



HAWTHORNE SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

HAWTHORNE SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Hawthorne School District
Hawthorne, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawthorne School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 Hawthorne School District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 17 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 14, budgetary comparison, other postemployment benefit, net pension liability, and District contribution information on pages 65 through 68, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hawthorne School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents, such as the introductory and statistical section 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 1, 2015, on our consideration of the Hawthorne School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hawthorne School District's internal control over financial reporting and compliance.

Vannink, Tien, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015



Hawthorne School District

Educational Excellence

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Assistant Superintendent
Pupil Personnel Services

This section of Hawthorne School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015, with comparative information from 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net position of \$5,752,979 decreased (\$6,363,252) in 2014-2015 school year mainly with the adoption of Governmental Accounting Standard Board (GASB 68) requiring the District to record the underfunded STRS and PERS pension obligation totaling approximately \$55 million.
- Authorized the issuance and sale of Hawthorne School District General Obligation Refunding Bonds for \$9.8 million resulting in approximately \$735,000 net savings to the taxpayers.
- Local Control Funding Formula increased revenues by approximately \$8.3 million in accordance with overall targeted projections.

The Superintendent, Helen Morgan, summed up the fiscal year in the following statement:

"Balancing the District Budget in the most responsible way is a task of critical importance. The District has maintained the fiscal strength in a way that safeguards the integrity of the education offered to students, while offering competitive salaries and benefits for staff. We must continue to maintain a conservative approach for the allocation of resources and continue to work together to keep our District operating with a positive certification."

Basic Fiscal Values

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

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

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Basic Fiscal Mission

- Fiscal Responsibility - Prioritize the District and site budgets to meet the needs of students while maintaining fiscal solvency.
- The District provides 8,800 students with a world-class education that emphasizes standards-based skills in a safe and orderly learning environment.
- We serve as a connecting agency with other districts, local, State and Federal governmental agencies, and community agencies.
- We respond to District and community requests for staff development, administrative, business, educational and support services.
- We partner with parents, businesses, and the community for student success in the District.

Enrollment

The primary source of revenue for the District is generated by the average daily attendance (ADA) of students in the District. The growth or decline of ADA can have significant impact on the financial stability of the District. The District K-8 ADA has been declining since the 2002-2003 school year after several years of steady growth. Though the District has projected significant declines in ADA for the next few years, the trend apparently seems to be leveling based on early enrollment figures for the 2015-2016 school year.

Solvency

The District must maintain a three percent Reserve for Economic Uncertainties and strives to meet a budgetary reserve of three percent. In 2014-2015, we met our goal of a three percent Reserve for Economic Uncertainties. It should be noted, however, that for our District, a three percent reserve for Economic Uncertainties is not the ceiling we may not exceed but rather the floor that we may not go below.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

The *Fund Financial Statements* include statements for governmental activities.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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

The Primary unit of the government is the Hawthorne School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$5,752,979 for the fiscal year ended June 30, 2015. Of this amount, \$(9,460,957) was unrestricted deficit. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use that net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

		Governmental Activities	
		2015	2014
			as Restated
Assets			
Current and other assets		\$ 27,713,816	\$ 31,871,423
Capital assets		128,309,790	131,317,936
Total Assets		<u>156,023,606</u>	<u>163,189,359</u>
Deferred Outflows of Resources		<u>4,773,687</u>	<u>3,932,798</u>
Liabilities			
Current liabilities		6,914,306	7,757,314
Long-term obligations		78,437,626	78,418,200
Aggregate net pension liability		55,065,920	68,830,412
Total Liabilities		<u>140,417,852</u>	<u>155,005,926</u>
Deferred Inflows of Resources		<u>14,626,462</u>	<u>-</u>
Net Position			
Net investment in capital assets		3,427,959	60,860,048
Restricted		11,785,977	11,660,570
Unrestricted deficit		<u>(9,460,957)</u>	<u>(60,404,387)</u>
Total Net Position		<u>\$ 5,752,979</u>	<u>\$ 12,116,231</u>

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2015	2014
Revenues		
Program revenues:		
Charges for services	\$ 299,197	\$ 254,015
Operating grants and contributions	17,279,995	19,358,785
General revenues:		
State LCFF sources	62,669,943	52,915,242
Property taxes	12,036,741	11,382,690
Other general revenues	3,389,289	3,871,217
Total Revenues	<u>95,675,165</u>	<u>87,781,949</u>
Expenses		
Instruction-related	66,507,339	61,118,160
Student support services	12,540,579	11,952,319
Administration	4,621,350	4,215,177
Maintenance and operations	10,636,831	10,521,114
Other	7,732,318	5,838,787
Total Expenses	<u>102,038,417</u>	<u>93,645,557</u>
Change in Net Position	<u>\$ (6,363,252)</u>	<u>\$ (5,863,608)</u>

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$102,038,417. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$12,036,741.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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

Table 3

	Total Cost of Services		Net Cost (Revenue) of Services	
	2015	2014	2015	2014
Instruction	\$ 56,988,623	\$ 52,124,000	\$ 50,828,899	\$ 41,097,549
Instruction-related activities	9,518,716	8,994,160	8,719,307	6,676,035
Home-to-school transportation	1,149,931	1,149,915	1,149,931	999,243
Other pupil services	11,390,648	10,802,404	3,952,551	3,154,713
Administration	4,621,350	4,215,177	4,264,059	4,226,721
Plant services	10,636,831	10,521,114	9,940,626	9,526,047
Ancillary services	339,245	322,917	229,878	(161,838)
Community services	1,070,405	1,070,405	-	-
Interest on long-term obligations	3,626,982	1,749,779	3,626,982	3,772,057
Other outgo	2,695,686	2,695,686	1,746,992	1,144,076
Total	\$ 102,038,417	\$ 93,645,557	\$ 84,459,225	\$ 70,434,603

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$21,013,603 which is a decrease of \$3,437,173 from last year.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

General Fund Budgetary Highlights

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

- First interim
- Second interim
- Year-end revisions

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had \$128,309,790 in a broad range of capital assets, including land, buildings, and furniture and equipment (net of depreciation). This amount represents a net decrease of \$3,008,145. Depreciation expense for the year ended June 30, 2015, was \$3,207,397.

Table 4

	Governmental Activities	
	2015	2014
Land and construction in process	\$ 16,563,277	\$ 16,563,277
Buildings and improvements	152,618,313	152,516,228
Furniture and equipment	4,249,960	4,152,793
Accumulated depreciation	(45,121,760)	(41,914,363)
Total Capital Assets (net)	\$ 128,309,790	\$ 131,317,935

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Long-Term Obligations

At the end of this year, the District had \$78,437,626 in outstanding debt versus \$78,418,200 last year, an increase of \$19,426. Those debts consisted of:

Table 5

	Governmental Activities	
	2015	2014
General obligation bonds	\$ 65,211,727	\$ 65,752,914
Premium on general obligation bond	1,881,152	1,955,178
Certificates of participation	3,610,000	3,700,000
Accumulated vacation - Net	524,224	499,322
Capitalized lease obligations	3,793	9,031
Supplemental Employee Retirement Program	-	764,738
Net OPEB obligation	7,206,730	5,737,017
Total	\$ 78,437,626	\$ 78,418,200

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

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

Net Pension Liability (NPL)

As of June 30, 2015, the District's Net pension liability is \$55,065,920 as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The skyrocketing cost of health benefits.
- The tenuous nature of the State's budget.

HAWTHORNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

In considering the District Budget for the 2015-2016 year, the board and management used the following criteria: The State has enacted the Local Control Funding Formula (LCFF) to replace revenue limits and most categorical programs, commencing in 2013-2014. According to School Services of California, this is the most sweeping reform of the state's school finance system since the enactment of Senate Bill 90 in the early 1970's. At full implementation, the LCFF will fund every student at the same base rate. It is projected that it will take approximately eight years until full implementation is reached; therefore, this will make it difficult to project future revenues.

The District is still experiencing declining enrollment.

1. District enrollment calculation for LCFF was based on a conservative \$7,959 average daily attendance (ADA).
2. Class size reduction is projected to be approximately \$2.7 million at LCFF full implementation.
3. State revenue projections have increased due to the one-time Mandated Cost funding.

Expenditures are based on the following forecasts and directives:

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Business Official, at Hawthorne School District, Hawthorne, California, or e-mail at aborth@hawthorne.k12.ca.us.

HAWTHORNE SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2015

	Governmental Activities
ASSETS	
Deposits and investments	\$ 21,989,988
Receivables	3,906,436
Prepaid expenditures	89,542
Stores inventories	161,567
Other current assets	1,566,283
Capital assets	
Land and construction in progress	16,563,277
Other capital assets	156,868,273
Less: accumulated depreciation	<u>(45,121,760)</u>
Total Capital Assets	<u>128,309,790</u>
Total Assets	<u>156,023,606</u>
DEFERRED OUTFLOWS OF RESOURCES	
Current year pension contribution	<u>4,773,687</u>
LIABILITIES	
Accounts payable	5,757,368
Interest payable	214,093
Unearned revenue	942,845
Current portion of long-term obligations other than pensions	3,622,392
Noncurrent portion of long-term obligations other than pensions	<u>74,815,234</u>
Total Long Term-Obligations	78,437,626
Aggregate net pension liability	<u>55,065,920</u>
Total Liabilities	<u>140,417,852</u>
DEFERRED INFLOWS OF RESOURCES	
Difference between projected and actual earnings on pension plan investments	<u>14,626,462</u>
NET POSITION	
Net investment in capital assets	3,427,959
Restricted for:	
Debt service	4,082,606
Capital projects	3,506,810
Educational programs	1,502,900
Other activities	2,693,661
Unrestricted deficit	<u>(9,460,957)</u>
Total Net Position	<u>\$ 5,752,979</u>

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

HAWTHORNE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 56,988,623	\$ -	\$ 6,159,724	\$ (50,828,899)
Instruction-related activities:				
Supervision of instruction	3,340,449	-	709,493	(2,630,956)
Instructional library, media and technology	882,330	-	-	(882,330)
School site administration	5,295,937	-	89,916	(5,206,021)
Pupil services:				
Home-to-school transportation	1,149,931	-	-	(1,149,931)
Food services	7,253,995	291,370	6,332,710	(629,915)
All other pupil services	4,136,653	-	814,017	(3,322,636)
Administration:				
Data processing	1,103,461	-	30,905	(1,072,556)
All other administration	3,517,889	7,378	319,008	(3,191,503)
Plant services	10,636,831	449	695,756	(9,940,626)
Ancillary services	339,245	-	109,367	(229,878)
Community services	1,070,405	-	1,070,405	-
Interest on long-term obligations	3,626,982	-	-	(3,626,982)
Other outgo	2,695,686	-	948,694	(1,746,992)
Total Governmental Activities	\$ 102,038,417	\$ 299,197	\$ 17,279,995	(84,459,225)
General revenues and subventions:				
Property taxes, levied for general purposes				5,894,043
Property taxes, levied for debt service				4,277,279
Taxes levied for other specific purposes				1,865,419
Federal and State aid not restricted to specific purposes				62,669,943
Interest and investment earnings				92,114
Miscellaneous				3,297,175
Subtotal, General Revenues				78,095,973
Change in Net Position				(6,363,252)
Beginning Balance as Restated				12,116,231
Net Position - Ending				\$ 5,752,979

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

HAWTHORNE SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	Cafeteria Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 12,082,420	\$ 1,573,104	\$ 4,082,606
Receivables	2,467,645	1,257,743	-
Stores inventories	84,936	76,631	-
Other current assets	1,566,283	-	-
Total Assets	\$ 16,290,826	\$ 2,907,478	\$ 4,082,606
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,406,081	\$ 128,931	\$ -
Unearned revenue	940,117	2,728	-
Total Liabilities	6,346,198	131,659	-
Fund Balances:			
Nonspendable	180,478	77,231	-
Restricted	1,428,828	2,693,661	4,082,606
Committed	-	-	-
Assigned	5,928,923	4,927	-
Unassigned	2,406,399	-	-
Total Fund Balances	9,944,628	2,775,819	4,082,606
Total Liabilities and Fund Balances	\$ 16,290,826	\$ 2,907,478	\$ 4,082,606

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

Non-Major Governmental Funds		Total Governmental Funds	
\$	4,251,858	\$	21,989,988
	181,048		3,906,436
	-		161,567
	-		1,566,283
\$	4,432,906	\$	27,713,816
\$	222,356	\$	5,757,368
	-		942,845
	222,356		6,700,213
	-		257,709
	3,580,882		11,785,977
	24,249		24,249
	605,419		6,539,269
	-		2,406,399
	4,210,550		21,013,603
\$	4,432,906	\$	27,713,816

HAWTHORNE SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		\$ 21,013,603
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:	\$ 173,431,550	
Accumulated depreciation is:	<u>(45,121,760)</u>	
Net Capital Assets		128,309,790
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		4,773,687
Net pension liability is due and payable in the current period and, is not reported as a liability in the funds.		(55,065,920)
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(214,093)
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(14,626,462)
Long-term obligations at year-end consist of:		
General obligation bonds	(22,945,000)	
Premium on general obligation bonds	(1,881,152)	
Certificates of participation	(3,610,000)	
Compensated absences	(524,224)	
Capital lease obligations	(3,793)	
Net OPEB obligation	(7,206,730)	
District issued "capital appreciation" general obligation bonds. The accretion of interest on the general obligation bonds to date is:	<u>(42,266,727)</u>	
Total Long-Term Obligations		<u>(78,437,626)</u>
Total Net Position - Governmental Activities		<u>\$ 5,752,979</u>

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

HAWTHORNE SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Cafeteria Fund	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	\$ 61,909,838	\$ -	\$ -
Federal sources	4,481,314	6,330,663	-
Other State sources	8,726,341	554,556	23,497
Other local sources	3,166,003	302,670	4,304,633
Total Revenues	78,283,496	7,187,889	4,328,130
EXPENDITURES			
Current			
Instruction	50,771,658	-	-
Instruction-related activities:			
Supervision of instruction	3,188,047	-	-
Instructional library, media and technology	786,001	-	-
School site administration	4,754,181	-	-
Pupil services:			
Home-to-school transportation	1,149,915	-	-
Food services	-	7,190,433	-
All other pupil services	3,938,896	-	-
Administration:			
Data processing	1,101,204	-	-
All other administration	2,860,095	172,306	-
Plant services	9,010,564	10,489	-
Facility acquisition and construction	-	-	-
Ancillary services	312,754	-	-
Community services	1,070,405	-	-
Debt service			
Principal	95,238	-	7,553,561
Interest and other	157,600	-	2,118,607
Total Expenditures	79,196,558	7,373,228	9,672,168
Excess (Deficiency) of Revenues Over Expenditures	(913,062)	(185,339)	(5,344,038)
Other Financing Sources (Uses)			
Transfers in	1,103	-	-
Other sources	-	-	5,465,000
Transfers out	(75,774)	-	-
Other uses	(2,695,686)	-	-
Net Financing Sources (Uses)	(2,770,357)	-	5,465,000
NET CHANGE IN FUND BALANCES	(3,683,419)	(185,339)	120,962
Fund Balance - Beginning	13,628,047	2,961,158	3,961,644
Fund Balances - Ending	\$ 9,944,628	\$ 2,775,819	\$ 4,082,606

