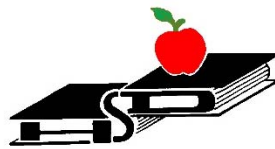




Financial Statements  
June 30, 2019

# Hawthorne School District



# HAWTHORNE SCHOOL DISTRICT

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JUNE 30, 2019

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# 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, 2019, 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 *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, 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.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 73, schedule of changes in the District's total OPEB liability and related ratios on page 74, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 75, schedule of the District's proportionate share of the net pension liability on page 76, and the schedule of District contributions on page 77, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Eide Sallee LLP*

Rancho Cucamonga, California  
November 29, 2019



# Hawthorne School District

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*Educational Excellence*

## **BOARD OF TRUSTEES**

CRISTINA CHIAPPE  
President

LUCIANO A. AGUILAR  
Vice President

SERGIO R. MORTARA  
Clerk

DR. EUGENE M. KRANK  
Member

VICENTE BRAVO  
Member

## **ADMINISTRATION**

HELEN E. MORGAN, Ed.D.  
Superintendent

BRIAN MARKARIAN, Ed.D.  
Associate Superintendent  
Human Resources

MARA PAGNIANO  
Assistant Superintendent  
Business 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, 2019, with comparative information for the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follows this section.

## **FINANCIAL HIGHLIGHTS OF THE PAST YEAR**

- Total net position of \$(40,286,317) increased \$3,160,425 in 2018-2019 school year.
- In accordance with overall targeted projections, the Local Control Funding Formula decreased revenues by approximately \$.5 million over the previous fiscal year. This is due to declining enrollment.
- The District has continued to expand its Special Education program to serve an increased percentage of its special needs population within the District.
- The District continued its efforts to adjust and align staffing with the reduced enrollment trend.
- The District successfully issued a Bond in 2018 and received its first issuance in the amount of \$35 million. The proceeds are being deployed with projects that align with Bond language.

## **Basic Fiscal Values**

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

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



# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

---

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

### *Basic Fiscal Mission*

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

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

### *Enrollment*

The primary source of revenue for the District is generated by the average daily attendance (ADA) of students in the District. The growth or decline of ADA can have a significant impact on the financial stability of the District. The District K-8 ADA has been declining since 2013-2014, even as the community continues to undergo residential development. The declining trend continues based on early enrollment figures for the 2019-2020 school year. Therefore, the District has projected no growth in ADA for the foreseeable future.

### *Solvency*

The District must maintain a three percent Reserve for Economic Uncertainties. In 2018-2019, we met our goal of a three percent Reserve for Economic Uncertainties.

# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *OVERVIEW OF THE FINANCIAL STATEMENTS*

#### *The Financial Statements*

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

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

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

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

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

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

### *REPORTING THE DISTRICT AS A WHOLE*

#### *The Statement of Net Position and the Statement of Activities*

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

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

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

# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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

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

### ***REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS***

#### ***Fund Financial Statements***

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

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

### ***THE DISTRICT AS TRUSTEE***

#### ***Reporting the District's Fiduciary Responsibilities***

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

# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

---

### *THE DISTRICT AS A WHOLE*

#### *Net Position*

The District's net position was \$(40,286,317) for the fiscal year ended June 30, 2019. Of this amount, \$(117,493,680) 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	
	2019	2018
<b>Assets</b>		
Current and other assets	\$ 85,821,440	\$ 28,157,833
Capital assets	125,467,585	125,729,102
<b>Total Assets</b>	<u>211,289,025</u>	<u>153,886,935</u>
<b>Deferred Outflows of Resources</b>	<u>31,722,164</u>	<u>35,009,987</u>
<b>Liabilities</b>		
Current liabilities	21,143,835	7,517,472
Long-term obligations	152,284,075	116,453,192
Aggregate net pension liability	102,247,466	101,958,956
<b>Total Liabilities</b>	<u>275,675,376</u>	<u>225,929,620</u>
<b>Deferred Inflows of Resources</b>	<u>7,622,130</u>	<u>6,414,044</u>
<b>Net Position</b>		
Net investment in capital assets	65,955,222	79,640,740
Restricted	11,252,141	9,402,190
Unrestricted deficit	(117,493,680)	(132,489,672)
<b>Total Net Position (Deficit)</b>	<u>\$ (40,286,317)</u>	<u>\$ (43,446,742)</u>

# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *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	
	2019	2018
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 288,235	\$ 356,676
Operating grants and contributions	27,901,612	21,719,735
General revenues:		
Federal and State aid not restricted	78,607,130	75,699,764
Property taxes	18,398,615	18,150,627
Other general revenues	4,808,027	3,030,643
<b>Total Revenues</b>	<u>130,003,619</u>	<u>118,957,445</u>
<b>Expenses</b>		
Instruction-related activities	82,424,811	82,107,007
Pupil services	16,095,305	16,114,538
Administration	6,390,216	8,759,975
Plant services	12,639,070	13,110,770
All other services	9,293,792	9,711,585
<b>Total Expenses</b>	<u>126,843,194</u>	<u>129,803,875</u>
<b>Change in Net Position</b>	<u>\$ 3,160,425</u>	<u>\$ (10,846,430)</u>

### *Governmental Activities*

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$126,843,194. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$18,398,615.

# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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

**Table 3**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2019	2018	2019	2018
Instruction	\$ 69,809,377	\$ 70,043,555	\$ 56,734,362	\$ 60,131,742
Instruction-related activities	12,615,434	12,063,452	10,697,568	10,879,788
Pupil services	16,095,305	16,114,538	7,324,119	8,149,960
Administration	6,390,216	8,759,975	5,824,055	8,424,591
Plant services	12,639,070	13,110,770	11,736,766	12,658,398
All other services	9,293,792	9,711,585	6,336,477	7,482,985
<b>Total</b>	<b>\$ 126,843,194</b>	<b>\$ 129,803,875</b>	<b>\$ 98,653,347</b>	<b>\$ 107,727,464</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$52,916,628, which is an increase of \$31,959,799 from last year.

	Balances and Activity			
	July 1, 2018	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2019
General Fund	\$ 9,915,954	\$ 110,835,947	\$ 101,351,765	\$ 19,400,136
Building Fund	263,425	35,259,320	14,986,339	20,536,406
Child Development Fund	5,190	1,362,256	1,355,166	12,280
Cafeteria Fund	2,881,323	6,848,301	7,261,590	2,468,034
Deferred Maintenance Fund	596,791	576,298	42,555	1,130,534
Charter School Fund	2,497,872	7,631,075	7,051,668	3,077,279
Foundation Permanent Fund	171,986	3,600	822	174,764
Capital Facilities Fund	593,641	278,359	8,824	863,176
County School Facilities Fund	7,592	159	-	7,751
Special Reserve Fund for Capital Outlay Projects	1,258	27	-	1,285
Bond Interest and Redemption Fund	4,021,797	5,815,308	4,592,122	5,244,983
<b>Total</b>	<b>\$ 20,956,829</b>	<b>\$ 168,610,650</b>	<b>\$ 136,650,851</b>	<b>\$ 52,916,628</b>

# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *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. Changes were made to reflect the continual updating of educational priorities. The required major budget revisions are as follows:

- First interim
- Second interim
- Year-end revisions

### *CAPITAL ASSET AND DEBT ADMINISTRATION*

#### *Capital Assets*

At June 30, 2019, the District had \$125,467,585 in a broad range of capital assets, including land, buildings, and furniture and equipment (net of depreciation). This amount represents a net decrease of \$261,517. Depreciation expense for the year ended June 30, 2019, was \$3,623,554.

**Table 4**

	Governmental Activities	
	2019	2018
Land and construction in process	\$ 16,563,277	\$ 16,563,277
Buildings and improvements	162,700,018	159,337,981
Furniture and equipment	4,985,188	4,985,188
Accumulated depreciation	(58,780,898)	(55,157,344)
<b>Total Capital Assets (net)</b>	<b>\$ 125,467,585</b>	<b>\$ 125,729,102</b>

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

# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *Long-Term Obligations*

At the end of this year, the District had \$152,284,075 in outstanding debt versus \$116,453,192 last year, an increase of \$35,830,883. Those debts consisted of:

**Table 5**

	Governmental Activities	
	2019	2018
General obligation bonds	\$ 95,156,432	\$ 61,497,666
Premium on general obligation bond	2,778,885	1,659,074
Certificates of participation	3,205,000	3,310,000
Compensated absences	904,089	803,669
Supplemental Employee Retirement Program	2,379,708	3,966,180
Aggregate net OPEB liability	47,859,961	45,216,603
<b>Total</b>	<b>\$ 152,284,075</b>	<b>\$ 116,453,192</b>

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

We present more detailed information regarding our long-term obligations in Note 12 of the financial statements.

### **Net Pension Liability (NPL)**

At year-end, the District has a net pension liability of \$102,247,466 versus \$101,958,956 last year, an increase of \$288,510, or 0.3 percent.

