 98,050	\$ -	\$ -	\$ -	\$ 209,562
-	-	-	-	29,922
2,792,280	198,667	610,883	1,888,638	6,959,723
-	-	-	-	3,296
-	-	-	-	380,454
<u>2,792,280</u>	<u>198,667</u>	<u>610,883</u>	<u>1,888,638</u>	<u>7,373,395</u>
<u>\$ 2,890,330</u>	<u>\$ 198,667</u>	<u>\$ 610,883</u>	<u>\$ 1,888,638</u>	<u>\$ 7,582,957</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	Charter Schools Fund	Cafeteria Fund
REVENUES		
Local Control Funding Formula	\$ 3,685,693	\$ -
Federal sources	-	3,009,823
Other State sources	299,465	213,887
Other local sources	21,546	292,956
Total Revenues	4,006,704	3,516,666
EXPENDITURES		
Current		
Instruction	2,234,025	-
Instruction-related activities:		
Supervision of instruction	45,034	-
Instructional library, media, and technology	84,472	-
School site administration	399,467	-
Pupil services:		
Home-to-school transportation	73,737	-
Food services	-	3,245,349
All other pupil services	231,340	-
Administration:		
All other administration	219,267	165,000
Plant services	509,665	7,446
Ancillary services	400	-
Facility acquisition and construction	-	-
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	3,797,407	3,417,795
Excess (Deficiency) of Revenues Over Expenditures	209,297	98,871
Other Financing Sources (Uses)		
Transfers in	-	1,374
Transfers out	(137,548)	-
Net Financing Sources (Uses)	(137,548)	1,374
NET CHANGE IN FUND BALANCES	71,749	100,245
Fund Balance - Beginning	361,412	1,346,225
Fund Balance - Ending	\$ 433,161	\$ 1,446,470

See accompanying note to supplementary information.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund
\$ 330,000	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	22,419
2,486	83,402	397,578	1,953	1,281,564
<u>332,486</u>	<u>83,402</u>	<u>397,578</u>	<u>1,953</u>	<u>1,303,983</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	14,866	-	-
1,312	-	175,075	-	-
-	-	-	-	-
346,602	2,911,177	9,116	3,084,070	-
-	-	-	-	780,000
-	-	-	-	377,350
<u>347,914</u>	<u>2,911,177</u>	<u>199,057</u>	<u>3,084,070</u>	<u>1,157,350</u>
<u>(15,428)</u>	<u>(2,827,775)</u>	<u>198,521</u>	<u>(3,082,117)</u>	<u>146,633</u>
-	-	-	3,693,000	-
-	(2,933,000)	(760,000)	-	-
-	(2,933,000)	(760,000)	3,693,000	-
(15,428)	(5,760,775)	(561,479)	610,883	146,633
18,724	8,553,055	760,146	-	1,742,005
<u>\$ 3,296</u>	<u>\$ 2,792,280</u>	<u>\$ 198,667</u>	<u>\$ 610,883</u>	<u>\$ 1,888,638</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

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

	Total Non-Major Governmental Funds
REVENUES	
Local Control Funding Formula	\$ 4,015,693
Federal sources	3,009,823
Other State sources	535,771
Other local sources	2,081,485
Total Revenues	<u>9,642,772</u>
EXPENDITURES	
Current	
Instruction	2,234,025
Instruction-related activities:	
Supervision of instruction	45,034
Instructional library, media, and technology	84,472
School site administration	399,467
Pupil services:	
Home-to-school transportation	73,737
Food services	3,245,349
All other pupil services	231,340
Administration:	
All other administration	399,133
Plant services	693,498
Ancillary services	400
Facility acquisition and construction	6,350,965
Debt service	
Principal	780,000
Interest and other	377,350
Total Expenditures	<u>14,914,770</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,271,998)</u>
Other Financing Sources (Uses)	
Transfers in	3,694,374
Transfers out	(3,830,548)
Net Financing Sources (Uses)	<u>(136,174)</u>
NET CHANGE IN FUND BALANCES	(5,408,172)
Fund Balance - Beginning	12,781,567
Fund Balance - Ending	<u>\$ 7,373,395</u>

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Hanford Elementary School District
Hanford, 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 Hanford Elementary School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hanford Elementary School District's basic financial statements, and have issued our report thereon dated December 10, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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.

Varrinck, Trine, Day + Co. LLP

Fresno, California
December 10, 2018



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

Governing Board
Hanford Elementary School District
Hanford, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hanford 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 Hanford 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 Hanford Elementary School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hanford 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 Hanford 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 Hanford 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 Hanford Elementary School District's internal control over compliance.