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 4,653,713	\$ 66,563,551
-	10,811,977
151,841	9,456,235
422,179	8,195,485
<u>5,227,733</u>	<u>95,027,248</u>
2,754,811	53,526,469
8,879	3,196,926
-	786,001
402,742	5,156,923
-	1,149,915
-	7,190,433
135,203	4,074,099
-	1,101,204
96,577	3,128,978
1,500,061	10,521,114
71,648	71,648
21,860	334,614
-	1,070,405
-	7,648,799
-	2,276,207
<u>4,991,781</u>	<u>101,233,735</u>
<u>235,952</u>	<u>(6,206,487)</u>
75,774	76,877
-	5,465,000
(1,103)	(76,877)
-	(2,695,686)
<u>74,671</u>	<u>2,769,314</u>
310,623	(3,437,173)
3,899,927	24,450,776
<u>\$ 4,210,550</u>	<u>\$ 21,013,603</u>

HAWTHORNE SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Total Net Change in Fund Balances - Governmental Funds \$ (3,437,173)

**Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:**

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

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

Capital outlays	\$ 199,252	
Depreciation expense	<u>(3,207,397)</u>	
Net expense adjustment		(3,008,145)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was less than the amounts earned by \$24,902. (24,902)

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. (21,081)

In the Statement of Activities, certain operating expenses - special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, supplemental early retirement decreased because \$764,738 was paid towards benefits. 764,738

In the Statement of Activities, Other Postemployment Benefit Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation were less than the ARC by \$1,469,713. (1,469,713)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bond	(5,465,000)
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The accompanying notes are an integral part of these financial statements.

HAWTHORNE SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2015

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	\$ 8,500,000	
Certificates of participation	90,000	
Capital lease obligations	<u>5,238</u>	
Combined adjustment		8,595,238

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	74,026
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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds of \$2,371,240.

	(2,371,240)
Change in Net Position of Governmental Activities	<u><u>\$ (6,363,252)</u></u>

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

HAWTHORNE SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	ASB Funds
ASSETS	
Deposits and investments	<u>\$ 82,519</u>
LIABILITIES	
Due to student groups	<u>\$ 82,519</u>

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Fund

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets and fund balance of \$535 and \$535, respectively.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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).

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established 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 and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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

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

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

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

State School Building Fund The State School Building Fund is used primarily to account separately for State apportionments for the reconstruction, remodeling, or replacing of existing school buildings or the acquisition of new school sites and buildings, as provided in the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (*Education Code* Section 17000 et seq.).

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), or the 2004 State School Facilities Fund (Proposition 55) 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.).

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

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for 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 financial *Statement of Activities* presents a comparison between direct expenses and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-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.

Investments

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

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.

Capital Assets and Depreciation

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 column of the *Statement of Net Position*.

Compensated Absences

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

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between actual and expected rate of return on investments specific to the net pension liability.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances - Governmental Funds

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements reports \$5,752,979 of net position, of which \$11,785,977 was restricted.

Interfund Activity

Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental columns 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.

Budgetary Data

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

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

HAWTHORNE SCHOOL DISTRICT

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Property Tax

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

Change in Accounting Principles

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

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

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

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

HAWTHORNE SCHOOL DISTRICT

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

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

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

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

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

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$64,897,614. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources of \$3,932,798.

New Accounting Pronouncements

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

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

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

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

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$	21,989,988
Fiduciary funds		82,519
Total Deposits and Investments	\$	<u>22,072,507</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

Cash on hand and in banks	\$	1,923,448
Cash in revolving		6,600
Investments		20,142,459
Total Deposits and Investments	\$	<u>22,072,507</u>

Policies and Practices

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

General Authorizations

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

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

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 purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

Investment Type	Fair Value	Wiegthed Average Maturity in Days
County Pool	\$ 20,122,317	595

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2015.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, the District's bank balance of \$2,068,180 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Cafteria Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 932,800	\$ 1,147,879	\$ -	\$ 2,080,679
State Government				
State principal apportionment	89,616	-	122,148	211,764
Categorical aid	409,893	102,447	-	512,340
Lottery	716,758	-	48,199	764,957
Local Government				
Interest	16,873	1,209	10,701	28,783
Other Local Sources	301,705	6,208	-	307,913
Total	<u>\$ 2,467,645</u>	<u>\$ 1,257,743</u>	<u>\$ 181,048</u>	<u>\$ 3,906,436</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 16,563,277	\$ -	\$ -	\$ 16,563,277
Construction in process	-	-	-	-
Total Capital Assets				
Not Being Depreciated	16,563,277	-	-	16,563,277
Capital Assets Being Depreciated				
Land improvements	2,111,040	-	-	2,111,040
Buildings and improvements	150,405,188	102,085	-	150,507,273
Furniture and equipment	4,152,793	97,167	-	4,249,960
Total Capital Assets				
Being Depreciated	156,669,021	199,252	-	156,868,273
Less Accumulated Depreciation				
Land improvements	1,535,536	85,594	-	1,621,130
Buildings and improvements	37,270,564	2,889,887	-	40,160,451
Furniture and equipment	3,108,263	231,916	-	3,340,179
Total Accumulated				
Depreciation	41,914,363	3,207,397	-	45,121,760
Governmental Activities				
Capital Assets, Net	<u>\$ 131,317,935</u>	<u>\$ (3,008,145)</u>	<u>\$ -</u>	<u>\$ 128,309,790</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,245,178
Supervision of instruction	128,296
Instructional library, media, and technology	96,222
School site administration	96,222
Food services	160,370
All other pupil services	32,074
All other general administration	384,888
Plant services	64,147
Total Depreciation Expenses Governmental Activities	<u>\$ 3,207,397</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 5 - ACCOUNTS PAYABLE

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

	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 1,905,849	\$ 341	\$ 12,914	\$ 1,919,104
Salaries and benefits	3,500,232	128,590	208,188	3,837,010
Construction	-	-	1,254	1,254
Total	<u>\$ 5,406,081</u>	<u>\$ 128,931</u>	<u>\$ 222,356</u>	<u>\$ 5,757,368</u>