	Governmental Activities	
	2019	2018
Net pension liability	\$ 102,247,466	\$ 101,958,956

### ***FACTORS BEARING ON THE DISTRICT'S FUTURE***

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

- The skyrocketing cost of PERS and STRS.
- The ongoing increase of health benefit costs.
- The unpredictable cost of Special Education services and programs.
- The declining enrollment trend the District continues to experience.



# HAWTHORNE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES*

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

Known economic factors:

1. District enrollment calculation for LCFF was based on 7,192.30 average daily attendance (ADA) funded at approximately \$11,234 per ADA.
2. Class size reduction is projected to be approximately \$2.7 million.
3. PERS and STRS scheduled increases.

Expenditures are based on the following forecasts and directives:

1. Step and column enhancement.
2. No furlough days.
3. A 10 percent increase in Health and Welfare cost.

### *CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT*

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Hawthorne School District, Hawthorne, California, or e-mail at [mpagniano@hawthorne.k12.ca.us](mailto:mpagniano@hawthorne.k12.ca.us). You may also contact the Director of Fiscal Services, at Hawthorne School District, Hawthorne, California, or e-mail at [jmoreno@hawthorne.k12.ca.us](mailto:jmoreno@hawthorne.k12.ca.us).

# HAWTHORNE SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2019

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 66,283,000
Receivables	6,902,580
Stores inventories	135,860
Other assets	12,500,000
Capital assets	
Land and construction in progress	16,563,277
Other capital assets	167,685,206
Less: accumulated depreciation	(58,780,898)
Total Capital Assets	<u>125,467,585</u>
<b>Total Assets</b>	<u>211,289,025</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	36,853
Deferred outflows of resources related to other postemployment benefits	1,149,259
Deferred outflows of resources related to pensions	<u>30,536,052</u>
<b>Total Deferred Outflows of Resources</b>	<u>31,722,164</u>
<b>LIABILITIES</b>	
Accounts payable	7,935,528
Interest payable	739,023
Unearned revenue	156,016
Current loans	12,313,268
Current portion of long-term obligations other than pensions	4,853,236
Noncurrent portion of long-term obligations other than pensions	<u>147,430,839</u>
<b>Total Long Term-Obligations</b>	<u>152,284,075</u>
Aggregate net pension liability	<u>102,247,466</u>
<b>Total Liabilities</b>	<u>275,675,376</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>7,622,130</u>
<b>NET POSITION</b>	
Net investment in capital assets	65,955,222
Restricted for:	
Debt service	4,505,960
Capital projects	863,176
Educational programs	1,821,087
Other activities	4,061,918
Unrestricted deficit	<u>(117,493,680)</u>
<b>Total Net Position (Deficit)</b>	<u>\$ (40,286,317)</u>

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

**HAWTHORNE SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 69,809,377	\$ 5,051	\$ 13,069,964	\$ (56,734,362)
Instruction-related activities:				
Supervision of instruction	3,586,074	30	1,089,204	(2,496,840)
Instructional library, media and technology	1,593,786	-	431,042	(1,162,744)
School site administration	7,435,574	69	397,521	(7,037,984)
Pupil services:				
Home-to-school transportation	1,192,733	-	-	(1,192,733)
Food services	7,719,500	260,795	6,298,683	(1,160,022)
All other pupil services	7,183,072	-	2,211,708	(4,971,364)
Administration:				
Data processing	1,435,709	-	211	(1,435,498)
All other administration	4,954,507	10,718	555,232	(4,388,557)
Plant services	12,639,070	409	901,895	(11,736,766)
Ancillary services	52,587	-	2,177	(50,410)
Community services	1,221,557	899	1,169,971	(50,687)
Enterprise services	9,676	-	-	(9,676)
Interest on long-term obligations	4,551,878	-	-	(4,551,878)
Other outgo	3,458,094	10,264	1,774,004	(1,673,826)
<b>Total Governmental Activities</b>	<b>\$ 126,843,194</b>	<b>\$ 288,235</b>	<b>\$ 27,901,612</b>	<b>(98,653,347)</b>
General revenues and subventions:				
				11,782,082
				4,507,073
				2,109,460
				78,607,130
				870,677
				3,937,350
				<u>101,813,772</u>
				<b>3,160,425</b>
				<u>(43,446,742)</u>
				<u>\$ (40,286,317)</u>

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

# HAWTHORNE SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2019

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Deposits and investments	\$ 20,689,212	\$ 33,330,431	\$ 12,263,357	\$ 66,283,000
Receivables	5,225,498	187,117	1,489,965	6,902,580
Stores inventories	61,978	-	73,882	135,860
<b>Total Assets</b>	<b>\$ 25,976,688</b>	<b>\$ 33,517,548</b>	<b>\$ 13,827,204</b>	<b>\$ 73,321,440</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 6,468,416	\$ 667,874	\$ 799,238	\$ 7,935,528
Other current liabilities	-	12,313,268	-	12,313,268
Unearned revenue	108,136	-	47,880	156,016
<b>Total Liabilities</b>	<b>6,576,552</b>	<b>12,981,142</b>	<b>847,118</b>	<b>20,404,812</b>
<b>Fund Balances:</b>				
Nonspendable	67,978	-	74,682	142,660
Restricted	1,821,087	20,536,406	10,170,077	32,527,570
Committed	-	-	1,130,534	1,130,534
Assigned	14,575,066	-	1,604,793	16,179,859
Unassigned	2,936,005	-	-	2,936,005
<b>Total Fund Balances</b>	<b>19,400,136</b>	<b>20,536,406</b>	<b>12,980,086</b>	<b>52,916,628</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 25,976,688</b>	<b>\$ 33,517,548</b>	<b>\$ 13,827,204</b>	<b>\$ 73,321,440</b>

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

**HAWTHORNE SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

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<b>Total Fund Balance - Governmental Funds</b>		\$ 52,916,628
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
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:	\$ 184,248,483	
Accumulated depreciation is:	<u>(58,780,898)</u>	
Net Capital Assets		125,467,585
The District held a deposit that is not financial resources and, therefore, is not reported as an asset in governmental funds.		12,500,000
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.		(739,023)
Deferred charges on refunding (the difference between the reacquisition price and the net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is less) and are included with governmental activities.		36,853
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	9,419,789	
Net change in proportionate share of net pension liability	4,505,302	
Differences between projected and actual earnings on pension plan investments	221,684	
Differences between expected and actual experience in the measurement of the total pension liability	2,005,062	
Changes of assumptions	<u>14,384,215</u>	
Total Deferred Outflows of Resources Related to Pensions		30,536,052
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(3,633,060)	
Differences between projected and actual earnings on pension plan investments	(2,896,454)	
Differences between expected and actual experience in the measurement of the total pension liability	<u>(1,092,616)</u>	
Total Deferred Inflows of Resources Related to Pensions		(7,622,130)

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

**HAWTHORNE SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION, Continued  
JUNE 30, 2019**

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Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.	\$ 1,149,259
Aggregate net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(102,247,466)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
General obligation bonds	\$ (74,101,737)
Premium on general obligation bonds	(2,778,885)
Certificates of participation	(3,205,000)
Compensated absences	(904,089)
Supplemental employee retirement program (SERP)	(2,379,708)
Aggregate net OPEB liability	(47,859,961)
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is:	(21,054,695)
Total Long-Term Obligations	(152,284,075)
<b>Total Net Position - Governmental Activities</b>	<u><u>\$ (40,286,317)</u></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, 2019

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Control Funding Formula	\$ 81,041,234	\$ -	\$ 6,268,391	\$ 87,309,625
Federal sources	4,970,207	-	6,083,522	11,053,729
Other State sources	21,478,667	-	3,134,489	24,613,156
Other local sources	3,345,839	259,320	5,228,678	8,833,837
<b>Total Revenues</b>	<b>110,835,947</b>	<b>259,320</b>	<b>20,715,080</b>	<b>131,810,347</b>
<b>EXPENDITURES</b>				
Current				
Instruction	61,148,131	-	4,978,015	66,126,146
Instruction-related activities:				
Supervision of instruction	3,160,864	-	78,411	3,239,275
Instructional library, media and technology	1,175,516	-	93,703	1,269,219
School site administration	6,172,868	-	685,963	6,858,831
Pupil services:				
Home-to-school transportation	1,164,847	-	-	1,164,847
Food services	138,363	-	6,963,238	7,101,601
All other pupil services	6,493,045	-	407,017	6,900,062
Administration:				
Data processing	1,246,180	-	525	1,246,705
All other administration	3,961,020	-	593,426	4,554,446
Plant services	9,940,654	14,890	1,400,826	11,356,370
Ancillary services	2,780	-	48,570	51,350
Community services	1,168,807	-	52,750	1,221,557
Other outgo	3,365,394	92,700	-	3,458,094
Enterprise services	167	-	8,939	9,106
Facility acquisition and construction	1,071,008	14,369,227	409,242	15,849,477
Debt service				
Principal	105,000	-	3,900,000	4,005,000
Interest and other	473,292	509,522	692,122	1,674,936
<b>Total Expenditures</b>	<b>100,787,936</b>	<b>14,986,339</b>	<b>20,312,747</b>	<b>136,087,022</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>10,048,011</b>	<b>(14,727,019)</b>	<b>402,333</b>	<b>(4,276,675)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	563,829	563,829
Other sources - proceeds from issuance of debt	-	35,000,000	1,236,474	36,236,474
Transfers out	(563,829)	-	-	(563,829)
<b>Net Financing Sources (Uses)</b>	<b>(563,829)</b>	<b>35,000,000</b>	<b>1,800,303</b>	<b>36,236,474</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>9,484,182</b>	<b>20,272,981</b>	<b>2,202,636</b>	<b>31,959,799</b>
<b>Fund Balance - Beginning</b>	<b>9,915,954</b>	<b>263,425</b>	<b>10,777,450</b>	<b>20,956,829</b>
<b>Fund Balances - Ending</b>	<b>\$ 19,400,136</b>	<b>\$ 20,536,406</b>	<b>\$ 12,980,086</b>	<b>\$ 52,916,628</b>