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

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

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

Varinich, Trine, Day & Co. LLP

Fresno, California
December 10, 2018



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

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Hanford Elementary School District
Hanford, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Hanford Elementary School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Hanford 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 opinions. Our audit does not provide a legal determination of Hanford Elementary School District's compliance with those requirements.

Unmodified Opinion

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

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

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

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

We did not perform Continuation Education procedures because the program is not offered by the District.

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

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

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

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

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

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

We did not perform procedures for the Non Classroom-Based Instruction/Independent Study for Charter Schools because the District's charter school is entirely classroom based.

We did not perform procedures for Determination of Funding for Non Classroom-Based Instruction because the Charter School is classroom-based.

Additionally, we did not perform procedures for the Charter School Facility Grant Program because the District did not receive funding for this program.

Vavrinek, Trine, Day + Co. LLP

Fresno, California
December 10, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HANFORD ELEMENTARY SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

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

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

STATE AWARDS

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

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

None reported.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

None reported.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

None reported.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

State Awards Findings and Questioned Costs

HANFORD ELEMENTARY SCHOOL DISTRICT

2017-001 40000

Unduplicated Local Control Funding Formula Pupil Count

Criteria

As required by *Education Code* Section 42238.02(b)(2), commencing with the 2013-2014 fiscal year, a school district or charter school shall annually submit its enrolled free and reduced-price meal eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the Superintendent using the California Longitudinal Pupil Achievement Data System. As prescribed by *Education Code* Section 42238.02(b)(3)(B), the Controller has included instructions in the Standards and Procedures for Audits of California K-12 Local Education Agencies that include requirements for the independent auditor to determine if the English learner, foster youth, and free or reduced-price meal eligible pupil counts are consistent with the school district's or charter school's English learner, foster youth, and free or reduced-price meal eligible pupil records. Pupils classified in any of these three categories are referred to in Section 42238.02(b)(1) of the *Education Code* as an "unduplicated pupil".

Condition

During the audit of the unduplicated local control funding formula pupil count, several students were incorrectly reported as free/reduced on the CalPADS report with no current application available for review or the application stated the student was on paid status.

Forty students were initially selected as a sample and six were missing an application on file and one was denied based on income information provided. The district provided a list of students identified as Paid status, per their Horizon software, and that list was compared to students on the Calpads 1.18 report that were not direct certified, not foster/homeless, were participants in the free/reduced program, not migrant, and not designated as EL's. The lists were compared to identify students that were marked paid on the Horizon database but reported as free/reduced on the Calpads database. As a result, one hundred thirty-two (132) students were identified as being incorrectly designated as free/reduced on the Calpads database.

HANFORD ELEMENTARY SCHOOL DISTRICT

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

The table below summarizes the effect of students who were incorrectly reported.

Hanford Elementary School District (excluding County programs)

Certified total enrollment	5,518
Certified total unduplicated pupil count	4,668
Unduplicated pupil count adjustment based on eligibility for FRPM	(113)
Adjusted total enrollment	5,518
Adjusted total unduplicated pupil count	4,555

Jefferson Charter Academy (excluding County programs)

Certified total enrollment	436
Certified total unduplicated pupil count	220
Unduplicated pupil count adjustment based on eligibility for FRPM	(19)
Adjusted total enrollment	436
Adjusted total unduplicated pupil count	201

Effect

The effect is that the District's supplemental and concentration grant funding is overstated.

Cause

The District prepares a conversion file from the Child Nutrition System that has a temporary status field for students who were free/reduced classification based on prior year. That conversion file is then uploaded to the District's student information system which then uploads to CalPADS. During the school year 2016-2017 updating process, that status field was not overwritten for pupils who had not turned in an application and resulted in students being reported incorrectly to the student information system.

Questioned Cost

The effect of the misstatement is an estimated questioned cost of \$107,289 for Hanford Elementary School District and \$5,769 for Jefferson Charter Academy. The estimated questioned cost was calculated using the California Department of Education provided "Audit Finding Calculator for Fiscal Year 2016-2017 and Each Year Thereafter."

Recommendation

The District must have procedures in place to verify the status of the students reported on the CalPADS database when the students are designated as an English Learner or participants of the Free/Reduced meal program. The District must also report changes to CalPads data identified in this finding to the California Department of Education.

Current Status

Implemented.