NOTE 6 - UNEARNED REVENUE

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

	General Fund	Cafeteria Fund	Total Governmental Activities
Federal financial assistance	\$ 39,795	\$ -	\$ 39,795
Other local	900,322	2,728	903,050
Total	<u>\$ 940,117</u>	<u>\$ 2,728</u>	<u>\$ 942,845</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds	\$ 65,752,914	\$ 7,958,813	\$ 8,500,000	\$ 65,211,727	\$ 3,424,573
Premium on general obligation bonds	1,955,178	-	74,026	1,881,152	74,026
Certificates of participation	3,700,000	-	90,000	3,610,000	120,000
Compensated absences	499,322	24,902	-	524,224	-
Capital lease obligations	9,031	-	5,238	3,793	3,793
Supplemental employee retirement program (SERP)	764,738	-	764,738	-	-
Net OPEB obligation	5,737,017	1,852,973	383,260	7,206,730	-
	<u>\$ 78,418,200</u>	<u>\$ 9,836,688</u>	<u>\$ 9,817,262</u>	<u>\$ 78,437,626</u>	<u>\$ 3,622,392</u>

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Maturity			Bonds					Bonds
Issue	Date	Interest	Original	Outstanding				Outstanding
Date	June 30,	Rate	Issue	July 1, 2014	Issued	Accretion	Redeemed	June 30, 2015
1998	2023	4.45 - 5.02%	\$ 5,997,115	\$ 6,952,162	\$ -	\$ 334,518	\$ 915,000	\$ 6,371,680
2002	2028	2.00 - 5.45%	3,504,844	5,051,159	-	277,741	150,000	5,178,900
2004	2020	2.00 - 5.10%	1,997,115	1,244,549	-	65,651	210,000	1,100,200
2005	2030	2.05 - 4.61%	9,850,061	7,396,734	-	139,198	5,730,000	1,805,932
2005	2023	1.90 - 4.37%	12,315,000	5,880,000	-	-	540,000	5,340,000
2005	2031	3.86 - 5.14%	5,108,625	6,403,043	-	327,991	335,000	6,396,034
2008	2049	3.00 - 6.15%	9,036,599	11,848,762	-	660,778	85,000	12,424,540
2009	2035	2.61 - 6.00%	6,665,001	7,127,497	-	229,159	225,000	7,131,656
2012	2043	2.00 - 5.35%	13,331,770	13,849,008	-	458,777	310,000	13,997,785
2015	2029	3.49%	5,465,000	-	5,465,000	-	-	5,465,000
				\$ 65,752,914	\$ 5,465,000	\$ 2,493,813	\$ 8,500,000	\$ 65,211,727

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Election 1997, Series B General Obligation Bonds

In September 1998, the District issued \$5,997,115 accreting to \$13,894,999 in Election 1997, Series B General Obligation Bonds. Proceeds from the bonds will be used for the purpose of construction and renovating school facilities throughout the District and paying costs related to the financing. The remaining bonds mature through November 2022, and yield interest ranging from 4.45 percent to 5.02 percent. At June 30, 2015, the principal balance outstanding was \$2,702,480 with accreted interest of \$3,669,200 for a total of \$6,371,680.

The bonds mature through 2023 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2016	\$ 915,114	\$ 14,886	\$ 930,000
2017	880,495	59,505	940,000
2018	851,694	103,306	955,000
2019	818,581	146,419	965,000
2020	807,393	192,607	1,000,000
2021-2023	2,098,403	931,597	3,030,000
Total	<u>\$ 6,371,680</u>	<u>\$ 1,448,320</u>	<u>\$ 7,820,000</u>

Election 1997, Series C General Obligation Bonds

In November 2002, the District issued \$3,504,844 accreting to \$9,490,000 in Election 1997, Series C General Obligation Bonds. Proceeds from the bonds will be used for the purpose of construction and acquisition of certain real property and improvements for school facilities within the District. The remaining bonds mature through November 2027, and yield interest ranging from 2.00 percent to 5.45 percent. At June 30, 2015, the principal balance outstanding was \$2,614,844 with accreted interest of \$2,564,056 for a total of \$5,178,900.

The bonds mature through 2028 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2016	\$ 170,000	\$ 6,800	\$ 176,800
2017	177,304	12,696	190,000
2018	176,791	23,209	200,000
2019	179,675	35,325	215,000
2020	173,479	46,521	220,000
2021-2025	2,133,499	1,291,501	3,425,000
2026-2028	2,168,152	2,011,848	4,180,000
Total	<u>\$ 5,178,900</u>	<u>\$ 3,427,900</u>	<u>\$ 8,606,800</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Election 1997, Series D General Obligation Bonds

In April 2004, the District issued \$1,997,115 accreting to \$2,705,000 in Election 1997, Series D General Obligation Bonds. Proceeds from the bonds will be used for the purpose of construction and acquisition of certain real property and improvements for school facilities within the District. The remaining bonds mature through November 2019, and yield interest ranging from 2.00 percent to 5.10 percent. At June 30, 2015, the principal balance outstanding was \$592,115 with accreted interest of \$508,085 for a total of \$1,100,200.

The bonds mature through 2020 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2016	\$ 230,000	\$ 9,200	\$ 239,200
2017	256,740	28,260	285,000
2018	249,864	50,136	300,000
2019	242,564	72,436	315,000
2020	121,032	48,968	170,000
Total	<u>\$ 1,100,200</u>	<u>\$ 209,000</u>	<u>\$ 1,309,200</u>

Election 2004, Series A General Obligation Bonds

In January 2005, the District issued \$9,850,061 accreting to \$11,900,000 in Election 2004, Series A General Obligation Bonds. Proceeds from the bonds will be used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. During 2015, the District issued 2015 Series A refunding bonds of \$5,270,000 to pay down Election 2004 Series A General Obligation Bonds. The remaining bonds mature through August 1, 2024, and yield interest ranging from 2.05 percent to 4.61 percent. At June 30, 2015, the principal balance outstanding was \$796,919 with accreted interest of \$1,009,013 for a total of \$1,805,932.

The bonds mature through 2025 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2016	\$ 149,038	\$ 962	\$ 150,000
2017	169,945	15,055	185,000
2018	182,604	32,396	215,000
2019	196,311	53,689	250,000
2020	206,911	78,089	285,000
2021-2025	901,123	618,877	1,520,000
Total	<u>\$ 1,805,932</u>	<u>\$ 799,068</u>	<u>\$ 2,605,000</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Election 1997, Series E General Obligation Bonds

In January 2005, the District issued \$12,315,000 in Election 1997, Series E General Obligation Bonds. Proceeds from the bonds will be used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through November 2022, and yield interest ranging from 1.90 percent to 4.37 percent. At June 30, 2015, the principal balance outstanding was \$5,340,000.

The bonds mature through 2023 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest</u>	<u>Total</u>
2016	\$ 560,000	\$ 214,403	\$ 774,403
2017	590,000	194,103	784,103
2018	615,000	171,978	786,978
2019	645,000	147,378	792,378
2020	675,000	121,578	796,578
2021-2023	2,255,000	176,865	2,431,865
Total	<u>\$ 5,340,000</u>	<u>\$ 1,026,305</u>	<u>\$ 6,366,305</u>

Election 2004, Series B General Obligation Bonds

On December 7, 2005, the District issued \$5,108,625 accreting to \$11,080,000 in Election 2004, Series B General Obligation Bonds. Proceeds from the bonds will be used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2030, and yield interest ranging from 3.86 percent to 5.14 percent. At June 30, 2015, the principal balance outstanding was \$3,886,177 with accreted interest of \$2,509,857 for a total of \$6,396,034.