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 FOR THE YEAR ENDED JUNE 30, 2019

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**Total Net Change in Fund Balances - Governmental Funds** \$ 31,959,799  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

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

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

Capital outlays	\$ 15,862,037	
Depreciation expense	<u>(3,623,554)</u>	
Net expense adjustment		12,238,483

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$100,420.

(100,420)

In the Statement of Activities, certain operating expenses - special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Retirement incentive benefits earned were less than amounts paid during the year by \$1,586,472.

1,586,472

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.

(5,391,440)

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

(2,024,053)

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

Sale of General Obligation Bonds (35,000,000)

Government funds report the effect of premiums, discounts, issuance costs, and the deferred charge on refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.

Premium on issuance (1,236,474)

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, 2019**

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

Amortization of debt premium	\$ 116,663	
Amortization of deferred charge on refunding	(12,284)	
Combined adjustment	\$	104,379

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

General obligation bonds	3,900,000	
Certificates of participation	105,000	
Combined adjustment	\$	4,005,000

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation and certificate of participation bonds increased by \$422,555 and second, \$2,558,766 of accumulated interest was accreted on the District's 'capital appreciation' general obligation bonds.

<b>Change in Net Position of Governmental Activities</b>	(2,981,321)	
	\$	3,160,425

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

# HAWTHORNE SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2019

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 285,999
<b>LIABILITIES</b>	
Due to student groups	\$ 180,991
Due to employees	105,008
<b>Total Liabilities</b>	<u>\$ 285,999</u>

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

#### **Financial Reporting Entity**

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

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

#### **Basis of Presentation - Fund Accounting**

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

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

#### **Major Governmental Fund**

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

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

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$26,397, \$26,397, and \$542, respectively.

**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.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Non-Major Governmental Funds

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

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

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

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

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

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

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

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

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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

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

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for associated student body (ASB) activities and voluntary payroll withholdings of the District employees.

### **Basis of Accounting - Measurement Focus**

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

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

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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

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

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

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

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

### Investments

Investments held at June 30, 2019, 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 when used.

### Capital Assets and Depreciation

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

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

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

### 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.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

### **Accrued Liabilities and Long-Term Obligations**

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

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

### **Debt Issuance Costs, Premiums and Discounts**

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

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

### **Deferred Outflows/Inflows of Resources**

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

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



# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

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

### Fund Balances - Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned** - all other spendable amounts.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Spending Order Policy

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

### Minimum Fund Balance Policy

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

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements reports \$11,252,141 of restricted net position.

### Interfund Activity

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

### Estimates

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

### Property Tax

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Parcel Tax

In November 2012 local voters passed Local Classrooms Funding Authority - Measure CL Parcel Tax to protect academic quality in local K-12 schools; maintain math, science, English programs; provide education for students with disabilities/special needs, support computer technology and school security, prepare students for college/careers, and retain excellent teachers. Local Classrooms Funding Authority levied a special tax of 2¢/square foot of lot for residential property, and 7.5¢/square foot for other property types; requiring citizens oversight, audits, senior exemptions and no money for administrator salaries. The District received \$1,614,435 in parcel tax receipts.

### Change in Accounting Principles

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

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

The District has implemented the provisions of this Statement as of June 30, 2019.

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

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

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

The District has implemented the provisions of this Statement as of June 30, 2019.

### **New Accounting Pronouncements**

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

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

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

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

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

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

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

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

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

### **NOTE 2 - DEPOSITS AND INVESTMENTS**

#### **Summary of Deposits and Investments**

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 66,283,000
Fiduciary funds	285,999
Total Deposits and Investments	<u><u>\$ 66,568,999</u></u>

Deposits and investments as of June 30, 2019 consisted of the following:

Cash on hand and in banks	\$ 212,010
Cash in revolving	6,800
Investments	66,350,189
Total Deposits and Investments	<u><u>\$ 66,568,999</u></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, 2019

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### General Authorizations

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

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

### Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California *Government Code*. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

### Interest Rate Risk

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



# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Los Angeles County Treasury Investment Pool	\$ 66,023,373	547
First American Treasury Obligation	263,425	27
Total	<u>\$ 66,286,798</u>	

### **Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Los Angeles County Treasury Investment Pool is not required to be rated, nor has been rated as of June 30, 2019. The District's investment in First American Treasury Obligation was rated by Standard & Poor's as AAAM.

### **Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District's bank balance of \$71,167 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2019:

Investment Type	Fair Value	Fair Value Measurements	
		Using Level 1 Inputs	Uncategorized
Los Angeles County Treasury Investment Pool	\$ 66,023,373	\$ -	\$ 66,023,373
First American Treasury Obligation	263,425	263,425	-
Total	<u>\$ 66,286,798</u>	<u>\$ 263,425</u>	<u>\$ 66,023,373</u>

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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### NOTE 4 - RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 1,383,681	\$ -	\$ 1,136,933	\$ 2,520,614
State Government				
Categorical aid	3,262,461	-	312,054	3,574,515
Lottery	306,305	-	23,767	330,072
Local Government				
Interest	110,663	187,117	10,649	308,429
Other Local Sources	162,388	-	6,562	168,950
Total	<u>\$ 5,225,498</u>	<u>\$ 187,117</u>	<u>\$ 1,489,965</u>	<u>\$ 6,902,580</u>

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 16,563,277	\$ -	\$ -	\$ 16,563,277
Capital Assets Being Depreciated				
Land improvements	2,111,040	-	-	2,111,040
Buildings and improvements	157,226,941	3,362,037	-	160,588,978
Furniture and equipment	4,985,188	-	-	4,985,188
Total Capital Assets Being Depreciated	164,323,169	3,362,037	-	167,685,206
Total Capital Assets	180,886,446	3,362,037	-	184,248,483
Less Accumulated Depreciation				
Land improvements	1,876,694	84,379	-	1,961,073
Buildings and improvements	49,154,682	3,341,289	-	52,495,971
Furniture and equipment	4,125,968	197,886	-	4,323,854
Total Accumulated Depreciation	55,157,344	3,623,554	-	58,780,898
Governmental Activities Capital Assets, Net	\$ 125,729,102	\$ (261,517)	\$ -	\$ 125,467,585

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 2,536,488
Supervision of instruction	144,942
Instructional library, media, and technology	108,707
School site administration	108,707
Food services	181,178
All other pupil services	36,236
All other general administration	434,826
Plant services	72,470
Total Depreciation Expenses Governmental Activities	<u>\$ 3,623,554</u>

### NOTE 6 - OTHER ASSETS

During the fiscal year ended June 30, 2019, the District placed \$12,500,000 into an escrow account for the purpose of purchasing the property located at 4467 West Broadway.

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**NOTE 7 - OPERATING TRANSFERS**

Interfund transfers for the year ended June 30, 2019, consisted of the following:

Transfer To	<u>Transfer From</u> General Fund
Non-Major Governmental Funds	\$ 563,829

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund \$563,829 for Deferred Maintenance projects.