The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2016	\$ 587,685	\$ 2,315	\$ 590,000
2017	555,012	29,988	585,000
2018	537,176	57,824	595,000
2019	510,211	84,789	595,000
2020	484,233	110,767	595,000
2021-2025	2,042,926	972,074	3,015,000
2026-2030	966,312	878,688	1,845,000
2031	712,479	902,521	1,615,000
Total	<u>\$ 6,396,034</u>	<u>\$ 3,038,966</u>	<u>\$ 9,435,000</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Election 2004, Series C General Obligation Bonds

In July 2008, the District issued \$9,036,599 accreting to \$61,840,000 in Election 2004, Series C General Obligation Bonds. Proceeds from the bonds will be used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2048, and yield interest ranging from 2.36 percent to 6.15 percent. At June 30, 2015, the principal balance outstanding was \$8,666,599 with accreted interest of \$3,757,941 for a total of \$12,424,540.

The bonds mature through 2049 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest to Maturity	Total
2016	\$ 175,000	\$ 82,645	\$ 257,645
2017	190,000	75,645	265,645
2018	195,000	68,045	263,045
2019	170,000	60,245	230,245
2020	220,000	53,445	273,445
2021-2025	1,098,905	301,170	1,400,075
2026-2030	369,444	1,125,556	1,495,000
2031-2035	994,069	3,330,931	4,325,000
2036-2040	3,934,692	11,815,308	15,750,000
2041-2045	-	-	-
2046-2049	5,077,430	32,587,570	37,665,000
Total	<u>\$ 12,424,540</u>	<u>\$ 49,500,560</u>	<u>\$ 61,925,100</u>

In September 2009, the District issued \$6,665,001 accreting to \$9,663,614 in Election 2008, 2009 Series A General Obligation Bonds. Proceeds from the bonds will be used for the purpose of the construction, equipping, furnishing, and improvement of certain capital facilities of the District. The remaining bonds mature through August 2034, and yield interest ranging from 2.61 percent to 6.00 percent. At June 30, 2015, the principal balance outstanding was \$6,107,639, with accreted interest of \$1,024,017 for a total of \$7,131,656.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The bonds mature through 2035 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest to Maturity	Total
2016	\$ 237,736	\$ 2,264	\$ 240,000
2017	224,806	30,194	255,000
2018	207,923	57,077	265,000
2019	199,018	85,982	285,000
2020	186,447	113,553	300,000
2021-2025	768,150	981,850	1,750,000
2026-2030	1,877,576	1,071,024	2,948,600
2031-2035	3,430,000	541,300	3,971,300
Total	<u>\$ 7,131,656</u>	<u>\$ 2,883,244</u>	<u>\$ 10,014,900</u>

In April 2012, the District issued \$13,331,770 accreting to \$19,755,000 in Election 2008, 2012 Series B General Obligation Bonds. Proceeds from the bonds will be used for the purpose of the construction, equipping, furnishing, and improvement of certain capital facilities of the District. The remaining bonds mature through August 2042, and yield interest ranging from 2.00 percent to 5.35 percent. At June 30, 2015, the principal balance outstanding was \$12,621,770, with accreted interest of \$1,376,015 for a total of \$13,997,785.

The bonds mature through 2043 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest to Maturity	Total
2016	\$ 325,000	\$ 164,816	\$ 489,816
2017	350,000	155,066	505,066
2018	380,000	148,066	528,066
2019	410,000	132,866	542,866
2020	445,000	120,566	565,566
2021-2025	1,815,000	1,379,756	3,194,756
2026-2030	725,000	3,052,745	3,777,745
2031-2035	445,000	2,263,908	2,708,908
2036-2040	2,359,214	2,100,786	4,460,000
2041-2043	6,743,571	2,946,429	9,690,000
Total	<u>\$ 13,997,785</u>	<u>\$ 12,465,004</u>	<u>\$ 26,462,789</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Election 2004 Refunding, 2015 Series A General Obligation Bonds

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

The bonds mature through 2030 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest to Maturity	Total
2016	\$ 75,000	\$ 139,706	\$ 214,706
2017	10,000	188,024	198,024
2018	10,000	187,675	197,675
2019	10,000	187,326	197,326
2020	10,000	186,977	196,977
2021-2025	950,000	915,253	1,865,253
2026-2030	4,400,000	404,402	4,804,402
Total	<u>\$ 5,465,000</u>	<u>\$ 2,209,363</u>	<u>\$ 7,674,363</u>

Certificates of Participation

On May 22, 2007, the District issued certificates of participation in the amount of \$5,075,000 with interest rates ranging from 3.7 percent to 4.7 percent. Proceeds from the certificate of participation will be used for modernization of school facilities. In the fiscal year 2012, a portion of the balance was paid off with the issuance of 2012 Series B, General Obligation Bonds. At June 30, 2015, the principal balance outstanding was \$3,610,000.

The certificates mature through 2038 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	\$ 120,000	\$ 158,675	\$ 278,675
2017	125,000	153,622	278,622
2018	55,000	149,909	204,909
2019	135,000	145,873	280,873
2020	140,000	139,960	279,960
2021-2025	570,000	1,192,368	1,762,368
2026-2030	870,000	1,336,175	2,206,175
2031-2035	1,000,000	1,256,408	2,256,408
2036-2038	595,000	624,095	1,219,095
Total	<u>\$ 3,610,000</u>	<u>\$ 5,157,085</u>	<u>\$ 8,767,085</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to \$524,224.

Capital Leases

	<u>Equipment</u>
Balance, Beginning of Year	\$ 9,863
Payments	<u>(5,238)</u>
Balance, End of Year	<u>\$ 4,625</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payment</u>
2016	\$ 4,625
Less: Amount Representing Interest	<u>832</u>
Present Value of Minimum Lease Payments	<u>\$ 3,793</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2015, include the following:

Equipment	\$ 303,778
Less: Accumulated depreciation	<u>(299,985)</u>
Total	<u>\$ 3,793</u>

Supplemental Employee Retirement Plan (SERP)

The District offered an early retirement incentive to qualified employees under a qualified plan of Section 401A of the Internal Revenue Code. Currently, there are 23 employees participating in this plan and the District's obligation to those retirees as of June 30, 2015, has been paid in full.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$1,835,496, and contributions made by the District during the year were \$383,259. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$372,906 and \$(355,430), respectively, which resulted in an increase to the net OPEB obligation of \$1,469,713. As of June 30, 2015, the net OPEB obligation was \$7,206,730. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Cafeteria Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 6,000	\$ 600	\$ -	\$ -	\$ 6,600
Stores inventories	84,936	76,631	-	-	161,567
Prepaid expenditures	89,542	-	-	-	89,542
Total Nonspendable	180,478	77,231	-	-	257,709
Restricted					
Legally restricted programs	1,428,828	2,693,661	-	74,072	4,196,561
Capital projects	-	-	-	3,506,810	3,506,810
Debt services	-	-	4,082,606	-	4,082,606
Total Restricted	1,428,828	2,693,661	4,082,606	3,580,882	11,785,977
Committed					
Deferred maintenance program	-	-	-	24,249	24,249
Total Committed	-	-	-	24,249	24,249
Assigned					
Other State Site Funds	1,173	-	-	-	1,173
Parcel Tax	363,541	-	-	-	363,541
LCFF EIA	384,160	-	-	-	384,160
LCFF S/C	710,369	-	-	146,021	856,390
Budget Contingency	3,697,188	-	-	249,761	3,946,949
Unrestricted Lottery	772,492	-	-	-	772,492
Other	-	4,927	-	209,637	214,564
Total Assigned	5,928,923	4,927	-	605,419	6,539,269
Unassigned					
Reserve for economic uncertainties	2,406,399	-	-	-	2,406,399
Total Unassigned	2,406,399	-	-	-	2,406,399
Total	\$ 9,944,628	\$ 2,775,819	\$ 4,082,606	\$ 4,210,550	\$21,013,603

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Hawthorne Elementary School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 702 retirees and beneficiaries currently receiving benefits, and 64 active Plan members.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association, the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014-2015, the District contributed \$383,259 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,835,496
Interest on net OPEB obligation	372,906
Adjustment to annual required contribution	<u>(355,430)</u>
Annual OPEB cost (expense)	1,852,972
Contributions made	<u>(383,259)</u>
Increase in net OPEB obligation	1,469,713
Net OPEB obligation, beginning of year	5,737,017
Net OPEB obligation, end of year	<u><u>\$ 7,206,730</u></u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Trend Information

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

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 1,496,796	\$ 389,050	25.99%	\$ 4,602,567
2014	\$ 1,511,249	\$ 376,799	24.93%	\$ 5,737,017
2015	\$ 1,852,973	\$ 383,259	20.68%	\$ 7,206,731

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	\$ -	\$ 15,002,003	\$ 15,002,003	0%	\$ 40,298,299	37%

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 12 - RISK MANAGEMENT

Description

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

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	\$ 44,111,211	\$ 3,450,747	\$ 10,862,302	\$ 3,822,996
CalPERS	10,954,709	1,322,940	3,764,160	971,772
Total	<u>\$ 55,065,920</u>	<u>\$ 4,773,687</u>	<u>\$ 14,626,462</u>	<u>\$ 4,794,768</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

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

	STRP Defined Benefit Program	
	December 31, 2012	January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$3,450,747.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 44,111,211
State's proportionate share of the net pension liability associated with the District	<u>26,636,254</u>
Total	<u>\$ 70,747,465</u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.0755 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$3,822,996 and revenue of \$647,917 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,450,747	\$ -
Difference between projected and actual earnings on pension plan investments	-	10,862,302
Total	<u>\$ 3,450,747</u>	<u>\$ 10,862,302</u>

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 2,715,575
2017	2,715,575
2018	2,715,575
2019	2,715,577
Total	<u>\$ 10,862,302</u>

Actuarial Methods and Assumptions

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

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of ten-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 68,757,842
Current discount rate (7.60%)	\$ 44,111,211
1% increase (8.60%)	\$ 23,560,400

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, 2013 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

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.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were \$1,322,940.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$10,954,709. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.0965 percent.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$971,772. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,322,940	\$ -
Difference between projected and actual earnings on pension plan investments	-	3,764,160
Total	<u>\$ 1,322,940</u>	<u>\$ 3,764,160</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 941,040
2017	941,040
2018	941,040
2019	941,040
Total	<u>\$ 3,764,160</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, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.50%)	\$ 19,217,060
Current discount rate (7.50%)	\$ 10,954,709
1% increase (8.50%)	\$ 4,050,682

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 \$1,651,652 (5.679 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Tax Deferred Annuity/Social Security

The District also contributes to the Hawthorne School District 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 3.75 percent of an employee's gross earnings. An employee is required to contribute 3.75 percent of his or her gross earnings to the pension plan.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

HAWTHORNE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOL

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

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

During the year ended June 30, 2015, the District made a payment of \$1,738,684 to ASCIP.

NOTE 16 - SUBSEQUENT EVENTS

Election 1997 Refunding, 2015 Series B General Obligation Bonds

In May 2015, the District issued \$4,340,000 in Election 1997, 2015 Series A General Obligation Bonds. Proceeds from the bonds will be used to refund a portion of the District's 2005 Bonds and to pay costs of issuance associated with the Series B Bonds. The remaining bonds mature through May 2022, and yield an interest of 2.63 percent.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Statement of Net Position

Net Position - Beginning	\$ 77,013,845
Inclusion of net pension liability from the adoption of GASB Statement No. 68	(68,830,412)
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	3,932,798
Net Position - Beginning as Restated	<u>\$ 12,116,231</u>

REQUIRED SUPPLEMENTARY INFORMATION

HAWTHORNE SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 60,973,722	\$ 61,825,528	\$ 61,909,838	\$ 84,310
Federal sources	4,864,222	6,082,062	4,481,314	(1,600,748)
Other State sources	8,457,029	6,399,882	8,726,341	2,326,459
Other local sources	3,143,872	3,657,664	3,166,003	(491,661)
Total Revenues ¹	77,438,845	77,965,136	78,283,496	318,360
EXPENDITURES				
Current				
Certificated salaries	34,472,467	37,752,109	36,748,191	1,003,918
Classified salaries	10,747,331	10,751,718	10,521,178	230,540
Employee benefits	16,239,651	17,640,787	19,225,171	(1,584,384)
Books and supplies	3,152,783	5,821,236	4,301,785	1,519,451
Services and operating expenditures	7,270,202	8,619,011	8,100,855	518,156
Other outgo	2,602,909	2,462,032	(334,490)	2,796,522
Capital outlay	304,691	40,000	381,030	(341,030)
Debt service - principal	-	-	95,238	(95,238)
Debt service - interest	-	-	157,600	(157,600)
Total Expenditures ¹	74,790,034	83,086,893	79,196,558	3,890,335
Excess (Deficiency) of Revenues Over Expenditures	2,648,811	(5,121,757)	(913,062)	4,208,695
Other Financing Sources (Uses)				
Transfers in	-	-	1,103	1,103
Transfers out	-	(75,774)	(75,774)	-
Other uses	-	-	(2,695,686)	(2,695,686)
Net Financing Sources (Uses)	-	(75,774)	(2,770,357)	(2,694,583)
NET CHANGE IN FUND BALANCES	2,648,811	(5,197,531)	(3,683,419)	1,514,112
Fund Balance - Beginning	13,628,047	13,628,047	13,628,047	-
Fund Balance - Ending	\$ 16,276,858	\$ 8,430,516	\$ 9,944,628	\$ 1,514,112

¹ On behalf payments of \$1,651,652 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

HAWTHORNE SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2010	\$ -	\$ 10,594,481	\$ 10,594,481	0%	\$ 39,543,725	27%
July 1, 2012	\$ -	\$ 12,348,614	\$ 12,348,614	0%	\$ 39,508,136	31%
July 1, 2014	\$ -	\$ 15,002,003	\$ 15,002,003	0%	\$ 40,298,299	37%

HAWTHORNE SCHOOL DISTRICT

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

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability (asset)	<u>0.0755%</u>
District's proportionate share of the net pension liability (asset)	\$ 44,111,211
State's proportionate share of the net pension liability (asset) associated with the District	<u>26,636,254</u>
Total	<u>\$ 70,747,465</u>
District's covered - employee payroll	<u>\$ 38,467,115</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>114.67%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u> 
 CalPERS	
District's proportion of the net pension liability (asset)	<u>0.0965%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 10,954,709</u>
District's covered - employee payroll	<u>\$ 11,168,950</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>98.08%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83.38%</u> 