**NOTE 8 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 1,557,619	\$ -	\$ 416,042	\$ 1,973,661
LCFF principal apportionment	1,050,731	-	78,275	1,129,006
Salaries and benefits	2,703,584	-	304,921	3,008,505
Special education	1,156,482	-	-	1,156,482
Capital Outlay	-	667,874	-	667,874
Total	\$ 6,468,416	\$ 667,874	\$ 799,238	\$ 7,935,528

**NOTE 9 - UNEARNED REVENUE**

Unearned revenue at June 30, 2019, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 108,136	\$ -	\$ 108,136
Other local revenue	-	47,880	47,880
Total	\$ 108,136	\$ 47,880	\$ 156,016

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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**NOTE 10 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

On August 15, 2018, the District issued \$9,615,000 of Tax and Revenue Anticipation Notes bearing interest at 4.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 3, 2019. By May 2019, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

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

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2019</u>
08/15/18	4.00%	6/3/2019	\$ -	\$ 9,615,000	\$ 9,615,000	\$ -

**NOTE 11 - GENERAL OBLIGATION BOND ANTICIPATION NOTES**

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

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2019</u>
08/20/18	5.00%	9/1/2019	\$ -	\$ 12,505,000	\$ -	\$ 12,505,000

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

### NOTE 12 - LONG-TERM OBLIGATIONS

#### Summary

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
General obligation bonds	\$ 61,497,666	\$ 37,558,766	\$ 3,900,000	\$ 95,156,432	\$ 3,950,000
Premium on general obligation bonds	1,659,074	1,236,474	116,663	2,778,885	-
Certificates of participation	3,310,000	-	105,000	3,205,000	110,000
Compensated absences	803,669	100,420	-	904,089	-
Supplemental employee retirement plan (SERP)	3,966,180	-	1,586,472	2,379,708	793,236
Aggregate net OPEB liability	45,216,603	2,711,231	67,873	47,859,961	-
	<u>\$ 116,453,192</u>	<u>\$ 41,606,891</u>	<u>\$ 5,776,008</u>	<u>\$ 152,284,075</u>	<u>\$ 4,853,236</u>

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

#### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2018	Issued	Accretion	Redeemed	Outstanding June 30, 2019
1998	2023	4.45 - 5.02%	\$ 5,997,115	\$ 4,372,884	-	\$ 208,764	\$ 965,000	\$ 3,616,648
2002	2028	2.00 - 5.45%	3,504,844	5,529,522	-	318,793	215,000	5,633,315
2004	2020	2.00 - 5.10%	1,997,115	460,064	-	20,576	315,000	165,640
2005	2024	2.05 - 4.61%	9,850,061	1,650,418	-	116,009	250,000	1,516,427
2005	2031	3.86 - 5.14%	5,108,625	5,543,189	-	279,227	595,000	5,227,416
2008	2049	2.36 - 6.15%	9,036,599	13,796,512	-	846,624	170,000	14,473,136
2009	2035	2.61 - 6.00%	6,665,001	7,034,600	-	204,546	285,000	6,954,146
2012	2043	2.00 - 5.35%	13,331,770	14,470,477	-	564,227	410,000	14,624,704
2015	2030	3.49%	5,465,000	5,370,000	-	-	10,000	5,360,000
2015	2022	2.63%	4,340,000	3,270,000	-	-	685,000	2,585,000
2019	2049	3.00 - 5.00%	35,000,000	-	35,000,000	-	-	35,000,000
				<u>\$ 61,497,666</u>	<u>\$ 35,000,000</u>	<u>\$ 2,558,766</u>	<u>\$ 3,900,000</u>	<u>\$ 95,156,432</u>

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**Election 1997, Series B General Obligation Bonds**

In September 1998, the District issued \$5,997,115 accreting to \$13,895,000 in Election 1997, Series B General Obligation Bonds. Proceeds from the bonds were used for the purpose of construction and renovating school facilities throughout the District and to pay costs related to financing. The remaining bonds mature through November 2022, and yield interest ranging from 4.45 percent to 5.02 percent. At June 30, 2019, the principal balance outstanding was \$3,616,648.

The bonds mature through 2023 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2020	\$ 983,733	\$ 16,267	\$ 1,000,000
2021	936,087	63,913	1,000,000
2022	899,718	110,282	1,010,000
2023	797,110	222,890	1,020,000
Total	\$ 3,616,648	\$ 413,352	\$ 4,030,000

**Election 1997, Series C General Obligation Bonds**

In November 2002, the District issued \$3,504,844 accreting to \$9,490,000 in Election 1997, Series C General Obligation Bonds. Proceeds from the bonds were used for the purpose of construction and acquisition of certain real property and improvements for school facilities within the District. The remaining bonds mature through November 2027, and yield interest ranging from 2.00 percent to 5.45 percent. At June 30, 2019, the principal balance outstanding was \$5,633,315.

The bonds mature through 2028 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2020	\$ 216,033	\$ 3,967	\$ 220,000
2021	222,835	17,165	240,000
2022	223,475	31,525	255,000
2023	227,154	47,846	275,000
2024	1,024,784	290,216	1,315,000
2025-2028	3,719,034	1,800,966	5,520,000
Total	\$ 5,633,315	\$ 2,191,685	\$ 7,825,000



# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Election 1997, Series D General Obligation Bonds

In April 2004, the District issued \$1,997,115 accreting to \$2,705,000 in Election 1997, Series D General Obligation Bonds. Proceeds from the bonds were used for the purpose of construction and acquisition of certain real property and improvements for school facilities within the District. The remaining bonds mature through November 2019, and yield interest ranging from 2.00 percent to 5.10 percent. At June 30, 2019, the principal balance outstanding was \$165,640.

The bonds mature through 2020 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Accreted Interest</u>	<u>Total</u>
2020	\$ 165,640	\$ 4,360	\$ 170,000

### Election 2004, Series A General Obligation Bonds

In January 2005, the District issued \$9,850,061 accreting to \$11,900,000 in Election 2004, Series A General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2023, and yield interest ranging from 2.05 percent to 4.61 percent. At June 30, 2019, the principal balance outstanding was \$1,516,427.

The bonds mature through 2024 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Accreted Interest</u>	<u>Total</u>
2020	\$ 283,173	\$ 1,827	\$ 285,000
2021	293,959	26,041	320,000
2022	305,755	54,245	360,000
2023	314,097	85,903	400,000
2024	319,443	120,557	440,000
Total	\$ 1,516,427	\$ 288,573	\$ 1,805,000

### Election 2004, Series B General Obligation Bonds

On December 7, 2005, the District issued \$5,108,625 accreting to \$11,080,000 in Election 2004, Series B General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2030, and yield interest ranging from 3.86 percent to 5.14 percent. At June 30, 2019, the principal balance outstanding was \$5,227,416.

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

The bonds mature through 2031 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2020	\$ 592,529	\$ 2,471	\$ 595,000
2021	567,866	32,134	600,000
2022	517,516	82,484	600,000
2023	511,416	88,584	600,000
2024	488,664	116,336	605,000
2025-2029	1,447,258	632,742	2,080,000
2030-2031	1,102,167	887,833	1,990,000
Total	\$ 5,227,416	\$ 1,842,584	\$ 7,070,000

**Election 2004, Series C General Obligation Bonds**

In July 2008, the District issued \$9,036,599 accreting to \$61,840,000 in Election 2004, Series C General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain school facilities within the District. The remaining bonds mature through August 2048, and yield interest ranging from 2.36 percent to 6.15 percent. At June 30, 2019, the principal balance outstanding was \$14,473,136.

The bonds mature through 2049 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2020	\$ 220,000	\$ -	\$ 48,935	\$ 268,935
2021	230,000	-	39,538	269,538
2022	245,000	-	29,138	274,138
2023	250,000	-	18,000	268,000
2024	275,000	-	6,188	281,188
2025-2029	619,731	850,269	-	1,470,000
2030-2034	2,322,881	4,407,704	-	6,730,585
2035-2039	4,003,043	7,453,443	-	11,456,486
2040-2044	3,398,655	9,881,166	-	13,279,821
2045-2049	2,908,826	12,477,474	-	15,386,300
Total	\$ 14,473,136	\$ 35,070,056	\$ 141,799	\$ 49,684,991

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

### Election 2008, Series A General Obligation Bonds

In September 2009, the District issued \$6,665,001 accreting to \$9,645,000 in Election 2008, 2009 Series A General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain capital facilities of the District. The remaining bonds mature through August 2034, and yield interest ranging from 2.61 percent to 6.00 percent. At June 30, 2019, the principal balance outstanding was \$6,954,146.

The bonds mature through 2035 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2020	\$ 297,170	\$ 2,830	\$ 239,638	\$ 539,638
2021	277,702	37,298	239,638	554,638
2022	258,924	71,076	239,638	569,638
2023	247,899	107,101	239,638	594,638
2024	226,844	138,156	239,638	604,638
2025-2029	1,680,607	464,393	1,154,963	3,299,963
2030-2034	3,160,000	-	618,906	3,778,906
2035	805,000	-	20,124	825,124
Total	\$ 6,954,146	\$ 820,854	\$ 2,992,183	\$ 10,767,183

### Election 2008, Series B General Obligation Bonds

In April 2012, the District issued \$13,331,770 accreting to \$19,755,000 in Election 2008, 2012 Series B General Obligation Bonds. Proceeds from the bonds were used for the purpose of the construction, equipping, furnishing, and improvement of certain capital facilities of the District. The remaining bonds mature through August 2042, and yield interest ranging from 2.00 percent to 5.35 percent. At June 30, 2019, the principal balance outstanding was \$14,624,704.