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

HAWTHORNE SCHOOL DISTRICT

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

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 3,450,747
Contributions in relation to the contractually required contribution	<u>(3,450,747)</u>
Contribution deficiency (excess)	<u>\$ -</u>
 District's covered - employee payroll	 <u>\$ 38,467,115</u>
 Contributions as a percentage of covered - employee payroll	 <u>8.88%</u>
 CalPERS	
Contractually required contribution	\$ 1,322,940
Contributions in relation to the contractually required contribution	<u>(1,322,940)</u>
Contribution deficiency (excess)	<u>\$ -</u>
 District's covered - employee payroll	 <u>\$ 11,168,950</u>
 Contributions as a percentage of covered - employee payroll	 <u>11.84%</u>

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

SUPPLEMENTARY INFORMATION

HAWTHORNE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education (CDE)			
No Child Left Behind			
Title I, Part A Cluster:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 2,193,776
Title I, Even Start Family Literacy	84.213	14331	1,076
Title I, Part G, Advance Placement Test Fee Reimbursement Program	84.330	14831	7,474
Title II, Part A, Teacher Quality	84.367	14341	304,045
Title III, Limited English Proficiency	84.365	14346	305,293
Title IV, Part B, 21st Century Community Learning Centers	84.287	14535	6,253
Individuals With Disabilities Education Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	997,896
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	31,858
Preschool Grants, Part B, Sec 619	84.173	13430	140,422
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	293,077
Preschool Staff Development	84.173A	13431	712
Total Special Education Cluster			1,463,965
Total U.S. Department of Education			4,281,882
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the California Department of Health Services			
Medi-Caid Cluster:			
Medi-Cal Billing Option	93.778	10013	215,501
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE)			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	2,327,438
National School Lunch Program	10.555	13524	3,454,656
Summer Food Service Program	10.559	13004	33,435
Meal Supplements	10.555	13396	129,798
Food Distribution	10.555	13524	385,337
Total Child Nutrition Cluster			6,330,664
Total U.S. Department of Agriculture			6,330,664
Total Federal Expenditures			\$10,828,047

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2015

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Eugene M. Krank	President	2017
Mrs. Cristina Chiappe	Vice President	2015
Mr. Alexandre Monteiro	Clerk	2015
Mr. Luciano Aguilar	Member	2017
Mr. Sergio R. Mortara	Member	2017

ADMINISTRATION

Dr. Helen E. Morgan	Superintendent
Dr. Brian Markarian	Assistant Superintendent, Educational Services
Ms. Shelley Rose	Assistant Superintendent, Human Resources
Mr. Steve Tabor	Associate Superintendent, Pupil Personnel Services
Mrs. Ambur Borth	Chief Business Official

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,649.42	3,642.39
Fourth through sixth	2,545.27	2,541.22
Seventh and eighth	1,681.89	1,682.57
Total Regular ADA	<u>7,876.58</u>	<u>7,866.18</u>
Extended Year Special Education		
Transitional kindergarten through third	1.63	1.63
Fourth through sixth	0.98	0.98
Seventh and eighth	<u>0.78</u>	<u>0.78</u>
Total Extended Year Special Education	<u>3.39</u>	<u>3.39</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	1.98	2.02
Seventh and eighth	2.80	2.85
Total Special Education, Nonpublic, Nonsectarian Schools	<u>4.78</u>	<u>4.87</u>
Total ADA	<u><u>7,884.75</u></u>	<u><u>7,874.44</u></u>

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

Hawthorne Mathematics, Science and Technology Charter School

Regular ADA

Ninth through twelfth	<u>545.66</u>	<u>542.62</u>
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Extended Year Special Education, Nonpublic, Nonsectarian Schools

Ninth through twelfth	<u>0.53</u>	<u>0.53</u>
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Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.53</u>	<u>0.53</u>
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Total Regular ADA	<u>546.19</u>	<u>543.15</u>
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Classroom based ADA

Ninth through twelfth	<u>545.30</u>	<u>542.35</u>
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Special Education, Nonpublic, Nonsectarian Schools

Ninth through twelfth	<u>0.53</u>	<u>0.53</u>
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Total Special Education, Nonpublic, Nonsectarian Schools	<u>0.53</u>	<u>0.53</u>
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Total Classroom Based ADA	<u>545.83</u>	<u>542.88</u>
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See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

Grade Level	1986-87	Reduced	2014-15	Number of Days		Status
	Minutes	1986-87		Traditional	Multitrack	
	Requirement	Minutes	Actual	Calendar	Calendar	
	Requirement	Requirement	Minutes			
Kindergarten	36,000	35,000	55,890	180	N/A	In Compliance
Grades 1 - 3	50,400	49,000				
Grade 1			52,290	180	N/A	In Compliance
Grade 2			52,290	180	N/A	In Compliance
Grade 3			52,290	180	N/A	In Compliance
Grades 4 - 6	54,000	52,500				
Grade 4			56,010	180	N/A	In Compliance
Grade 5			56,010	180	N/A	In Compliance
Grade 6			59,834	180	N/A	In Compliance
Grades 7 - 8	54,000	52,500				
Grade 7			59,834	180	N/A	In Compliance
Grade 8			59,834	180	N/A	In Compliance

Hawthorne Mathematics, Science and Technology Charter School

Grade Level	1986-87	Reduced	2014-15	Number of Days		Status
	Minutes	1986-87		Traditional	Multitrack	
	Requirement	Minutes	Actual	Calendar	Calendar	
	Requirement	Requirement	Minutes			
Grades 9 - 12	64,800	62,949				
Grade 9			65,455	180	N/A	In Compliance
Grade 10			65,455	180	N/A	In Compliance
Grade 11			65,455	180	N/A	In Compliance
Grade 12			65,455	180	N/A	In Compliance

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2015.

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

	(Budget) 2016 ¹	2015	2014	2013
GENERAL FUND ⁵				
Revenues	\$ 90,872,628	\$ 78,283,492	\$ 72,156,734	\$ 65,903,587
Other sources and transfers in	-	1,103	-	-
Total Revenues and Other Sources	90,872,628	78,284,595	72,156,734	65,903,587
Expenditures	85,139,714	79,196,558	68,891,848	63,660,564
Other uses and transfers out	4,892,489	2,771,460	1,979,516	2,218,567
Total Expenditures and Other Uses	90,032,203	81,968,018	70,871,364	65,879,131
INCREASE (DECREASE) IN FUND BALANCE	\$ 840,425	\$ (3,683,423)	\$ 1,285,370	\$ 24,456
ENDING FUND BALANCE	\$ 10,784,518	\$ 9,944,093	\$ 13,627,516	\$ 12,342,146
AVAILABLE RESERVES ²	\$ 7,269,056	\$ 2,406,399	\$ 2,812,996	\$ 11,257,331
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	8.1%	3.1%	4.2%	18.0%
LONG-TERM OBLIGATIONS	NA	\$ 78,437,626	\$ 78,418,200	\$ 78,715,959
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	7,885	7,885	8,028	8,075

The General Fund balance has decreased by \$2,398,053 over the past two years. The fiscal year 2015-2016 budget projects an increase of \$840,425 (8.45 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have decreased by \$278,333 over the past two years.

Average daily attendance has decreased by 190 over the past two years. No additional change in ADA is anticipated during fiscal year 2015-2016.

¹ Budget 2016 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$1,651,652, \$1,791,830, and \$1,691,903, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015, 2014, and 2013, respectively.

⁴ Excludes Charter School ADA.