The bonds mature through 2043 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2020	\$ 445,000	\$ -	\$ 113,891	\$ 558,891
2021	485,000	-	99,941	584,941
2022	525,000	-	84,791	609,791
2023	555,000	-	314,981	869,981
2024	110,000	-	551,479	661,479
2025-2029	795,000	-	3,037,799	3,832,799
2030-2034	515,000	-	3,752,515	4,267,515
2035-2039	2,913,970	1,546,030	3,028,583	7,488,583
2040-2043	8,280,734	1,409,266	888,160	10,578,160
Total	\$ 14,624,704	\$ 2,955,296	\$ 11,872,140	\$ 29,452,140

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### **Election 2004 Refunding, 2015 Series A General Obligation Bonds**

In May 2015, the District issued \$5,465,000 in Election 2004, 2015 Series A General Obligation Refunding Bonds. Proceeds from the bonds were used to refund a portion of the District's General Obligation Bonds, Election 2004, 2005 Series A. The remaining bonds mature through August 2029, and yield an interest 3.49 percent. At June 30, 2019, the principal balance outstanding was \$5,360,000.

The bonds mature through 2030 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2020	\$ 10,000	\$ 186,977	\$ 196,977
2021	15,000	186,628	201,628
2022	15,000	186,104	201,104
2023	15,000	185,581	200,581
2024	255,000	185,057	440,057
2025-2029	4,490,000	566,514	5,056,514
2030	560,000	9,772	569,772
Total	<u>\$ 5,360,000</u>	<u>\$ 1,506,633</u>	<u>\$ 6,866,633</u>

### **Election 1997 Refunding, 2015 Series B General Obligation Bonds**

In August 2015, the District issued \$4,340,000 in Election 1997, 2015 Series B General Obligation Refunding Bonds. Proceeds from the Bonds were used to currently refund a portion of the District's outstanding General Obligation Bonds, Election 1997, 2005 Series E. The Bonds mature May 1, 2022 and yield interest of 2.63 percent. At June 30, 2019, the principal balance outstanding was \$2,585,000 and deferred charges on refunding was \$36,853.

The Bonds mature through 2022 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2020	\$ 705,000	\$ 63,449	\$ 768,449
2021	735,000	44,710	779,710
2022	1,145,000	25,248	1,170,248
Total	<u>\$ 2,585,000</u>	<u>\$ 133,407</u>	<u>\$ 2,718,407</u>

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### Election 2018, Series A General Obligation Bonds

In February 2019, the District issued \$35,000,000 in Election 2018, 2019 Series A General Obligation Bonds. Proceeds from the Bonds were used for the purpose to finance the acquisition, construction, modernization and equipping of District sites and facilities, and to pay the costs of issuance of the Bonds. The remaining bonds mature through August 2048 and yield interest ranging from 3.00 percent to 5.00 percent. At June 30, 2019, the principal balance outstanding was \$35,000,000.

The bonds mature through 2049 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2020	\$ -	\$ 1,231,560	\$ 1,231,560
2021	730,000	1,350,150	2,080,150
2022	130,000	1,328,650	1,458,650
2023	10,000	1,325,150	1,335,150
2024	10,000	1,324,650	1,334,650
2025-2029	970,000	6,534,250	7,504,250
2030-2034	3,030,000	6,058,100	9,088,100
2035-2039	5,825,000	5,203,596	11,028,596
2040-2044	9,600,000	3,774,951	13,374,951
2045-2049	14,695,000	1,508,134	16,203,134
Total	<u>\$ 35,000,000</u>	<u>\$ 29,639,191</u>	<u>\$ 64,639,191</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 were used for modernization of school facilities. In the fiscal year 2012, a portion of the balance was paid off with the issuance of 2012 Series B, General Obligation Bonds. At June 30, 2019, the principal balance outstanding was \$3,205,000.

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

The certificates mature through 2038 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2020	\$ 110,000	\$ 141,895	\$ 251,895
2021	115,000	137,058	252,058
2022	120,000	132,005	252,005
2023	125,000	126,675	251,675
2024	125,000	121,175	246,175
2025-2029	760,000	509,528	1,269,528
2030-2034	935,000	320,385	1,255,385
2035-2038	915,000	86,135	1,001,135
Total	<u>\$ 3,205,000</u>	<u>\$ 1,574,856</u>	<u>\$ 4,779,856</u>

**Compensated Absences**

Compensated absences (unpaid employee vacation) for the District at June 30, 2019, amounted to \$904,089.

**Supplemental Employee Retirement Plan (SERP)**

The District offered a retirement incentive to qualified employees to be administered through Keenan & Associates. The District purchased qualified 403(b) annuity contracts from United of Omaha Life Insurance Company payable in annual installments as shown below. Eligibility requirements are that the classified employee attain age 50 with at least five years of service with the District, or for the certified employee attain age 55 with at least five years of service with the District. 51 employees qualified and accepted the incentive. At June 30, 2019, the remaining balance of the payments is \$2,379,708.

Year Ending June 30,	Total Payment
2020	\$ 793,236
2021	793,236
2022	793,236
Total	<u>\$ 2,379,708</u>

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**Aggregate Net Other Postemployment Benefits (OPEB) Liability**

For the fiscal year ended June 30, 2019, the District reported aggregate net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	Aggregate Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 47,297,669	\$ 1,149,259	\$ 2,711,231
Medicare Premium Payment (MPP) Program	562,292	-	(67,873)
Total	<u>\$ 47,859,961</u>	<u>\$ 1,149,259</u>	<u>\$ 2,643,358</u>

The details of each plan are as follows:

**District Plan**

**Plan Administration**

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

Management of the Plan is vested in the District management.

*Plan Membership*

At June 30, 2019, the Plan membership consisted of the following:

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

*Benefits Provided*

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### *Contributions*

The contribution requirements of the Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by management and the District's governing board. For fiscal year 2018-2019, the District contributed \$572,147 to the Plan, all of which was used for current premiums.

### **Total OPEB Liability of the District**

The District's total OPEB liability of \$47,297,669 was measured as of June 30, 2019, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of July 1, 2017.

### *Actuarial Assumptions*

The total OPEB liability as of June 30, 2019, was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	2.79 percent
Healthcare cost trend rates	7.00 percent

The discount rate was based on the Bond Buyer 20 year municipal bond yields.

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

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



**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at July 1, 2018	\$ 44,586,438
Service cost	1,153,917
Interest	1,365,648
Changes of assumptions	763,813
Benefit payments	(572,147)
Net change in total OPEB liability	<u>2,711,231</u>
Balance at June 30, 2019	<u>\$ 47,297,669</u>

There were no changes to benefit terms since the previous valuation.

Change of assumptions and other inputs reflect a change in the discount rate from 2.98 percent to 2.79 percent since the previous valuation.

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

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

Discount Rate	Total OPEB Liability
1% decrease (1.79%)	\$ 51,456,582
Current discount rate (2.79%)	47,297,669
1% increase (3.79%)	43,379,341

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (6.00%)	\$ 41,303,725
Current healthcare cost trend rate (7.00%)	47,297,669
1% increase (8.00%)	54,397,687

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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### Deferred Outflows of Resources Related to OPEB

At June 30, 2019, the District reported deferred outflows of resources for changes of assumptions of \$1,149,259. These deferred outflows of resources will be amortized as OPEB expense over a 9.28 year period.

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

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 144,508
2021	144,508
2022	144,508
2023	144,508
2024	144,508
Thereafter	426,719
	<u>\$ 1,149,259</u>

### Medicare Premium Payment (MPP) Program

#### Plan Description

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

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

#### Benefits Provided

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

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

### **Net OPEB Liability and OPEB Expense**

At June 30, 2019, the District reported a liability of \$562,292 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.1469 percent and 0.1498 percent, resulting in a net decrease in the proportionate share of 0.0029 percent.

For the year ended June 30, 2019, the District recognized OPEB expense of (\$67,873).

### **Actuarial Methods and Assumptions**

The June 30, 2018 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018, using the assumptions listed in the following table:

Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.87%	3.58%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2017, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459 or an average of 0.27 percent of the potentially eligible population (171,593).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

**Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2018 is 3.87 percent. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.87%)	\$ 621,923
Current discount rate (3.87%)	562,292
1% increase (4.87%)	508,450

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

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

Medicare Costs Trend Rates	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 512,754
Current Medicare costs trend rates (3.7% Part A and 4.1% Part B)	562,292
1% increase (4.7% Part A and 5.1% Part B)	615,570

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 6,000	\$ -	\$ 800	\$ 6,800
Stores inventories	61,978	-	73,882	135,860
Total Nonspendable	<u>67,978</u>	<u>-</u>	<u>74,682</u>	<u>142,660</u>
<b>Restricted</b>				
Legally restricted programs	1,821,087	-	4,061,918	5,883,005
Capital projects	-	20,536,406	863,176	21,399,582
Debt services	-	-	5,244,983	5,244,983
Total Restricted	<u>1,821,087</u>	<u>20,536,406</u>	<u>10,170,077</u>	<u>32,527,570</u>
<b>Committed</b>				
Deferred maintenance program	-	-	1,130,534	1,130,534
<b>Assigned</b>				
Other	<u>14,575,066</u>	<u>-</u>	<u>1,604,793</u>	<u>16,179,859</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	2,909,608	-	-	2,909,608
Remaining unassigned	26,397	-	-	26,397
Total Unassigned	<u>2,936,005</u>	<u>-</u>	<u>-</u>	<u>2,936,005</u>
Total	<u>\$ 19,400,136</u>	<u>\$ 20,536,406</u>	<u>\$ 12,980,086</u>	<u>\$ 52,916,628</u>

**NOTE 14 - 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 17 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.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 75,220,219	\$ 23,269,366	\$ 6,878,678	\$ 9,523,271
CalPERS	27,027,247	7,266,686	743,452	5,287,958
Total	<u>\$ 102,247,466</u>	<u>\$ 30,536,052</u>	<u>\$ 7,622,130</u>	<u>\$ 14,811,229</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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

##### **Benefits Provided**

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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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, 2019, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205
Required employer contribution rate	16.28	16.28
Required state contribution rate	9.828%	9.828

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were \$7,110,899.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

At June 30, 2019, 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	\$ 75,220,219
State's proportionate share of the net pension liability associated with the District	43,067,094
Total	<u>\$ 118,287,313</u>

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.0818 percent and 0.0827 percent, resulting in a net decrease in the proportionate share of 0.0009 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$9,523,271. In addition, the District recognized pension expense and revenue of \$5,059,412 for support provided by the State. At June 30, 2019, 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	\$ 7,110,899	\$ -
Net change in proportionate share of net pension liability	4,239,548	2,889,608
Differences between projected and actual earnings on the pension plan investments	-	2,896,454
Differences between expected and actual experience in the measurement of the total pension liability	233,255	1,092,616
Changes of assumptions	11,685,664	-
Total	<u>\$ 23,269,366</u>	<u>\$ 6,878,678</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.



**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 628,901
2021	(456,348)
2022	(2,430,012)
2023	(638,995)
Total	<u>\$ (2,896,454)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,719,404
2021	2,719,404
2022	2,719,401
2023	2,314,869
2024	1,814,960
Thereafter	(111,795)
Total	<u>\$ 12,176,243</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

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

### **Discount Rate**

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

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 110,188,819
Current discount rate (7.10%)	75,220,219
1% increase (8.10%)	46,227,857

### 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, 2017 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:  
<https://www.calpers.ca.gov/page/forms-publications>.

#### **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, 2019

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The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

### 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, 2019, are presented above and the total District contributions were \$2,308,890.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$27,027,247. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.1014 percent and 0.1066 percent, resulting in a net decrease in the proportionate share of 0.0052 percent.

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

For the year ended June 30, 2019, the District recognized pension expense of \$5,287,958. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,308,890	\$ -
Net change in proportionate share of net pension liability	265,754	743,452
Differences between projected and actual earnings on the pension plan investments	221,684	-
Differences between expected and actual experience in the measurement of the total pension liability	1,771,807	-
Changes of assumptions	2,698,551	-
Total	<u>\$ 7,266,686</u>	<u>\$ 743,452</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 806,313
2021	192,822
2022	(617,926)
2023	(159,525)
Total	<u>\$ 221,684</u>

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 1,933,719
2021	1,723,155
2022	335,786
Total	<u>\$ 3,992,660</u>

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 39,350,379
Current discount rate (7.15%)	27,027,247
1% increase (8.15%)	16,803,445

# HAWTHORNE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,417,657 (7.825 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.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements. On behalf payments related to these additional contributions 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* and *Schedule of Financial Trends and Analysis*.

### **NOTE 16 - COMMITMENTS AND CONTINGENCIES**

#### **Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

#### **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, 2019.

#### **Operating Lease**

The District has entered into an operating lease for the real property occupied by the Hawthorne Math and Science Academy, with a lease expiration date of December 31, 2023. The lease will expire at such date unless otherwise amended between the District and the Lessor. Expenditures for rent under the lease for the year ended June 30, 2019, amounted to approximately \$972,810.

#### **Purchase Commitment**

The District entered into an agreement to purchase educational materials. On May 2, 2017, the District guaranteed the sum of \$1,798,562 payable over four years. Expenditures for the educational materials for the year ended June 30, 2019, amounted to approximately \$300,000. The remaining balance as of June 30, 2019, was \$198,562.



**HAWTHORNE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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Future minimum payments are as follows:

Year Ending June 30, <hr style="width: 100%;"/> 2020	<hr style="width: 100%;"/> \$ 198,562
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**Construction Commitments**

As of June 30, 2019, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Enrollment Center	\$ 250,000	December 31, 2019

***NOTE 17 - 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, 2019, the District made a payment of \$1,645,533 to ASCIP.

***NOTE 18 - SUBSEQUENT EVENTS***

On July 12, 2019, the District purchased the property located at 4467 West Broadway, commonly known as the Hawthorne Math and Science Academy (HMSA) in the amount of \$18,400,000.

On August 6, 2019, the District issued \$2,850,000 in Election 2018, 2019 Series B General Obligation Bonds. Proceeds from the bonds are being issued to currently refund the District's outstanding Certificates of Participation, 2007 Series A, and to pay the costs of issuance of the Series B Bonds. The remaining bonds mature through August 2034, and yield interest ranging from 2.00 percent to 4.00 percent.

# **HAWTHORNE SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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On August 6, 2019, the District issued \$5,495,000, 2019 General Obligation Refunding Bonds. Proceeds from the bonds are being issued to currently refund certain of the District's outstanding General Obligation Bonds, Election of 2008, 2009 Series A, to currently refund certain of the District's General Obligation Bonds, Election of 2004, 2008 Series C, and to pay the costs of issuance of the Refunding Bonds. The remaining bonds mature through August 2034, and yield interest ranging from 2.00 percent to 4.00 percent.

On August 7, 2019, the District issued 2019 Refunding Certificates of Participation in the amount of \$10,870,000 with interest rates ranging from 2.00 percent to 5.00 percent. Proceeds from the Certificates will be used to payoff the District's outstanding 2018 General Obligation Bond Anticipation Notes used to purchase a site and the improvements thereon currently used as the District's charter high school, to fund a debt service reserve fund established for the Certificates, and to pay the costs related to the delivery of the Certificates.

On August 14, 2019, the District issued \$4,855,000 of Tax and Revenue Anticipation Notes bearing interest at 3.00 percent. The notes mature on June 1, 2020. The notes were issued to supplement cash flows. Interest and principal are due in June 2020. By May 2020, the District is required to have placed 100 percent of the principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.



**REQUIRED SUPPLEMENTARY INFORMATION**

# HAWTHORNE SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	<b>REVENUES</b>			
Local Control Funding Formula	\$ 81,810,409	\$ 81,267,099	\$ 81,041,234	\$ (225,865)
Federal sources	5,094,736	6,816,755	4,970,207	(1,846,548)
Other State sources	11,454,767	16,197,591	21,478,667	5,281,076
Other local sources	8,727,903	2,762,605	3,345,839	583,234
<b>Total Revenues</b> <sup>1</sup>	<u>107,087,815</u>	<u>107,044,050</u>	<u>110,835,947</u>	<u>3,791,897</u>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	40,532,281	41,521,131	39,380,046	2,141,085
Classified salaries	13,334,615	12,569,908	11,761,810	808,098
Employee benefits	29,349,536	28,380,682	32,500,487	(4,119,805)
Books and supplies	2,670,621	3,984,237	1,987,199	1,997,038
Services and operating expenditures	12,762,059	13,658,845	10,874,439	2,784,406
Other outgo	4,385,774	4,389,465	2,636,849	1,752,616
Capital outlay	-	1,068,814	1,068,814	-
Debt service - principal	180,000	180,000	105,000	75,000
Debt service - interest	166,119	166,119	473,292	(307,173)
<b>Total Expenditures</b> <sup>1</sup>	<u>103,381,005</u>	<u>105,919,201</u>	<u>100,787,936</u>	<u>5,131,265</u>
<b>Excess of Revenues Over Expenditures</b>	<u>3,706,810</u>	<u>1,124,849</u>	<u>10,048,011</u>	<u>8,923,162</u>
<b>Other Financing Uses</b>				
Transfers out	(319,938)	(319,938)	(563,829)	(243,891)
<b>NET CHANGE IN FUND BALANCES</b>	<u>3,386,872</u>	<u>804,911</u>	<u>9,484,182</u>	<u>8,679,271</u>
<b>Fund Balance - Beginning</b>	<u>9,915,954</u>	<u>9,915,954</u>	<u>9,915,954</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 13,302,826</u>	<u>\$ 10,720,865</u>	<u>\$ 19,400,136</u>	<u>\$ 8,679,271</u>

<sup>1</sup> 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. On behalf payments of \$4,364,828 relating to Senate Bill 90 are included in the actual revenues and expenditures but have not been included in the budgeted amounts.

See accompanying note to required supplementary information.