⁵ General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

HAWTHORNE SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2015

	Child Development Fund	Deferred Maintenance Fund	Charter School Fund	Foundation Permanent Fund
ASSETS				
Deposits and investments	\$ -	\$ 24,260	\$ 520,609	\$ 168,117
Receivables	-	-	170,347	540
Total Assets	\$ -	\$ 24,260	\$ 690,956	\$ 168,657
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 11	\$ 221,102	\$ -
Total Liabilities	-	11	221,102	-
Fund Balances:				
Restricted	-	-	74,072	-
Committed	-	24,249	-	-
Assigned	-	-	395,782	168,657
Total Fund Balances	-	24,249	469,854	168,657
Total Liabilities and Fund Balances	\$ -	\$ 24,260	\$ 690,956	\$ 168,657

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ 890,761	\$ 949,240	\$ -	\$ 1,698,871	\$ 4,251,858
2,073	2,656	-	5,443	181,048
<u>\$ 892,834</u>	<u>\$ 951,896</u>	<u>\$ -</u>	<u>\$ 1,704,314</u>	<u>\$ 4,432,906</u>

\$ 1,254	\$ -	\$ -	\$ -	\$ 222,356
<u>1,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,356</u>

864,745	951,896	-	1,690,169	3,580,882
-	-	-	-	24,249
26,835	-	-	14,145	605,419
<u>891,580</u>	<u>951,896</u>	<u>-</u>	<u>1,704,314</u>	<u>4,210,550</u>

<u>\$ 892,834</u>	<u>\$ 951,896</u>	<u>\$ -</u>	<u>\$ 1,704,314</u>	<u>\$ 4,432,906</u>
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HAWTHORNE SCHOOL DISTRICT

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

	Child Development Fund	Deferred Maintenance Fund	Charter School Fund	Foundation Permanent Fund	Building Fund
REVENUES					
Local Control Funding Formula	\$ -	\$ -	\$ 4,653,713	\$ -	\$ -
Federal sources	-	-	-	-	-
Other State sources	-	-	151,841	-	-
Other local sources	3	192	201	1,139	4,723
Total Revenues	<u>3</u>	<u>192</u>	<u>4,805,755</u>	<u>1,139</u>	<u>4,723</u>
EXPENDITURES					
Current					
Instruction	-	-	2,754,811	-	-
Instruction-related activities:					
Supervision of instruction	-	-	8,879	-	-
School site administration	-	-	402,742	-	-
Pupil services:					
All other pupil services	-	-	135,203	-	-
General administration:					
All other general administration	-	-	96,577	-	-
Plant services	-	11,336	1,448,304	-	3,308
Facility acquisition and construction	-	-	-	-	71,648
Ancillary services	-	-	20,933	927	-
Total Expenditures	<u>-</u>	<u>11,336</u>	<u>4,867,449</u>	<u>927</u>	<u>74,956</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3</u>	<u>(11,144)</u>	<u>(61,694)</u>	<u>212</u>	<u>(70,233)</u>
Other Financing Sources (Uses)					
Transfers in	-	-	75,774	-	-
Transfers out	(500)	-	-	-	-
Net Financing Sources (Uses)	<u>(500)</u>	<u>-</u>	<u>75,774</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(497)</u>	<u>(11,144)</u>	<u>14,080</u>	<u>212</u>	<u>(70,233)</u>
Fund Balances - Beginning	<u>497</u>	<u>35,393</u>	<u>455,774</u>	<u>168,445</u>	<u>961,813</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 24,249</u>	<u>\$ 469,854</u>	<u>\$ 168,657</u>	<u>\$ 891,580</u>

See accompanying note to supplementary information.

Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 4,653,713
-	-	-	-
-	-	-	151,841
404,456	3	11,462	422,179
404,456	3	11,462	5,227,733
-	-	-	2,754,811
-	-	-	8,879
-	-	-	402,742
-	-	-	135,203
-	-	-	96,577
37,113	-	-	1,500,061
-	-	-	71,648
-	-	-	21,860
37,113	-	-	4,991,781
367,343	3	11,462	235,952
-	-	-	75,774
-	(603)	-	(1,103)
-	(603)	-	74,671
367,343	(600)	11,462	310,623
584,553	600	1,692,852	3,899,927
\$ 951,896	\$ -	\$ 1,704,314	\$ 4,210,550

HAWTHORNE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance:		\$ 10,811,977
Medi-Cal Billing Option	93.778	16,070
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,828,047</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

HAWTHORNE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Hawthorne School District
Hawthorne, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hawthorne School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hawthorne School District's basic financial statements, and have issued our report thereon dated December 1, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 17 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for 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 Hawthorne 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 Hawthorne School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hawthorne 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 Hawthorne School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Hawthorne School District in a separate letter dated December 1, 2015.

Purpose of This Report

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

Vannink, Tien, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015



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

Governing Board
Hawthorne School District
Hawthorne, California

Report on Compliance for Each Major Federal Program

We have audited Hawthorne School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hawthorne School District's (the District) major Federal programs for the year ended June 30, 2015. Hawthorne School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Hawthorne 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 Hawthorne School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hawthorne School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Hawthorne School District
Hawthorne, California

Report on State Compliance

We have audited Hawthorne School District's compliance with the types of compliance requirements as identified in the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Hawthorne School District's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Hawthorne School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Hawthorne 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 Hawthorne School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Hawthorne School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2015,

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

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

We did not perform testing for Independent Study because ADA was below the threshold required for testing.

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

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

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

The District does not have a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

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

The District does not have an Adult Education Program; therefore, we did not perform procedures related to the Adult Education Maintenance of Effort.

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

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

Hawthorne Mathematics, Science, and Technology did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Vannink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HAWTHORNE SCHOOL DISTRICT

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

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 .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>
<u>93.778</u>	<u>Medi-Cal Billing Option</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 324,841</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

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

None reported.

HAWTHORNE SCHOOL DISTRICT

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

None reported.

HAWTHORNE SCHOOL DISTRICT

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

None reported.

HAWTHORNE SCHOOL DISTRICT

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

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



Governing Board
Hawthorne School District
Hawthorne, California

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

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 1, 2015 on the government-wide financial statements of the District.

OBSERVATIONS AND RECOMMENDATIONS

Kornblum Elementary School Site Cash Collections – Timely Deposits

Observation

Deposits are not being made timely by the site bookkeeper. This results in cash balances being maintained at the site which severely decreases the safeguarding of the asset. The cash on hand at the site on our audit date amounted to \$77.72.

Recommendation

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

Bud Carson Middle School Associated Student Body – Timely Deposits

Observation

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

Recommendation

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

Hawthorne Math and Science Academy Associated Student Body – Bank Reconciliations

Observation

Bank reconciliations were not being performed monthly in a timely manner.

Recommendation

The ASB bookkeeper should perform reconciliations monthly for each bank account. The purpose of performing the monthly reconciliation is to ensure that no errors have occurred in the banks' posting of transactions and that the agency and trust balances, and monthly activity is accurately reported.

Journal Entries

Observation

In reviewing and testing the journal entry process, it was noted that not all transfers between funds and journal entries had the proper review by management.

Recommendation

The process of recording transfers and journal entries should be reviewed and evaluated at the proper management level prior to posting to ensure its accuracy and completeness. Written procedures should be prepared to provide guidance to staff on the proper controls and procedures.

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

Vannink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015