# HAWTHORNE SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
<b>Total OPEB Liability</b>		
Service cost	\$ 1,153,917	\$ 1,735,231
Interest	1,365,648	1,345,234
Changes of assumptions	763,813	592,155
Benefit payments	(572,147)	(358,110)
<b>Net change in total OPEB liability</b>	<u>2,711,231</u>	<u>3,314,510</u>
<b>Total OPEB liability - beginning</b>	<u>44,586,438</u>	<u>41,271,928</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 47,297,669</u></u>	<u><u>\$ 44,586,438</u></u>
<b>Covered payroll</b>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>
<b>District's total OPEB liability as a percentage of covered payroll</b>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>

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

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

See accompanying note to required supplementary information.

# HAWTHORNE SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2019

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Year ended June 30,	2019	2018
District's proportion of the net OPEB liability	0.1469%	0.1498%
District's proportionate share of the net OPEB liability	\$ 562,292	\$ 630,165
District's covered-employee payroll	N/A <sup>1</sup>	N/A <sup>1</sup>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A <sup>1</sup>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	-0.40%	0.01%

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

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

See accompanying note to required supplementary information.

**HAWTHORNE SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.0818%</u>	<u>0.0827%</u>
District's proportionate share of the net pension liability	\$ 75,220,219	\$ 76,513,897
State's proportionate share of the net pension liability associated with the District	<u>43,067,094</u>	<u>45,264,975</u>
Total	<u>\$ 118,287,313</u>	<u>\$ 121,778,872</u>
District's covered-employee payroll	<u>\$ 43,756,847</u>	<u>\$ 43,075,278</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>171.91%</u>	<u>177.63%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.1014%</u>	<u>0.1066%</u>
District's proportionate share of the net pension liability	<u>\$ 27,027,247</u>	<u>\$ 25,445,059</u>
District's covered-employee payroll	<u>\$ 14,429,959</u>	<u>\$ 13,095,565</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>187.30%</u>	<u>194.30%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>

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

See accompanying note to required supplementary information.

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<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.0869%</u>	<u>0.0809%</u>	<u>0.0755%</u>
<u>\$ 70,303,239</u>	<u>\$ 54,433,028</u>	<u>\$ 44,111,211</u>
<u>40,022,380</u>	<u>28,789,071</u>	<u>26,636,254</u>
<u>\$ 110,325,619</u>	<u>\$ 83,222,099</u>	<u>\$ 70,747,465</u>
<u>\$ 41,761,957</u>	<u>\$ 38,859,764</u>	<u>\$ 38,467,115</u>
<u>168.34%</u>	<u>140.08%</u>	<u>114.67%</u>
<u>70%</u>	<u>74%</u>	<u>77%</u>
<u>0.1048%</u>	<u>0.1014%</u>	<u>0.0965%</u>
<u>\$ 20,690,152</u>	<u>\$ 14,953,642</u>	<u>\$ 10,954,709</u>
<u>\$ 12,439,056</u>	<u>\$ 11,238,977</u>	<u>\$ 11,168,950</u>
<u>166.33%</u>	<u>133.05%</u>	<u>98.08%</u>
<u>74%</u>	<u>79%</u>	<u>83%</u>



# HAWTHORNE SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2019

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	<u>2019</u>	<u>2018</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 7,110,899	\$ 6,314,113
Contributions in relation to the contractually required contribution	7,110,899	6,314,113
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 43,678,741</u>	<u>\$ 43,756,847</u>
Contributions as a percentage of covered-employee payroll	<u>16.28%</u>	<u>14.43%</u>
 <b>CalPERS</b>		
Contractually required contribution	\$ 2,308,890	\$ 2,241,117
Contributions in relation to the contractually required contribution	2,308,890	2,241,117
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 12,783,136</u>	<u>\$ 14,429,959</u>
Contributions as a percentage of covered-employee payroll	<u>18.062%</u>	<u>15.531%</u>

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

See accompanying note to required supplementary information.

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2017	2016	2015
\$ 5,418,870	\$ 4,481,058	\$ 3,450,747
5,418,870	4,481,058	3,450,747
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 43,075,278	\$ 41,761,957	\$ 38,859,764
12.58%	10.73%	8.88%
\$ 1,818,712	\$ 1,473,655	\$ 1,322,940
1,818,712	1,473,655	1,322,940
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 13,095,565	\$ 12,439,056	\$ 11,238,977
13.888%	11.847%	11.771%

# HAWTHORNE SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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### *NOTE 1 - PURPOSE OF SCHEDULES*

#### **Budgetary Comparison Schedule**

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

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

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

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

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

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

*Changes of Assumptions* - The OPEB discount rate assumption was changed from 2.98 percent to 2.79 percent since the previous valuation.

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

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

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

*Changes of Assumptions* - The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

# HAWTHORNE SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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

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

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

*Changes of Assumptions* - There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

### **Schedule of District Contributions**

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



**SUPPLEMENTARY INFORMATION**

**HAWTHORNE SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the California Department of Education (CDE)			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 2,971,387
Title II, Part A, Supporting Effective Instruction	84.367	14341	309,932
Title III, English Learner Student Program	84.365	14346	216,091
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	892
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,314,857
Preschool Grants, Part B, Sec 619	84.173	13430	109,442
Preschool Staff Development, Part B, Section 619	84.173A	13431	457
Total Special Education (IDEA) Cluster			<u>1,424,756</u>
Total U.S. Department of Education			<u>4,923,058</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through the California Department of Health Care Services			
Medicaid Cluster:			
Medi-Cal Administrative Activities	93.778	10060	8,594
Total Medicaid Cluster			<u>8,594</u>
Total U.S. Department of Health and Human Services			<u>8,594</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	3,388,882
Especially Needy Breakfast Program	10.553	13526	2,133,732
Meal Supplements	10.555	13396	129,202
Commodities	10.555	13396	403,301
Seamless Summer Food Option	10.559	13004	28,405
Total Child Nutrition Cluster			<u>6,083,522</u>
Total U.S. Department of Agriculture			<u>6,083,522</u>
Total Expenditures of Federal Awards			<u>\$ 11,015,174</u>

See accompanying note to supplementary information.

# HAWTHORNE SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

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### 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>
Mrs. Cristina Chiappe	President	2020
Mr. Luciano A. Aguilar	Vice President	2022
Mr. Sergio R. Mortara	Clerk	2022
Dr. Eugene M. Krank	Member	2022
Mr. Vicente Bravo	Member	2020

### ADMINISTRATION

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

See accompanying note to supplementary information.

# HAWTHORNE SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,304.39	3,299.54
Fourth through sixth	2,359.66	2,353.52
Seventh and eighth	1,515.87	1,513.74
Total Regular ADA	<u>7,179.92</u>	<u>7,166.80</u>
Extended Year Special Education		
Transitional kindergarten through third	1.84	1.84
Fourth through sixth	0.91	0.91
Seventh and eighth	0.17	0.17
Total Extended Year Special Education	<u>2.92</u>	<u>2.92</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.88	0.94
Fourth through sixth	2.37	2.49
Seventh and eighth	2.70	2.76
Total Special Education, Nonpublic, Nonsectarian Schools	<u>5.95</u>	<u>6.19</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.10	0.10
Fourth through sixth	0.32	0.32
Seventh and eighth	0.17	0.17
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.59</u>	<u>0.59</u>
Total ADA	<u><u>7,189.38</u></u>	<u><u>7,176.50</u></u>

See accompanying note to supplementary information.



# HAWTHORNE SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE, Continued FOR THE YEAR ENDED JUNE 30, 2019

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### Hawthorne Mathematics, Science and Technology Charter School

	Final Report	
	Second Period Report	Annual Report
Regular ADA Ninth through twelfth	527.24	526.03
Classroom based ADA Ninth through twelfth	526.37	525.27
Non Classroom based ADA Ninth through twelfth	0.87	0.76

See accompanying note to supplementary information.

# HAWTHORNE SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87	2018-19	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	55,860	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,260	180	N/A	Complied
Grade 2		52,260	180	N/A	Complied
Grade 3		52,260	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,950	180	N/A	Complied
Grade 5		55,950	180	N/A	Complied
Grade 6		59,778	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,778	180	N/A	Complied
Grade 8		59,778	180	N/A	Complied

### Hawthorne Mathematics, Science and Technology Charter School

Grade Level	1986-87	2018-19	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		65,366	180	N/A	Complied
Grade 10		65,366	180	N/A	Complied
Grade 11		65,366	180	N/A	Complied
Grade 12		65,366	180	N/A	Complied

See accompanying note to supplementary information.

**HAWTHORNE SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

# HAWTHORNE SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019

	(Budget) 2020 <sup>1</sup>	2019	2018	2017
GENERAL FUND <sup>2,3</sup>				
Revenues	\$ 100,957,888	\$ 106,470,577	\$ 97,012,920	\$ 97,188,374
Other sources and transfers in	-	-	-	3,000,661
Total Revenues and Other Sources	100,957,888	106,470,577	97,012,920	100,189,035
Expenditures	99,829,877	96,423,108	95,843,661	99,256,903
Other uses and transfers out	319,938	563,829	598,306	1,070,450
Total Expenditures and Other Uses	100,149,815	96,986,937	96,441,967	100,327,353
INCREASE (DECREASE) IN FUND BALANCE	\$ 808,073	\$ 9,483,640	\$ 570,953	\$ (138,318)
ENDING FUND BALANCE	\$ 20,181,813	\$ 19,373,740	\$ 9,890,100	\$ 9,319,147
AVAILABLE RESERVES <sup>4</sup>	\$ 3,004,495	\$ 2,936,005	\$ 2,901,164	\$ 3,003,197
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.03%	3.01%	2.99%
LONG-TERM OBLIGATIONS	N/A	\$ 152,284,075	\$ 116,453,192	\$ 110,811,584
AVERAGE DAILY ATTENDANCE AT P-2 <sup>5</sup>	7,052	7,189	7,484	7,697

The General Fund balance has increased by \$10,054,593 over the past two years. The fiscal year 2019-2020 budget projects a further increase of \$808,073 (4.17 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 2019-2020 fiscal year. Total long-term obligations have increased by \$41,472,491 over the past two years.

Average daily attendance has decreased by 508 over the past two years. An additional decline of 137 ADA is anticipated during fiscal year 2019-2020.

<sup>1</sup> Budget 2020 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> On behalf payments of \$4,364,828 relating to Senate Bill 90 are not included in actual revenues and expenditures and have not been included in the budgeted amounts.

<sup>3</sup> 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.

<sup>4</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund and Special Reserve Fund for other than Capital Outlay Projects.

<sup>5</sup> Excludes Charter School ADA.

See accompanying note to supplementary information.

**HAWTHORNE SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2019**

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

See accompanying note to supplementary information.

**HAWTHORNE SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2019**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Charter School Fund</b>
<b>ASSETS</b>				
Deposits and investments	\$ 20,039	\$ 1,530,328	\$ 1,127,294	\$ 3,299,206
Receivables	75,038	1,225,694	3,240	180,311
Stores inventories	-	73,882	-	-
<b>Total Assets</b>	<b>\$ 95,077</b>	<b>\$ 2,829,904</b>	<b>\$ 1,130,534</b>	<b>\$ 3,479,517</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 82,797	\$ 313,990	\$ -	\$ 402,238
Unearned revenue	-	47,880	-	-
<b>Total Liabilities</b>	<b>82,797</b>	<b>361,870</b>	<b>-</b>	<b>402,238</b>
<b>Fund Balances:</b>				
Nonspendable	-	74,682	-	-
Restricted	12,280	2,374,595	-	1,675,043
Committed	-	-	1,130,534	-
Assigned	-	18,757	-	1,402,236
<b>Total Fund Balances</b>	<b>12,280</b>	<b>2,468,034</b>	<b>1,130,534</b>	<b>3,077,279</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 95,077</b>	<b>\$ 2,829,904</b>	<b>\$ 1,130,534</b>	<b>\$ 3,479,517</b>

See accompanying note to supplementary information.

<b>Foundation Permanent Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 173,811	\$ 858,709	\$ 7,709	\$ 1,278	\$ 5,244,983	\$ 12,263,357
953	4,680	42	7	-	1,489,965
-	-	-	-	-	73,882
<u>\$ 174,764</u>	<u>\$ 863,389</u>	<u>\$ 7,751</u>	<u>\$ 1,285</u>	<u>\$ 5,244,983</u>	<u>\$ 13,827,204</u>
\$ -	\$ 213	\$ -	\$ -	\$ -	\$ 799,238
-	-	-	-	-	47,880
-	213	-	-	-	847,118
-	-	-	-	-	74,682
-	863,176	-	-	5,244,983	10,170,077
-	-	-	-	-	1,130,534
174,764	-	7,751	1,285	-	1,604,793
<u>174,764</u>	<u>863,176</u>	<u>7,751</u>	<u>1,285</u>	<u>5,244,983</u>	<u>12,980,086</u>
<u>\$ 174,764</u>	<u>\$ 863,389</u>	<u>\$ 7,751</u>	<u>\$ 1,285</u>	<u>\$ 5,244,983</u>	<u>\$ 13,827,204</u>

**HAWTHORNE SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Charter School Fund</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ -	\$ -	\$ -	\$ 6,268,391
Federal sources	-	6,083,522	-	-
Other State sources	1,352,034	462,069	-	1,302,683
Other local sources	10,222	302,710	12,469	60,001
<b>Total Revenues</b>	<b>1,362,256</b>	<b>6,848,301</b>	<b>12,469</b>	<b>7,631,075</b>
<b>EXPENDITURES</b>				
Current				
Instruction	1,109,694	-	-	3,868,321
Instruction-related activities:				
Supervision of instruction	76,413	-	-	1,998
Instructional library, media and technology	-	-	-	93,703
School site administration	169,059	-	-	516,904
Pupil services:				
Food services	-	6,962,885	-	353
All other pupil services	-	-	-	407,017
General administration:				
Data processing	-	-	-	525
All other general administration	-	286,166	-	307,260
Plant services	-	3,600	-	1,397,226
Ancillary services	-	-	-	47,748
Community services	-	-	-	52,750
Enterprise services	-	8,939	-	-
Facility acquisition and construction	-	-	42,555	357,863
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
<b>Total Expenditures</b>	<b>1,355,166</b>	<b>7,261,590</b>	<b>42,555</b>	<b>7,051,668</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>7,090</b>	<b>(413,289)</b>	<b>(30,086)</b>	<b>579,407</b>
<b>Other Financing Sources</b>				
Transfers in	-	-	563,829	-
Other sources - proceeds from issuance of debt	-	-	-	-
<b>Net Financing Sources</b>	<b>-</b>	<b>-</b>	<b>563,829</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>7,090</b>	<b>(413,289)</b>	<b>533,743</b>	<b>579,407</b>
<b>Fund Balances - Beginning</b>	<b>5,190</b>	<b>2,881,323</b>	<b>596,791</b>	<b>2,497,872</b>
<b>Fund Balances - Ending</b>	<b>\$ 12,280</b>	<b>\$ 2,468,034</b>	<b>\$ 1,130,534</b>	<b>\$ 3,077,279</b>

See accompanying note to supplementary information.



<b>Foundation Permanent Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,268,391
-	-	-	-	-	6,083,522
-	-	-	-	17,703	3,134,489
3,600	278,359	159	27	4,561,131	5,228,678
3,600	278,359	159	27	4,578,834	20,715,080
-	-	-	-	-	4,978,015
-	-	-	-	-	78,411
-	-	-	-	-	93,703
-	-	-	-	-	685,963
-	-	-	-	-	6,963,238
-	-	-	-	-	407,017
-	-	-	-	-	525
-	-	-	-	-	593,426
-	-	-	-	-	1,400,826
822	-	-	-	-	48,570
-	-	-	-	-	52,750
-	-	-	-	-	8,939
-	8,824	-	-	-	409,242
-	-	-	-	3,900,000	3,900,000
-	-	-	-	692,122	692,122
822	8,824	-	-	4,592,122	20,312,747
2,778	269,535	159	27	(13,288)	402,333
-	-	-	-	-	563,829
-	-	-	-	1,236,474	1,236,474
-	-	-	-	1,236,474	1,800,303
2,778	269,535	159	27	1,223,186	2,202,636
171,986	593,641	7,592	1,258	4,021,797	10,777,450
\$ 174,764	\$ 863,176	\$ 7,751	\$ 1,285	\$ 5,244,983	\$ 12,980,086

# HAWTHORNE SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Administrative Activities funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2019. These unspent balances are reported as legally restricted ending balances with the General Fund.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance:		\$ 11,053,729
Medi-Cal Administrative Activities	93.778	(38,555)
Total Schedule of Expenditures of Federal Awards		<u>\$ 11,015,174</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 has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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, 2019**

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### **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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 29, 2019.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California  
November 29, 2019



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

Governing Board  
Hawthorne School District  
Hawthorne, California

**Report on Compliance for Each Major Federal Program**

We have audited Hawthorne School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2019. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

## Report on Internal Control over Compliance

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

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

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

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

The signature is written in a cursive, handwritten style. It reads "Eide Bailly LLP".

Rancho Cucamonga, California  
November 29, 2019





## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Hawthorne School District  
Hawthorne, California

### **Report on State Compliance**

We have audited Hawthorne School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2019.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

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

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

We did not perform testing over Independent Study because ADA for this program was below the materiality threshold as indicated in the *2018-2019 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*.

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

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

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

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

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

The District does not offer a District of Choice Program; therefore, we did not perform any procedures for the District of Choice Program.

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

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

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

*Eide Sully LLP*

Rancho Cucamonga, California  
November 29, 2019



## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**HAWTHORNE SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>

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

**STATE AWARDS**

Type of 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, 2019**

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None reported.

**HAWTHORNE SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**HAWTHORNE SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.



# HAWTHORNE SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDING FOR THE YEAR ENDED JUNE 30, 2019

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

### *Financial Statement Findings*

None reported.

### *Federal Awards Findings*

None reported.

### *State Awards Findings*

None reported.